

## JSW Steel Limited

Instrument	Amount Rated	Rating Action
	In Rs. Crore	As in September 2016
Term loans / Standby Letter of Credit Facilities	21,754.12 (PY 22,470.00)	[ICRA]AA-(Negative) reaffirmed
Short-term Fund-based limits	1,488 (PY 1,400.00)	[ICRA]A1+ reaffirmed
Short-term Non-fund based limits	15,619.5 (PY 16,510.00)	[ICRA]A1+ reaffirmed
Long Term / Short Term - Fund based/Non-fund based limits	4,370.66 (PY 4,842.53)	[ICRA]AA-(Negative)/[ICRA]A1+ reaffirmed
Non Convertible Debenture Programme	8,082.16 (PY 8,635.00)	[ICRA]AA-(Negative) reaffirmed
Proposed Non Convertible Debenture Programme	2000.00	[ICRA]AA-(Negative) assigned
Commercial Paper Programme	3,500.00	[ICRA]A1+ reaffirmed

PY: Previous Year

ICRA has reaffirmed the long term rating to the Rs. 8,082.16 crore (reduced from Rs. 8,635.00 crore) non-convertible debenture programme and the Rs. 21,754.12 crore (reduced from Rs. 22,470.00 crore) term loans / Standby Letter of Credit facilities of JSW Steel Limited (JSW Steel)<sup>1</sup> at [ICRA]AA- (pronounced as ICRA double A minus). ICRA has also assigned an [ICRA]AA- rating to the Rs. 2,000.00 crore proposed non-convertible debenture programme of JSW Steel. The outlook on the long-term rating is 'Negative'. ICRA has reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 3,500.00 crore commercial paper programme, the Rs. 1,488 crore (enhanced from Rs. 1,400.00 crore) fund-based bank facilities and the Rs. 15,619.50 crore (reduced from Rs. 16,510.00 crore) non-fund based bank facilities of JSW. ICRA has also reaffirmed the long-term rating at [ICRA]AA-(Negative) and the short-term rating at [ICRA]A1+ for the Rs. 4,370.66 crore (reduced from Rs. 4,842.53 crore) long term/short term, fund based/non-fund based bank facilities of JSW.

### Rating Rationale

The reaffirmation of ratings takes into account the status of JSW Steel as the largest steel producer in India with a strong market position in western and southern India, and as the largest Indian exporter of steel. The ratings also take into account an expected increase in sales volumes and reduced pricing pressures on domestic steel in the near term on account of various protection measures taken by the Indian Government and the fact that the company has successfully commissioned and ramped up operations of its 3.7 million tonnes per annum brown-field capacity expansion project. Despite operating amidst an industry slowdown and having 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 during the last few years, which is largely attributable to the efficient and technologically advanced operations of the company, which keep conversion costs low.

The ratings also favourably factor in the company's diversified product mix with high share of higher value-added products in the overall sales mix, and the company's opportunistic shift between export and domestic markets, which reduces geographical concentration risks. ICRA also takes note of JSW Steel's demonstrated ability to execute various capacity expansions and cost optimisation programmes within the stipulated time and costs, and the advantages accruing to the company by virtue of its manufacturing locations, which are in close proximity to ports, thereby resulting in freight cost savings.

The ratings are, however, constrained by a deterioration in capital structure and coverage indicators of the company in FY2016 on account of loss making operations following a steep fall in steel prices, and large impairment of investments made in JSW Steel's overseas subsidiaries. ICRA notes that the capitalisation level of JSW Steel is unlikely to improve significantly in the near to medium term because of its elevated debt levels, and its ongoing capacity expansion plans. The ratings are also tempered by the company's exposure to price risks and supply uncertainties in the absence of captive sources of raw materials. A recent surge in coking coal

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.



prices heightens such price risks and is expected to partially neutralise the benefits of higher steel prices and volumes in the current year. The ratings also take into consideration the fact that the financial profiles of JSW Steel's overseas subsidiaries, viz. JSW Steel (USA) Inc., Santa Fe Mining (Chile) and Periana Holding LLC remain under pressure in the current year due to weak demand conditions and unfavourable iron ore prices respectively, and the same adversely impacts the consolidated financial position of JSW Steel.

ICRA also notes that JSW Steel remains exposed to forex risks due to its dependence on imports to meet its coking coal requirements, and the fact that about 44% of the company's total debt as on March 31, 2016 was denominated in foreign currency, which was largely un-hedged. However, the forex risks are partly mitigated by the company's increased export sales, which act as a natural hedge, and by the company's formal hedging policy to cover both the forex inflows and outflows on its revenue side.

Any higher-than-anticipated capital expenditure or unanticipated acquisition resulting in a further increase in debt levels could adversely impact the financial risk profile of the company. Also, withdrawal of protection measures by the Indian Government upon expiry could exert pricing pressures on domestic steel, and affect JSW Steel's profitability in the medium term. An improvement in domestic demand conditions in the second half of FY2017 would remain a key rating sensitivity. Also, any improvement in financial performance of the loss-making overseas subsidiaries remains a key monitorable.

### **Company Profile**

JSW Steel Ltd. (JSW Steel) is a part of the O.P Jindal Group and is engaged in the manufacturing of iron and steel products. The company's products include hot rolled steel strips, sheets/plates, mild steel (MS) cold rolled coils/sheets, MS galvanized plain/corrugated/colour coated coils/sheet, steel billet, bars and rods. As on date, JSW Steel's steel plants in Karnataka, Tamil Nadu and Maharashtra have a combined installed capacity of 18.0 million tonnes per annum (mtpa). JSW Coated Products Ltd., a 100% subsidiary of JSW Steel, has manufacturing facilities at Vasind and Tarapur Works (near Mumbai) and Kalmeshwar (near Nagpur) in the state of Maharashtra, for value added steel products. JSW Steel also has a plate and pipe mills business in the USA, iron ore mines in Chile and coal mines in the USA and Mozambique, which are operated through its international subsidiaries.

### **Recent Results**

On a standalone basis, JSW reported a net profit of Rs. 1082.41 crore on an operating income of Rs. 10,918.88 crore during Q1 FY2017. During FY2016, the company reported a net loss of Rs. 3,498.28 crore on the back of an operating income of Rs. 36,706.92 crore.

During Q1 FY2017, the company posted a consolidated net profit of Rs. 1084.84 crore, on an operating income of Rs. 11,708 crore. During FY2016, the company posted a consolidated net loss of Rs. 836.98 crore on an operating income of Rs. 41878.88 crore.

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