March 05, 2020

JSW Steel Limited: Long-term rating downgraded to [ICRA]AA-(Negative); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans / Standby Letter of Credit Facilities	30337.00	30337.00	[ICRA]AA- (Negative); revised from [ICRA]AA (Negative)
Short-term Fund-based Limits	1386.00	1386.00	[ICRA]A1+; Reaffirmed
Short-term Non-fund Based Limits	18400.00	18400.00	[ICRA]A1+; Reaffirmed
Long Term / Short Term – Fund-based/Non-fund Based Limits	9688	9688	[ICRA]AA-(Negative) revised from [ICRA]AA (Negative); [ICRA]A1+ reaffirmed
Non-convertible Debenture Programme	7141.00	7141.00	[ICRA]AA-(Negative); revised from [ICRA]AA (Negative)
Commercial Paper Programme	5000.00	5000.00	[ICRA]A1+ reaffirmed
Total	**71952.00**	**71952.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision of ratings takes into account an expected increase in JSW Steel Limited's (JSW Steel) leverage in the near-to-medium term owing to the proposed acquisition of Bhushan Power and Steel Limited (BPSL). While arriving at the ratings, ICRA has considered consolidated financial risk profile of JSW Steel including that of the acquisition vehicle for BPSL. The National Company Law Appellate Tribunal (NCLAT) approved the resolution plan of JSW Steel to acquire BPSL on February 17, 2020. The proposed acquisition is largely debt-funded, which along with absence of fresh equity raising by JSW Steel, is expected to adversely impact its consolidated financial risk profile. JSW Steel along with other partners (Consortium) on
joint and several basis will also act as put option providers for NCDs of Rs. 3000 crore, to part-fund the acquisition of BPSL. ICRA also notes that JSW Steel's large ongoing capital expenditure (capex) programme towards upstream and downstream capacity expansions would keep its free cash flows under check and keep the overall debt levels elevated in the near-to-medium term. Given that the financial performance of the company has remained weaker-than-anticipated in the current year due to moderation in domestic demand and weak steel prices, ability of the company to ramp up the additional capacity coming on stream at Dolvi and Vijayanagar in FY2021 and achieve desired operating parameters would be crucial from a credit perspective. Additionally, the ability of JSW Steel to quickly ramp up BPSL's operations profitably and achieve targeted operating parameters would be critical for the consolidated entity's financial performance.

Nevertheless, the ratings favourably factor in the company's diversified product mix with a large share of higher value-added products in the sales mix, the company's opportunistic shift between export and domestic markets, which reduces geographical concentration risks and its increasing raw material security, with the company emerging a preferred bidder for three additional iron ore mines in Karnataka and four iron ore mines in Odisha in the current fiscal. ICRA believes that over the medium term, JSW Steel is likely to derive operational synergy benefits from the proposed acquisition of BPSL given its diverse product portfolio with high share of value-added products, its strong market presence in eastern India and its proximity to captive iron ore mines of JSW Steel in Odisha and Monnet Ispat Limited's steel plant in Chhattisgarh. JSW Steel is in the process of enhancing its installed capacities of steel-making and downstream facilities by 6.0 million tonnes per annum (mtpa) and 3.95 mtpa respectively at competitive capital costs over the next two years, which would not only increase the share of the value-added products in the company's sales mix, but also improve its cost efficiency further. The ratings also favourably factor in JSW Steel's position as the largest Indian steel exporter and as one of the largest domestic steel producers with healthy market position in western and southern India. Notwithstanding the limited vertical integration in the form of captive raw material sources, ICRA notes that JSW Steel has been able to maintain a healthy operating profitability, which can be attributed to the efficient and technologically-advanced operations of the company, which keep conversion costs low. ICRA also notes JSW Steel's demonstrated ability to execute various capacity expansion and cost-optimisation programmes within the stipulated time and budget. In addition, it considers the location-specific advantages, resulting from the proximity of the Vijayanagar plant to the iron ore mines and the Dolvi plant to a port, which results in freight cost savings to an extent.

The ratings, however, factor in the company's exposure to price risks, especially in case of coking coal, which has exhibited high price volatility in the recent past. JSW Steel also remains exposed to forex risks due to its dependence on imports to meet its coking coal requirements, and the fact that about 41% of the company's standalone total debt as on March 31, 2019 was denominated in foreign currency. However, the forex risks are largely mitigated by its formal hedging policy to fully cover its revenue account and next one year's debt service obligations, and the inherent linkage of steel realisations with foreign exchange rates. ICRA also notes that the overseas assets acquired last year are yet to turn profitable at the operating level due to sub-optimal ramp-up of capacities amid a weak global steel demand, and remain a drag on the consolidated financial position of JSW Steel. The cyclicality associated with the steel industry, causing variability in the players' profits and cash accruals, also impact the company's ratings. As on December 31, 2019, the promoters held 42.3% equity stake in JSW Steel, of which around 32.5% was pledged, which could weigh on the company's financial flexibility.

