

JULY 7, 2015

CARE REVISES RATINGS ON THE BANK FACILITIES AND COMMERCIAL PAPER ISSUE OF AMBA RIVER COKE LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	1,670 (reduced from 1,800)	CARE AA (Double A)	Revised from CARE A (Single A)
Short term Bank Facilities	1,310 (enhanced from 656)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Facilities	2,980		
Commercial Paper (CP) issue*	240.00 (Reduced from Rs.275 crore)	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)

*carved out of the sanctioned working capital limits of the company.

Rating Rationale

The rating revision takes into account stabilisation of operations of the coke oven and pellet plants with ramp up of production resulting in the sale of products to JSW Steel Ltd (JSWSL; rated CARE AA/A1+) and accretion of cash flows to ARCL under the take or pay arrangement with JSWSL and mitigation of the forex risk with completion of the project.

The ratings also factor in the strong promoters - JSWSL, with substantial presence in the Indian steel industry and experienced management, the captive nature of the coke oven and pellet plants and their significance for backward integration of Dolvi steel complex of JSWSL, presence of 'take-or-pay' agreements ensuring sufficient cash flow for debt servicing and operational integration with JSWSL.

The ratings are, however, tempered by the limited track record of operations as the plants have recently stabilised operations and inherent cyclical nature of the steel industry.

ARCL's ability to achieve the envisaged revenue and profit following successful stabilisation of operations of the plant and ensuring continuous supply of cost-effective input materials to JSWSL are the key rating sensitivities.

Background

ARCL is a wholly-owned subsidiary of JSWSL, one of the largest steel producers in India with a steelmaking capacity of 14.30 million tonnes per annum (mtpa). JSWSL's integrated steel manufacturing units located across three states (i.e., Karnataka, Maharashtra and Tamil Nadu) have facilities to produce a wide range of flat and long steel products.

ARCL, a Special Purpose Vehicle (SPV), was formed for implementing and operating two backward integration units – a 1.0 mtpa coke oven and a 4.0 mtpa pellet plant – at JSWSL's Dolvi steel complex (Maharashtra). Dolvi steel complex has a shore based integrated steel plant with a capacity to produce 3.30 mtpa of Hot Rolled Coil (HRC). Operations of the pellet plant and coke oven plant have been stabilized and they achieved 62% and 82% average capacity utilisation respectively during first year of operations. ARCL has entered into take or pay agreements with JSWSL for purchase of coke and pellet output at an arms length pre-determined pricing formula. The arrangement provides for stability in revenue and profits of ARCL and ensures sufficient cash flow for debt servicing of ARCL.

During FY15 (refers to the period April 1, 2014 to March 31, 2015), ARCL registered revenue of Rs.2,342 crore and a profit after tax of Rs.120 crore.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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