

Central Bank Balks at Mechel Bonds

By [The Moscow Times](#)

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The Central Bank said Thursday that bonds issued by mining group Mechel would be zero-rated as collateral, effectively ruling out their use in refinancing operations.

The one-line statement followed a 40-percent slump in the price of Mechel's and a sell-off in its bonds — some of which have triple-digit yields — indicating that the market believes the company cannot sustain its \$9.6 billion debt load.

The financial regulator said that a coefficient applying to Mechel's bonds as collateral would be reset to zero with immediate effect. Mechel had no immediate comment.

"It effectively means that the bonds are excluded as a means of obtaining refinancing," said Denis Poryvai, a fixed-income analyst at Raiffeisen.

The bid yield on Mechel ruble bonds maturing in February 2021 rose to 200 percent on Friday, suggesting that the market is pricing in a high probability of the default. The bid price was 76 percent of par.

Mechel's shares bounced by 11 percent Thursday after hitting all-time lows on Wednesday. Market sources cited forced selling, which some attributed to margin calls on shares pledged as collateral by Mechel's main owner, Igor Zyuzin.

Zyuzin directly and indirectly owned 67.4 percent of Mechel's common shares as of July 22.

Mechel said in a statement Thursday that talks with creditor banks on a covenant holiday and a debt restructuring were "going well."

Russia's financial markets regulator, which is now housed at the Central Bank, said it was looking into whether market manipulation was behind the slump in Mechel shares on Wednesday.

State-controlled banks are heavily exposed as creditors to Mechel, which continued to pile on debts through the global financial crisis to pay for acquisitions.

Last year, the company set a target of raising \$4 billion through disposals but has been thwarted by a turn in the commodities cycle and has had to receive new state funding to press ahead with its flagship Elga coal project.

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