Given JSW Steel's expected high leverage, the negative outlook on the [ICRA]AA- rating reflects ICRA's concern surrounding steel demand in India and the company's ability to quickly ramp up operations profitably at BPSL.

Key rating drivers and their description

Credit strengths

Synergies from the BPSL acquisition – BPSL has a 2.75 mtpa integrated steel making facility at Jharsuguda, Odisha, which is in close proximity to JSW Steel's recently bagged iron ore mines and to Monnet Ispat Limited's steel plant in Chhattisgarh. Apart from backward integration facilities such as beneficiation, sintering, coke oven and pelletisation plants, BPSL also has downstream facilities in the form of cold rolling mill, galvanising and colour coating lines and pipe and tube mill. BPSL's product portfolio is skewed in favour of value-added products and has a strong market presence in the eastern India. As a result, ICRA expects the acquisition of BPSL to provide synergy benefits to JSW Steel in the form of strong foothold in the eastern region, higher margins associated with value-added products and freight cost savings for iron ore procurement.

Large ongoing capacity expansion programmes increasing the extent of value-added products in the sales mix and further improving its cost efficiency – JSW Steel is in the process of increasing its steelmaking and downstream capacities by 6.0 mtpa and 3.95 mtpa respectively over the next two years. While the steelmaking capacity addition would provide increased economies of scale, additional downstream capacities would increase the share of value-added products in the company's sales mix. The ongoing capex also includes various cost-saving projects, including setting up of pipe conveyors (already commissioned), a pellet plant, a captive power plant and a coke oven plant, which are likely to improve JSW Steel's cost efficiencies further.

Operationalisation of captive iron ore mines – All the six category C iron ore mines of JSW Steel are operational, resulting in captive iron ore availability of about 4.5 mt during the year. The company emerged as a preferred bidder for additional three iron ore mines auctioned by the Karnataka Government in July 2019, having aggregate resources of 93 mt. Additionally, the company emerged as a preferred bidder for four iron ore mines auctioned by the Odisha Government in February 2020, with total estimated resources of about 1,131 mt. Upon commencement of mining operations of these additional mines in FY2021, the company's raw material security with respect to iron ore is likely to improve significantly in the near term.

Status of being the largest steel exporter in India and one of the largest Indian steel producers with healthy market position in western and southern India – With crude steel production of 16.7 mt in FY2019, JSW Steel remained the largest steel producer in India and also remained the largest steel exporter with exports of 2.3 mt during the year. The company's diverse product portfolio comprising flat and long products, a high share of value-added & special products (VASP) and special products in the sales mix (53% of total sales) and strong distribution network with significant retail presence also help it achieve a leading market position in western and southern India, where its manufacturing facilities are located.

Location-specific advantages – JSW Steel's Dolvi plant's proximity to the port and the Vijayanagar plant's location in Bellary district of Karnataka with access to large iron ore deposits result in significant freight cost savings for the company.

Demonstrated capability to execute capital expansion at a significantly lower cost than peers – Capital cost per tonne for JSW Steel's past and ongoing capacity additions remains lower than that of its peers. This, coupled with its demonstrated ability to execute capital projects within the stipulated timeframe and costs, adds to the company's cost-competitiveness.

Credit challenges

Largely debt-funded acquisition of BPSL - The National Company Law Appellate Tribunal (NCLAT) approved the resolution plan of JSW Steel to acquire BPSL on February 17, 2020. The proposed acquisition is largely debt-funded, which along with absence of fresh equity raising by JSW Steel, are expected to adversely impact its consolidated financial risk profile and keep the overall debt levels elevated in the near-to-medium term.

Large capex to be incurred over the next two years – Out of the total capex commitment of Rs. 34,344 crore over FY2020-22, the company is likely to incur capex to the tune of Rs. 11000 crore in FY2020. The pending capex of Rs. 23,344 crore along with cash outgo towards bid security and others including stamp duty payments for the mines bagged in Odisha would keep the overall debt levels elevated and keep JSW Steel's free cash flows under pressure in the near-to-medium term.

Exposure to price risks – While the iron ore availability from the captive mines is expected to increase significantly because of the large reserves of mines located in Odisha, the company remains exposed to volatility in coking coal prices. However, expected operationalisation of its Moitra coking coal block by FY2021 would help the company improve its raw material security in the medium term.

Weak financial profile of overseas subsidiaries – JSW Steel's US-based plate and pipe mill reported operating losses in the current fiscal due to excess supply and depressed steel prices. Similarly, its steel assets in the US and Italy acquired last year are yet to achieve positive operating profits due to gradual ramp-up of its capacity amid a weak global demand for steel. Dependence of these overseas entities on the parent company to partly meet its debt servicing requirements affects the consolidated financial position of JSW Steel.

