

June 01, 2022

Piombino Steel Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture	2,500.00	[ICRA] AA(CE) (Stable) assigned
Total	2,500.00	

Rating Without Explicit Credit Enhancement	[ICRA]BBB
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

JSW Steel Limited (JSW Steel; rated [ICRA]AA(Stable)/[ICRA]A1+) and JSW Shipping & Logistics Private Limited (JSWSLPL) ('Consortium') are the shareholders of Piombino Steel Limited (PSL), which is the holding company for acquisition of Bhushan Power & Steel Limited (BPSL). JSW Steel has an 83.3% shareholding in PSL with JSWSLPL holding the balance 16.7% stake. On November 24, 2021, PSL acquired 100% stake in West Waves Maritime And Allied Services Private Limited (WWMASPL; rated [ICRA]AA(CE) (Stable)), which had raised NCD of Rs. 2,500 crore in March 2021 and extended the same as loan to PSL to part-fund the acquisition of BPSL. In order to simplify the corporate structure for better administration and consequently eliminating the inter-company loan, WWMASPL was merged with PSL with effective from May 7, 2022 and on account of which the said NCDs are now vested with PSL. Once this is concluded, ICRA will withdraw the rating assigned to the NCDs of WWMASPL¹. The rating assigned to PSL is based on the strength of a joint and several put option provided by the Consortium, and a well-defined payment mechanism.

The NCD will mature in March 2024. The redemption premium rate on the NCD will compound annually and will be payable entirely on the maturity date as redemption premium. The NCD Investors have the right to exercise a put option on the Consortium (joint and several basis) during a defined time period prior to the redemption date of the NCDs. Further, the put option shall be deemed to be exercised two business days prior to the redemption date for those investors who have not exercised the put option. On exercise of put option (or deemed exercise), consortium (on a joint and several basis) has obligation to pay all dues outstanding on the NCD by the maturity date. Further, with each pay-out by the Consortium to the NCD Investors, the specific portion of the NCDs shall be deemed to have been redeemed in full and shall stand extinguished.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the put option provider has been translated to the rating of the said instrument. The transaction documents for the NCD have a well-defined invocation and payment mechanism so as to meet timely payment to the NCD investors. Given these attributes, the put option provided by the Consortium is adequately strong to result in an enhancement in the rating of the said NCD to **[ICRA]AA(CE)** against the

¹ Click [here](#) for the latest rationale of WWMASPL

unsupported rating of [ICRA]BBB. In case the rating of JSW Steel Limited was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the proposed transaction documents

- » Consortium shall have operational and management control on PSL
- » JSW Steel Limited to own not less than 49% of the PSL
- » No change in control of the put option providers

Key rating drivers and their description

Credit strengths

83.3% shareholding by JSW Steel (rated [ICRA]AA/Stable/A1+), having a strong credit profile – PSL is a part of the JSW group, with JSW Steel owning 83.3% stake in the company and JSWSLPL holding the balance 16.7% stake. PSL is the holding company of BPSL, which has a 2.7-million tonne per annum (mtpa) steel making facility in Jharsuguda, Odisha. With a crude steel production of 17.6 mt in FY2022 JSW Steel remained one of the largest steel producers in India and the largest steel exporter with exports of 4.6 mt during the said year. JSW Steel's diverse product portfolio comprising flat and long products, a 60% share of value added products in the sales mix (52% of total sales in FY2021), its strong distribution network with a significant retail presence, help it achieve a leading market position in western and southern India, where its manufacturing facilities are located.

Put option available for NCD investors – NCD investors of PSL have right to exercise a put option on the Consortium, prior to the due date of the NCD. There is a defined payment mechanism to ensure timely repayment of the NCDs.

Strong product profile of BPSL and operational synergies – BPSL has a 2.7-mtpa integrated steel making facility at Jharsuguda, Odisha, which is in proximity to JSW Steel's captive iron ore mines and to JSW Ispat Special Products Ltd's (JISPL, erstwhile Monnet Ispat and Energy Limited) steel plant in Chhattisgarh. Apart from the backward integration facilities such as beneficiation, sintering, coke oven and pelletisation plants, BPSL 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 a strong foothold in the eastern region, higher margins associated with value-added products and freight cost savings for iron ore procurement. BPSL produced 2.72 mt of crude steel in FY2022 and achieved a capacity utilisation level of 100%. BPSL reported a strong turnaround in its operations and achieved operating income of Rs. 11,208 crore and operating margin of 27.7% in H2 FY2022. However, ICRA notes that the government's recent measures to rein in the steel prices in the form of increased export duties could weigh in on BPSL's capacity utilisation. The ability of BPSL to maintain satisfactory capacity utilisation levels going forward would be a key monitorable.

