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Following Default, Razgulyai to Sell Bonds

By The Moscow Times

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LONDON — Razgulyai, the grain, sugar and rice producer that defaulted on $140 million of debt in 2009, plans to become the first Russian agricultural company Wednesday to sell bonds this year as it raises money to repay existing notes.

Razgulyai aims to sell 3 billion rubles ($108 million) of three-year bonds with a put option after 1 1/2 years, the company said in a regulatory filing last week. It set a coupon of 12 percent compared with 14 percent on similar bonds sold in February by consumer lender Tinkoff Credit Systems, which has never had to restructure debt.

"Most of the issue will likely be bought by underwriters and a few major creditors," Dmitry Turmyshev, a bond analyst at Moscow-based National Bank Trust, said late last week. The coupon "is quite a low rate," he said. About 20 percent would have been more appropriate given the risks, he said.

Russian farmers have struggled to return to the debt market since credit markets froze in 2008 and the country's worst drought in five decades last year prompted the government to ban grain exports.

Agricultural companies in Russia have reneged on 13 percent of coupon payments since 2008 and did not redeem 15 percent of bonds when they were due or during put options, according to calculations by National Bank Trust.

"It's not the best time for entering the market," Pavel Skurikhin, chairman of Siberian Agrarian Holding, a grain and bread producer, said last week. "The agricultural sector is having a hard time."

Companies are trying to upgrade equipment to increase productivity. Skurikhin said they might be better off looking for industry investors rather than tapping markets.

Demand for borrowing by farming companies is typically higher in spring, Razgulyai said in its bond prospectus posted on its web site. It has restructured a total of 5.4 billion rubles of debt "to ensure the rights of bondholders are upheld to the greatest possible extent," spokeswoman Yekaterina Agibalova said last week.

About 20 percent of Razgulyai's 24.7 billion rubles of total debt is due this year, according to the company. Razgulyai's 3 billion rubles of 2013 bonds with a put option on May 25 this year pay a coupon of 17 percent.

"Agriculture companies tend to have complicated corporate structures, nontransparent ownership, and a very low willingness to pay was demonstrated by some" during the crisis, Maxim Tishin, who helps manage $850 million at UFG Asset Management in Moscow, said last week. "Razgulyai is one of the better companies in the sector."

Only a handful of agricultural company bonds are still trading. Cherkizovo, the country's biggest poultry producer, stands out in the industry as a "solid" company that didn't default, according to Turmyshev at National Bank Trust.

Cherkizovo's 3 billion rubles of bonds due in 2013 yielded 8.23 percent on May 3, down from 8.75 percent in January.

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