Exposure to forex risks – Given JSW Steel's dependence on imports for coking coal and its large forex debt (41% of total standalone debt as on March 31, 2019), the company remains exposed to forex risks, which are largely mitigated by its hedging policy, fully covering its revenue account and the next one year's debt service obligations, and the inherent linkage of steel realisations with foreign exchange rates.

Liquidity position: Adequate

JSW Steel's liquidity is **adequate** with healthy cash and cash equivalents of Rs. 9,270 crore as on December 31, 2019. A part of the cash would be utilised towards part-funding of the acquisition of BPSL. Although the company has sizeable capex plans of about Rs. 16,340 crore (as per earlier guidance) and consolidated debt repayments of around Rs. 7,100 crore in FY2021, expected improvement in cash flow from operations due to higher steel volumes, free cash and undrawn term loans and working capital limits (to the extent of available drawing power) would be adequate to meet these commitments.

Rating sensitivities

Positive triggers – ICRA could upgrade JSW Steel's rating if the company achieves stablisation of the additional capacity coming on stream at Dolvi and Vijayanagar in a time-bound and profitable manner. Sustained improvement in the financial performance of the overseas subsidiaries and of the steel assets acquired in India could also result in a rating upgrade.

Negative triggers – Negative pressure on JSW Steel's rating could arise in case of a prolonged lull in demand conditions resulting in lower-than-anticipated sales volumes and profitability. Failure to refinance a part of its loans or slower-than-expected turnaround of the acquired steel assets will also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for entities in the ferrous metals industry Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JSW Steel including that of the acquisition vehicle for BPSL. As on March 31, 2019, JSW Steel had 49 subsidiaries and 10 associate and joint venture companies that are enlisted in Annexure-2.

About the company

JSW Steel, a part of the O.P. Jindal Group, manufactures iron and steel products. The company's products include hot-rolled steel strips, sheets/plates, mild steel (MS) cold-rolled coils/sheets, MS galvanised plain/corrugated/colour-coated coils/sheet, steel billet, bars and rods. As on date, the company's plants in Karnataka, Tamil Nadu and Maharashtra have a combined installed capacity of 18.0 million tonnes per annum (mtpa) in India. JSW Coated Products Ltd., a 100%

subsidiary of JSW Steel, has manufacturing facilities at Vasind and Tarapur (near Mumbai) and Kalmeshwar (near Nagpur) in Maharashtra for value-added steel products. The company also has a plate-and-pipe-mill business in the US, iron ore mines in Chile and coal mines in the US and Mozambique, which operate through its international subsidiaries. In FY2019, the company acquired steel assets in the US and Italy with installed capacities of 1.5 mtpa (with potential to expand up to 3 mtpa) and 1.32 mtpa respectively and also emerged as a successful resolution applicant for the acquisition of Monnet Ispat and Energy Limited as a consortium partner with AION Investments under the IBC framework.

During Apr-Dec 2019, the company on a consolidated basis reported a net profit of Rs. 3,731 crore on an operating income of Rs. 55,439 crore compared to a net profit of Rs. 7,524 crore on an operating income of Rs. 84,757 crore in FY2019.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	70,225	84,757
PAT (Rs. crore)	6,113	7,524
OPBDIT/OI (%)	21.1%	22.4%
RoCE (%)	17.8%	21.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.34	2.34
Total Debt/OPBDIT (times)	2.66	2.76
Interest Coverage (times)	4.00	4.84
DSCR	0.93	1.57

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					05-Mar-2020	30-Aug-2019	29-Aug-2018	11-Jul-2017	5-Oct-2016
1	Term Loans/ Standby Letter of Credit	Long Term	30,337	22,662	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)
2	Fund-based Limits	Short Term	1,386	710	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based/Non-fund Based	Long Term/Short Term	9,688	5,811	ICRA]AA- (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+
4	Non-fund Based	Short Term	18,400	9,574	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Non-convertible Debentures (NCD)	Long Term	3,141	3,141	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)
6	Proposed NCDs	Long Term	4,000	-	[ICRA]AA- (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)
7	Commercial Paper (CP)	Short Term	5,000	4,625	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Amount in Rs. Crore, *:As on March 31, 2019*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	1,386.00	[ICRA]A1+
NA	Non-fund Based (LC/BG)	NA	NA	-	18,400.00	[ICRA]A1+
NA	Fund-based/Non-fund Based limits	NA	NA	-	9,688.00	[ICRA]AA-(Negative)/ [ICRA]A1+
NA	Term Loans	Varying from FY2010 to FY2020	NA	Varying from FY2020 to FY2030	30,337.00	[ICRA]AA-(Negative)
INE019A07241	NCD 1	NA	10.34%	18-Jan-2024	1,000.00	[ICRA]AA-(Negative)
INE019A07357	NCD 2	NA	10.6%	19-Aug-2019	425.00	[ICRA]AA-(Negative)
INE019A07167 INE019A07183	NCD 3	NA	10.6%	first tranche maturity date 02-Jul-2019 Second tranche 02-Feb-2020	66.00	[ICRA]AA-(Negative)
INE019A07258 INE019A07266	NCD 4	NA	10.02%	first tranche maturity date 20-May-2023 Second tranche 19-Jul-2023	1,000.00	[ICRA]AA-(Negative)
INE019A07324	NCD 5	NA	10.4%	19-Aug-2019	250.00	[ICRA]AA-(Negative)
INE019A07407	NCD 6	NA	9.72%	23-Dec-2019	400.00	[ICRA]AA-(Negative)
NA	Proposed NCD	NA	NA	NA	4,000.00	[ICRA]AA-(Negative)
NA	Commercial Paper	NA	NA	7-365 days	5,000.00	[ICRA]A1+