Credit challenges

Refinancing risk pertaining to the short-term loan – A major portion of the financing for the BPSL acquisition was raised through a short-term loan in BPSL's books for part-funding the acquisition. This loan would be refinanced before its maturity. As of March 31, 2022, a significant portion (close to 58%) has already been prepaid. BPSL's ability to refinance the balance debt would remain a key credit monitorable.

Exposure to cyclicality in the steel and auto sector – Given the significant volatility exhibited by steel prices, BPSL as well as JSW Steel Limited's profitability and cash flows remain exposed to price risks. Nevertheless, the risks are mitigated partially by JSW Steel's cost efficiencies and a portfolio of value added products. BPSL also remains exposed to the auto sector, which has a high degree of cyclicity in the business.

Liquidity position (Support provider – JSW Steel Limited): Adequate

JSW Steel’s liquidity is **adequate** given its large cash and cash equivalents of Rs. 17,390 crore as on March 31, 2022. The company has capital expenditure (capex) commitment of Rs. 20,000 crore and scheduled repayments of Rs. 11,976 crore in FY2023. The company has access to undrawn working capital and capex lines (fund and non-fund based) aggregating to around Rs. 16,000 crore as on March 31, 2022, which in turn would keep the overall liquidity profile comfortable.

Click [here](#) for JSW Steel’s latest rationale.

Liquidity position (PSL): Adequate

PSL’s liquidity position is likely to remain **adequate** and is augmented by the financial flexibility enjoyed by the company from being a part of the JSW group. Operating profits generated by BPSL would support its working capital funding and liquidity position in the near-to-medium term.

Rating sensitivities

The rating would remain sensitive to any movement in the rating or outlook of the put option provider i.e. JSW Steel Limited

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for entities in the ferrous metals industry Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	The assigned rating is based on the strength of the Consortium – which has JSW Steel Limited as a member.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial risk profile of JSW Steel Limited and that of PSL. As on March 31, 2021, JSW Steel had 53 subsidiaries and 10 associates and joint venture companies that are enlisted in Annexure-2.

About the company

Piombino Steel Limited (PSL) is a part of JSW group with JSW Steel Limited holding 83.3% stake in the company. PSL is the holding company for acquisition of BPSL, which has a 2.7-million tonne per annum (mtpa) steel making facility in Jharsuguda, Odisha.

Key financial indicators (audited)

Key financial indicators are not applicable as PSL is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument				Current Rating (FY2023)	Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in	Date & Rating in FY2022			Date & Rating in FY2021		Date & Rating in FY2020
						June 1, 2022	Dec 6, 2021	Oct 4, 2021	August 27, 2021	Feb 23, 2021	Dec 18, 2020
1 NCD	Long Term	2,500.00	2,500.00	[ICRA]AA(CE) (Stable)	[ICRA]AA(CE) (Stable) Withdrawn	[ICRA]AA(CE) (Stable)	Provisional [ICRA]AA(CE) (Stable)	Provisional [ICRA]AA-(CE) (Stable) Withdrawn	Provisional [ICRA]AA-(CE) (Stable)	Provisional [ICRA]AA-(CE) (Negative)	

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Proposed NCDs	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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
INE022708056	NCD	Mar 24, 2021	Zero Coupon	Mar 22, 2024	2,500.00	[ICRA]AA(CE) (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	JSW Steel 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 Jharkhand Steel Limited	100%	Full Consolidation
JSW Bengal Steel Limited	98.76%	Full Consolidation
JSW Natural Resources India Limited	98.76%	Full Consolidation
JSW Energy (Bengal) Limited	98.76%	Full Consolidation
JSW Natural Resources Bengal Limited	98.76%	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 Industrial Gases Private Limited	100%	Full Consolidation
JSW Steel Italy S.r.l.	100%	Full Consolidation
JSW Steel Italy Piombino S.p.A	100%	Full Consolidation
Piombino Logistics S.p.A – A JSW Enterprise	100%	Full Consolidation

Company Name	JSW Steel Ownership	Consolidation Approach
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
JSW Vallabh Tinplate Private Limited	100%	Full Consolidation
Piombino Steel Limited	83.28%*	Full Consolidation
JSW Vijayanagar Metalics Limited	100%	Full Consolidation
Vardhman Industries Limited	100%	Full Consolidation
Creixent Special Steel Limited	48%	Equity method
JSW Ispat Special Products Limited	23.1%	Equity method
Vijayanagar Minerals Private Limited	40%	Equity method
Rohne Coal Company Private Limited	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

*As on October 1, 2021

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