

August 30, 2019

JSW Steel Limited: Ratings reaffirmed; Outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans / Standby Letter of Credit Facilities	24759.00	30337.00	[ICRA]AA reaffirmed; outlook revised to Negative from Stable
Proposed – Term Loans	5000.00	-	-
Short-term Fund-based Limits	1400.00	1386.00	[ICRA]A1+; Reaffirmed
Short-term Non-fund Based Limits	19600.00	18400.00	[ICRA]A1+; Reaffirmed
Long Term / Short Term – Fund-based/Non-fund Based Limits	5844.4	9688	[ICRA]AA/[ICRA]A1+ reaffirmed; outlook on long-term rating revised to Negative from Stable
Non-convertible Debenture Programme	3704.00	3141.00	[ICRA]AA reaffirmed; outlook revised to Negative from Stable
Proposed Non-convertible Debenture Programme	2000.00	4000.00	[ICRA]AA reaffirmed; outlook revised to Negative from Stable
Commercial Paper Programme	5000.00	5000.00	[ICRA]A1+; Reaffirmed
Total	67307.4	71952.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the rating outlook takes into account the expected moderation in JSW Steel's profits and coverage indicators in FY2020 following weakness in domestic as well as international steel prices, and a moderation in domestic demand. Additionally, the company's large ongoing capital expenditure (capex) and increased working capital intensity are likely to keep the overall leverage levels elevated.

The ratings reaffirmation, however, takes into account 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 in the current fiscal. The company 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 even in the recent quarters, 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 due to limited captive sources of raw materials, especially in case of coking coal, which has exhibited high price volatility in the recent past. The company has also announced an additional capex of Rs. 5,714 crore in the current fiscal towards downstream capacity expansion, mining and sustenance capex over and above the previously announced capex of Rs. 44,376 crore. With the 0.7-mtpa capacity expansion at JSW Steel (Salav) Limited being kept on hold (estimated at Rs. 1,375 crore) and the company already having spent close to Rs. 14,371 crore till FY2019 towards this capex, the balance capex over the next three years is estimated at Rs. 34,344 crore. The company is likely to spend about Rs. 15,700 crore in FY2020 to be funded by a debt of Rs. 10,000 crore and the balance by way of internal accruals. This, coupled with higher working capital requirements because of increased receivables and inventory holdings, are likely to keep the overall debt levels of JSW Steel elevated and also keep its free cash flows under check in the near-to-medium term. While the company has also evinced interest in the acquisition of additional stressed steel assets in India under the Insolvency and Bankruptcy Code (IBC) framework, ICRA expects the company to partner with reputed private equity funds/financial investors for acquisition of such assets and raise fresh equity to keep its borrowing requirements low for funding such inorganic growth.

JSW Steel 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 weakening global steel demand, which along with weak financial profile of JSW Steel (USA) Inc. and Santa Fe Mining (Chile), adversely impacted the consolidated financial position of JSW Steel. The cyclicity associated with the steel industry, causing variability in the players' profits and cash accruals, also impact the company's ratings.

Outlook: Negative

The Negative outlook reflects ICRA's expectation that reduction in JSW Steel's profitability and its high debt levels would keep its debt coverage metrics under pressure in the near term. The outlook may be revised to Stable in case of an improvement in the industry conditions, resulting in improved financial performance.

Key rating drivers

Credit strengths

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 by the end of FY2021. 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 – While four out of six category C iron ore mines of JSW Steel are already operational, the balance two mines are likely to start operations before the end of FY2020, resulting in captive iron ore availability of about 5 mt during the year. Additionally, 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.

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

Large capex to be incurred over the next three years – Apart from the ongoing capex programme of Rs. 44376 crore, which started from FY2018, the company announced an additional capex Rs. 5714 crore in Q1 FY2020, which after accounting for the capex of Rs. 14,371 crore incurred in the last two years and the capex towards JSW Steel (Salav) Ltd being kept on hold, keeps the capex commitment large, at about Rs. 34,344 crore over FY2020-22. This pending capex would be funded at a project gearing of about 1.4 times, similar to the existing gearing levels, but is likely to result in elevated debt levels and keep its free cash flows under pressure in the medium term.

Limited captive sources of raw materials at present expose the company to price and supply risks – Despite the increased iron ore availability through captive mines, once fully operational at optimal production levels, the same would meet only about 25% of the company's overall iron ore requirements at the current installed capacity levels. The company also remains dependent on import of coking coal, prices of which have witnessed significant volatility in the recent past. 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 – Despite reporting better capacity utilisation rates for its US-based plate and pipe mill in FY2019, the same remained low in absolute terms and resulted in loss making operations at the net level. 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 weakening 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.

Aggressive inorganic growth appetite – The company remains exposed to business integration and off-take risks for the steel assets acquired last year as these assets are yet to achieve desired operating parameters post acquisition and remain loss-making. While JSW Steel has also evinced interest in acquiring additional stressed steel assets under the IBC

framework, ICRA expects the company to partner with reputed private equity funds/financial investors for acquisition of such assets and raise fresh equity to keep its debt requirements low for funding such inorganic growth options.

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

JSW Steel’s consolidated debt repayments remain sizeable in FY2020 at Rs. 12,170 crore, partly on account of maturity of its foreign currency bond and ECBs totalling to \$750 million. The company’s capex in FY2020 is expected to be about Rs. 15,700 crore, to be funded by debt of Rs. 10,000 crore and internal accruals of Rs. 5,700 crore. As on June 30, 2019, the company’s cash and cash equivalents stood at Rs. 10,010 crore, which included proceeds from customer advance of \$700 million availed from Duferco SA in March 2019 and funds raised through a forex bond issuance of \$500 million in April 2019. Free cash available with the company, cash accruals from the business and undrawn term loans and working capital limits (to the extent of available drawing power) would be adequate to meet the capex and debt repayment requirements of JSW Steel in FY2020.

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. As on March 31, 2019, the company 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.

In FY2019, the company, on a consolidated basis, reported a net profit of Rs. 7,524 crore on an operating income of Rs. 84,757 crore, compared to a net profit of Rs. 6,113 crore on an operating income of Rs. 70,225 crore in the previous year.

Key financial indicators (audited)

Consolidated financials	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 Debt/TNW (times)	1.43	1.52
Total Debt/OPBDIT (times)	2.66	2.76
Interest coverage (times)	4.00	4.84

Note: Total debt as on March 31, 2019 also includes long-term advance from customer of Rs. 4,842 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating August 2019	Date & Rating August 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 October 2016	
1	Term Loans/ Standby Letter of Credit	30,337	22,662	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	
2	Proposed Term Loan	-	-	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	
3	Fund-based Limits	1,386	710	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Fund-based/Non-fund Based	9,688	5,811	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA]A1+	
5	Non-fund Based	18,400	9,574	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
6	Non-convertible Debentures (NCD)	3,141	3,141	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	
7	Proposed NCDs	4,000	-	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	
8	Commercial Paper (CP)	5,000	4,625	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

*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	NCD 3	NA	10.6%	first tranche maturity date 02-Jul-2019	66.00	[ICRA]AA(Negative)
INE019A07183				Second tranche maturity date 02-Feb-2020		
INE019A07258	NCD 4	NA	10.02%	first tranche maturity date 20-May-2023	1,000.00	[ICRA]AA(Negative)
INE019A07266				Second tranche maturity date 19-Jul-2023		
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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