March 05, 2014

RATIONALE-CUM-BRIEF RATIONALE

CARE REVISES THE RATINGS ASSIGNED TO VARIOUS DEB FACILITIES/INSTRUMENTS OF BHUSHAN STEEL LTD

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Instruments			
Non-Convertible Debenture (NCD) Programme-I	1,500	**CARE BB [Double B]**	Revised from CARE A [Single A]
Non-Convertible Debenture (NCD) Programme-II	800	**CARE BB [Double B]**	Revised from CARE A [Single A]
Cumulative Redeemable Preference Shares-I (CRPS-I)	88.50	**CARE BB [Double B]**	Revised from CARE A- [Single A Minus]
Cumulative Redeemable Preference Shares-II (CRPS-II)	100	**CARE BB/CARE A4 [Double B/A Four]**	Revised from CARE A-/CARE A2+ [Single A Minus/A Two Plus]
Commercial Paper/Short-term Debt Programme*	1,300	**CARE A4 [A Four]**	Revised from CARE A1 [A One]
Pass Through Certificates (PTCs)^	100	**CARE A4 (SO) [A Four (Structured Obligation]**	Revised from CARE A2+ (SO) [A Two Plus (Structured Obligation]
Bank facilities			
Long-term Bank Facilities	29,676.02	**CARE BB [Double B]**	Revised from CARE A [Single A]
Short-term Bank Facilities (Working Capital)	5,184	**CARE A4 [A Four]**	Revised from CARE A1 [A One]
Short-term Bank Facilities (Short-term Loans)	1,000	**CARE A4 [A Four]**	Revised from CARE A2+ [A Two Plus]
Subordinate Debt	100	**CARE BB [Double B]**	Revised from CARE A- [Single A Minus]
Total Bank Facilities	**35,960.02**		

**Carved out of fund based working capital limits*

^based on credit enhancement in the form of put option provided by BSL for timely payment of PTCs issued by 'BSL CRPS Mar 2011' Trust backed by CRPS-II issued by BSL.

Rating Rationale

The revision in the ratings takes into account the deterioration in the company's credit risk profile characterized by decline in its profitability and cash accruals during 9MFY14 (refers to the period April 1 to December 31) aggravated by delay in ramping-up of operations of Orissa phase-III expansion project. The revision in ratings also factor in the weakening of BSL's liquidity profile in view of the lower than envisaged cash accruals and committed debt repayment obligations.

The ratings are constrained by BSL's leveraged credit profile attributable to the large debt-funded expansion projects undertaken by the company, the residual risks associated with the projects under execution and effective ramping-up of operations and cyclicality inherent in the steel

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

industry. The ratings take note of the company's long track record in the steel industry and its healthy operating margins over the years. The ratings also consider BSL's diversified customer base, the company's dominant position in the domestic market and its diversified product portfolio with a strong export presence in GP/GC sheets and other value-added products.
Going forward, the company's ability to improve its liquidity and leverage profile, timely and effective ramping-up of the operations of Orissa phase-III and the completion of various projects under execution within the time and cost estimates would be the key rating sensitivities.

Background

Bhushan Steel Ltd (formerly known as Bhushan Steel & Strips Ltd), incorporated in 1993, is one of the large players in the steel industry with a steel making capacity of 4.7 Million Tonnes Per Annum (MTPA) (including Phase-III expansion of 2.5 MTPA). The company has HR steel capacity of 4.4 MTPA, billet manufacturing capacity of 0.3 MTPA and captive power generation capacity of 158 MW (including 110 MW waste heat recovery based capacity in Orissa). The company's manufacturing facilities are situated in Sahibabad (UP), Khopoli (Maharashtra) and Dhenkanal (Orissa). The company supplies a variety of finished products such as hot rolled coil/sheet, cold rolled coil/sheet, galvanized coil/sheet, high tensile steel strapping, colour coated coil/sheet, galume coils/sheets, hardened & tempered steel strips, precision tubes etc. Its products primarily cater to the demand of automobiles and consumer durable industries.

