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VEB Bank Rules Out Mechel Bailout

By The Moscow Times

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Russian state-owned development bank Vnesheconombank, or VEB, said Wednesday it would not take part in a bailout of indebted miner Mechel, extinguishing hopes for a convertible bond scheme that was seen as its most likely lifeline.

The loss-making coal to steel group, hit by weak prices for its products, is in critical need of government support.

With debts of $8.6 billion, Mechel, co-owned by billionaire Igor Zyuzin, has already gone through several debt restructurings with creditor banks.

Russia nursed its oligarch-owned conglomerates through the 2008-09 global crisis, avoiding a wave of defaults. Mechel piled on more debt to pay for acquisitions, only to be hit by an industry slump that left it with a devalued asset portfolio.

In June Economic Development Minister Alexei Ulyukayev said the government was considering implementing a 180-billion ruble ($5.3 billion) scheme that would involve a convertible bond, which could be purchased by state development bank VEB.

However on Wednesday VEB chairman Vladimir Dmitriev ruled out the bank participating in the bailout or any other plan to save Mechel, ITAR-Tass news agency reported.

"We at the bank have taken the decision not to participate in the suggested schemes to save Mechel. The suggested schemes would be loss-making for the bank," Dmitriev was quoted as saying.

Other plans to help the coal miner include providing state controlled monopoly Russian Railways with the funds to buy the rail link to Mechel's key Elga project for up to 70 billion rubles.

However it is not clear if this or other proposals are still on the table.

Some banks in the group of creditors, which includes Sberbank, VTB and Gazprombank, have been calling for the removal of majority owner Zyuzin, Russian media reported in June.

The convertible bond scheme would have helped the banks to reduce bad debt provisions at a time when Russia's economy is slowing partly due to Western sanctions over Russian action in Ukraine.

See also: Mechel Shares Take Rollercoster Ride on Talk of $5 Billion State-Sponsored Debt Aid

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