February 13, 2020

JSW Techno Projects Management Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument^	Current Rated Amount (Rs. crore)	Rating Action
Term loan	1,150.00	[ICRA]BBB+ (Stable); assigned
Total	**1,150.00**	

^*Instrument details are provided in Annexure-1*

Rationale

The assigned rating considers the strategic importance of JSW Techno Projects Management Limited (JTPML) to the JSW group, given that the company is the largest shareholder of JSW Steel Limited (JSW Steel; rated [ICRA]AA/Negative/A1+) with a 10.94% stake as on December 31, 2019. ICRA notes that JTPML had previously availed loans against shares (LAS), which have been repaid in the current fiscal through issuance of compulsorily convertible debentures (CCDs) of Rs. 550 crore and unsecured non-convertible debentures (NCDs) of Rs. 2900 crore, leading to improved financial flexibility. The rating also favourably factors in the regular financial support from the JSW group companies by way of unsecured loans and preference shares. Over the past few years, the company has diversified its revenue stream by entering new businesses including operation and maintenance (O&M) of steel plant and supply of industrial gases, which provide largely stable cashflows and improve JTPML's revenue visibility. The company also acquired a 49% stake in Brahmanni River Pellets Limited (BRPL) in FY2018, which operates a 4-million tonne per annum (mtpa) pellet plant in Jajpur, Odisha. Currently, 49% of BRPL's domestic pellet sales are routed through JTPML, resulting in further diversification of its revenue stream.

The rating, however, is constrained by sizeable debt repayments in FY2021 and large capex commitments in the next two years, which would exert pressure on JTPML's free cashflows in the near-to-medium term. During the last fiscal, the company derived 52% of its total revenues from its share of BRPL's domestic pellet sales and dividend income from JSW Steel. ICRA believes JTPML's cashflow from these segments would remain volatile given the cyclicality inherent in steel and pellet making business of JSW Steel and BRPL. The rating is also constrained by the company's leveraged capital structure owing to entirely debt-funded JSW Steel stake purchase in the past. Additionally, the large debt funded capex of Rs. 910 crore with a project gearing of about 2.0 time towards setting up of two oxygen plants would keep JTPML's debt level elevated in the medium term.

The stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectation that JTPML would continue to benefit from its steady revenues from the industrial gas and O&M business segments.

Key rating drivers and their description

Credit strengths

Strategic importance to the JSW group – JTPML is a part of the JSW group and holds 10.94% stake in JSW Steel as on December 31, 2019. The market value of its investments in JSW Steel stood at Rs. 7,141 crore as on December 31, 2019. Besides being its largest shareholder, JTPML provides O&M support to its cold rolled mill in Vijayanagar and has a long-term take or pay agreement (TOPA) for supply of industrial gases to its Dolvi plant. JSW group has provided regular financial support to JTPML in the past by way of preference shares and unsecured loans to ensure timely debt servicing. The extent of financial support stood at Rs. 594 crore as on September 30, 2019. Given the strategic importance of JTPML for the JSW group, ICRA expects the funding support to continue going forward as well.

Improved financial flexibility – In the past, JTPML had availed loans from various financial institutions against pledge of shares of JSW Steel. Between April and December 2019, the company repaid these loans through issuance of unsecured NCDs of Rs. 2,900 crore and CCDs of Rs. 550 crore, which in turn improves JTPML's financial flexibility.

Diversified revenue stream – JTPML has business presence in four segments – industrial gases, O&M, strategic investment and iron ore pellet. These segments contributed 14%, 15%, 35% and 36% respectively to JTPML's total revenue in H1 FY2020. The company entered the industrial gases business in 2016 and has two operational plants at Dolvi with combined capacity of 3,200 tonnes per day (TPD). It is in the process of installing additional capacity of 2,200 TPD at the same location, which is expected to become operational by March 2020. Apart from these, it is planning to set up two additional 2,200-TPD units at Vijayanagar by mid-2022. It also has annual O&M contracts with JSW Steel and JSW Projects Limited and reported revenue of Rs. 57.7 crore from these contracts in H1 FY2020. As on September 30, 2019, the company has equity investment of Rs. 5,687.3 crore in JSW Steel and has extended loans of Rs. 1,052.3 crore to group companies and related parties. It earned dividend/interest of Rs. 132.2 crore on these investments/loans. In addition to these segments, during H1 FY2020, the company generated Rs. 138.6 crore from sale of iron ore pellet procured from BRPL, a joint venture (JV) between JTPML (49% stake in BRPL), Thriveni Pellets Private Limited (TPPL; 49% stake) and Mitsun Steel Private Limited (MSPL; 2% stake). These shareholders purchase pellets from BRPL wherein they pay a fixed margin over and above BRPL's cost of production. While only domestic pellet sales are routed through the shareholders at present, the entire output would be sold through them from April 2020 onward.