Credit risk assessment

Significant delay in ramping-up of Orissa Phase-III operations

The company had completed its Orissa phase III project in March 2013 resulting in expansion in HR capacity to 4.4 Million Tonnes Per Annum from 1.9 MTPA. However, in November 2013, there was an explosion near the Blast Furnace No 2 (part of Phase-III expansion) after which phase III operations were stalled as per the direction of State Pollution Control Board (SPCB). The said incident led to loss of production thereby impacting the aggregate sales volumes. BSL took-up the matter with SPCB and the company received "Consent to Operate" from SPCB in January 2014 to restart the Phase III operations. The inordinate delay in ramping-up of the operations of Orissa phase-III has adversely impacting BSL's revenue, profitability and cash flows. Furthermore, there have been reported cost overruns on Phase III project with the company spending an amount of Rs.7,515 crore (including exchange fluctuation of Rs.777 crore) on the project upto December 31, 2013 as against the estimated project cost of Rs.6,583 crore.

Subdued financial performance with net losses during Q3FY14

BSL has reported dismal financial performance during Q3FY14 and 9MFY14 with a sharp decline in total income, operating margins and losses at the net level during Q3FY14. BSL's operating margins declined 592 bps during Q3FY14 was largely on account of higher costs and lower sales volumes due to delay in ramping-up of Orissa phase III operations. The lower operational profitability coupled with higher interest cost resulted in net losses during Q3FY14 and decline in net profit during 9MFY14. The company's total operating income and PBILDT declined by 9.58% and 14.85% during 9MFY14 on y-o-y basis whereas its PAT declined by 87.03%.
During 9MFY14, the company reported a PBILDT and net loss of Rs.2,038 crore and Rs.82 crore, respectively on a total operating income of Rs.7,166 crore as against a PBILDT and PAT of Rs.2,393 crore and Rs.629 crore, respectively, on a total operating income of Rs.7,925 crore during 9MFY13. The dip in operating performance along-with with high financial leverage (BSL's overall gearing (excluding acceptances) at 3.33x as on December 31, 2013 as compared with 2.75x as on March 31, 2013) and higher commitments related to the ongoing capex and debt repayments has a impacted the liquidity position of the company. Going forward, the ability of BSL to deleverage its balance sheet and improve its liquidity profile would be important to its prospects.

Analyst Contact
Name: Sudhir Kumar
Tel: 011-45333232
Email: sudhir.kumar@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Disclaimer
CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra
Managing Director
Mobile : +91-98204 16002
E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi
Dy. Managing Director
Mobile +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi
Vice President –Bank Loan & Instrument Rating
Mobile: +91-9819009839
mail: meenal.sikchi@careratings.com

Mr.Ankur Sachdeva
Vice President – Banks & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LTD

HEAD OFFICE 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 | Tel: +91-022- 6754 3456 | E-mail: care@careratings.com | Fax: +91-022- 6754 3457.

KOLKATA | **Ms. Priti Agarwal** | Cell: +91-98319 67110 | Tel: +91-33- 4018 1600/ 1602 | E- mail: priti.agarwal@careratings.com | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

CHENNAI | **Mr. V Pradeep Kumar** | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 | Email: pradeep.kumar@careratings.com | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

AHMEDABAD | **Mr. Mehul Pandya** | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 | E-mail:mehul.pandya@careratings.com | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

NEW DELHI | **Ms. Swati Agrawal** | Cell: +91-98117 45677 | Tel: +91- 11- 2331 8701/ 2371 6199 | E-mail: swati.agrawal@careratings.com | 3rd Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

BENGALURU | **Mr. Dinesh Sharma** | Cell: +91 9900041975| Tel: +91-80-41150445 |41654529 E-mail: dinesh.sharma@careratings.com | Unit No. 1101-1102, 11th Floor, Prestige Meridian II, No. 30, M.G. Road, Bengaluru- 560 001.

HYDERABAD | **Mr. Saikat Roy** | | Tel: +91-40-40102030 | E-mail: saikat..roy@careratings.com | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029.

PUNE | **Mr. Rahul Patni** | Cell: +91-78754 33355 | Tel: +91-20- 4000 9000 | E-mail: rahul.patni@careratings.com | 9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road, Shivaji Nagar, Pune - 411 015.

JAIPUR| **Mr. Rahul Jain** | Cell: +91-9314921496| Tel: +91-0141-4020213/14 | E-mail: rahul.jain@careratings.com |304, Pashupati Akshat Height, s Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park , Jaipur – 302016.