Source: JSW Steel Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JSW Steel (UK) Limited	100%	Full Consolidation
JSW Natural Resources Limited	100%	Full Consolidation
JSW Natural Resources Mozambique Limitada	100%	Full Consolidation
JSW ADMS Carvão Limitada	100%	Full Consolidation
JSW Steel (Netherlands) B.V.	100%	Full Consolidation
Periama Holdings, LLC	100%	Full Consolidation
JSW Steel (USA), Inc.	100%	Full Consolidation
Purest Energy, LLC	100%	Full Consolidation
Planck Holdings, LLC	100%	Full Consolidation
Prime Coal, LLC	100%	Full Consolidation
Rolling S Augering, LLC	100%	Full Consolidation
Caretta Minerals, LLC	100%	Full Consolidation
Periama Handling, LLC	100%	Full Consolidation
Lower Hutchinson Minerals, LLC	100%	Full Consolidation
Meadow Creek Minerals, LLC	100%	Full Consolidation
Keenan Minerals, LLC	100%	Full Consolidation
Hutchinson Minerals, LLC	100%	Full Consolidation
RC Minerals, LLC	100%	Full Consolidation
Peace Leasing, LLC	100%	Full Consolidation
JSW Panama Holdings Corporation	100%	Full Consolidation
Inversiones Eurosh Limitada	100%	Full Consolidation
Santa Fe Mining S.A.	70%	Full Consolidation
Santa Fe Puerto S.A.	70%	Full Consolidation
JSW Steel Processing Centres Limited	100%	Full Consolidation
JSW Jharkhand Steel Limited	100%	Full Consolidation
JSW Bengal Steel Limited	98.69%	Full Consolidation
JSW Natural Resources India Limited	98.69%	Full Consolidation
JSW Energy (Bengal) Limited	98.69%	Full Consolidation
JSW Natural Resources Bengal Limited	98.69%	Full Consolidation
JSW Steel Coated Products Limited	100%	Full Consolidation
Amba River Coke Limited	100%	Full Consolidation
Peddar Realty Private Limited	100%	Full Consolidation
Arima Holdings Limited	100%	Full Consolidation
Lakeland Securities Limited	100%	Full Consolidation
Erebus Limited	100%	Full Consolidation
Nippon Ispat Singapore (PTE) Ltd	100%	Full Consolidation
Acero Junction Holdings, Inc	100%	Full Consolidation
JSW Steel USA Ohio, Inc	100%	Full Consolidation
JSW Steel (Salav) Limited	100%	Full Consolidation
JSW Industrial Gases Private Limited	100%	Full Consolidation
JSW Steel Italy S.r.l.	100%	Full Consolidation
Aferpi S.p.A	100%	Full Consolidation
Piombino Logistics S.p.A	100%	Full Consolidation
GSI Lucchini S.p.A	69.27%	Full Consolidation
JSW Utkal Steel Limited	100%	Full Consolidation
Hasaud Steel Limited	100%	Full Consolidation

JSW Retail Limited	100%	Full Consolidation
Dolvi Mineral & Metals Private Limited	100%	Full Consolidation
Dolvi Coke Projects Limited	100%	Full Consolidation
Creixent Special Steel Limited	48%	Equity method
Monnet Ispat & Energy Limited	23.1%	Equity method
Vijayanagar Minerals Private Limited	40%	Equity method
Rohne Coal Company Private Limited	49%	Equity method
Geo Steel LLC	49%	Equity method
JSW Severfield Structures Limited	50%	Equity method
JSW Structural Metal Decking Limited	33.33%	Equity method
Gourangdih Coal Limited	50%	Equity method
JSW MI Steel Services Centre Private Limited	50%	Equity method
JSW Vallabh Tinplate Private Limited	50%	Equity method

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