Largely stable cashflow from O&M and industrial gas segments – The company has entered into long-term O&M contracts with JSW Projects Limited for its 3.42 mtpa coke dry quenching (CDQ) plant, 1.2 mtpa sponge iron plant and 76 MW power plant located at Vijayanagar. It has also signed an agreement with JSW Steel for providing O&M support to its cold rolled mill in Vijayanagar. Besides these O&M contracts, JTPML has a 15-years' TOPA with JSW Steel for supply of industrial gases. Under this agreement, JSW Steel procures the entire output of JTPML's industrial gases business. The long-term nature and assured offtake under these contracts ensures largely stable cashflows and improves revenue visibility.

Credit challenges

Large debt repayments and capex commitments – In the current fiscal, the company raised Rs. 2,900 crore through NCDs, of which redemption of Rs. 615.9 crore is falling due in FY2021. Additionally, the company is incurring a large capex of Rs. 910 crore over the next two years. As a result, the company's free cashflows are expected to remain under pressure in the near-to-medium term.

Exposure to cyclical business of JSW Steel and BRPL – The dividend income from JSW Steel and sale of pellets procured from BRPL accounted for 52% of JTPML's total sales in H1 FY2020. ICRA believes the cyclicality inherent in steel and pellet making business of these two companies, which is reflected from volatility in JSW Steel's dividend pay-out and in pellet price movement in the past, would keep JTPML's cashflows from these two segments volatile.

Leveraged capital structure – JTPML's capital structure remains leveraged owing to debt-funded share purchase in the past. While its gearing stood at 2.2 times, the debt-to-operating profit stood at 10.8 times as on September 30, 2019. Any sharp drop in JSW Steel's share price would adversely impact JTPML's net worth and hence would remain a key credit monitorable. Additionally, the company is undertaking debt funded capex with a project gearing of about 2.0 time towards setting up of two oxygen plants, which in turn would keep its debt levels elevated in the medium term.

Liquidity position: Adequate

JTPML's liquidity position is likely to remain **adequate** and is augmented by the financial flexibility enjoyed by the company for being a part of the JSW group. The company holds 10.94% stake in the group's flagship company JSW Steel, which has a market value of Rs. 7,141 crore as on December 31, 2019. JTPML has external debt of Rs. 3645 crore and has issued preference shares of Rs. 786 crore to JSW group companies as on December 31, 2019. The repayment obligation for FY2021 would be Rs. 651.4 crore. While JTPML's cash generation is likely to remain lower than the debt repayment obligations in FY2021, the company's improved financial flexibility and demonstrated funding support from JSW group entities lends comfort to the overall liquidity profile. The company has capex plan of Rs. 910 crore over the next two years, which would be funded through term loan of Rs. 606 crore. While the initial phase would be debt-funded, the cashflows are likely to remain sufficient for equity funding of the capex in FY2022.

Rating sensitivities

Positive triggers – ICRA may upgrade JTPML's rating in case of a healthy growth in pellet sales, supported by rise in sales volumes and realisations, and/or if its DSCR remains above 1.3 times on a sustained basis.

Negative triggers – Negative pressure on JTPML's rating may arise in case the company is unable to arrange funds to meet the shortfall in debt repayment in FY2021. Any major deterioration in the financial profile of its investee company JSW Steel could also result in a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

JSW Techno Projects Management Limited was incorporated in May 2010 for providing project management services (including management consultancy) and to undertake strategic long-term investment activities. It is a part of the JSW Group, which is promoted by Mr. Sajjan Jindal. The group has presence across steel, power, infrastructure and cement sectors. JTPML has over the years enhanced its revenue stream and currently has presence in four segments – industrial gases, O&M, strategic investment and iron ore pellet.

As per the provisional financials for H1 FY2020, JTPML reported a profit after tax Rs. 2.3 crore on an operating income of Rs. 384.2 crore compared to a net loss of Rs. 39.8 crore crore on an operating income of Rs. 550.2 crore in FY2019.

Key financial indicators

Standalone financials	FY2018	FY2019	H1 FY2020 (Prov.)
Operating Income (Rs. crore)	221.7	550.2	384.2
PAT (Rs. crore)	-134.8	-39.8	2.3
OPBDIT/OI (%)	77.2%	59.1%	68.1%
RoCE (%)	2.8%	5.2%	7.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.3	2.5
Total Debt/OPBDIT (times)	18.3	13.7	10.8
Interest Coverage (times)	0.5	0.7	1.2
DSCR	0.3	0.3	0.4

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; Source: JTPML

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					13-Feb-2020			
1	Term loan	Long term	1,150.00	751.5*	[ICRA]BBB+ (Stable)	-	-	-

**As on January 31, 2020*

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 o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016-FY2020	-	FY2026-FY2034	1,150.00	[ICRA]BBB+ (Stable); assigned

Source: JTPML

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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