JSW Severfield Structures Limited

Ratings

Facilities	Amount (Rs. crore)	Rating1	Remarks
Long term Bank Facilities	378.00	CARE BBB (Triple B)	Reaffirmed
Short term Bank Facilities	100.00	CARE A3 (A Three)	Reaffirmed
Long/Short term Bank Facilities	50.00	CARE BBB/CARE A3 (Triple B/A Three)	Reaffirmed
Total Facilities	**528.00**		

Rating Rationale

The ratings continue to derive strength from the prominent promoters with a well-established position in steel and construction industries and experienced management team, demonstrated project execution capabilities helping to secure new contracts, noteworthy order book position providing medium-term revenue visibility and demand potential in view of inherent benefits of Fabricated Structural Steel (FSS) over reinforced concrete.

The ratings, however, are constrained by subdued financial performance in FY16, leveraged capital structure along with weak debt coverage indicators, susceptibility to raw material price volatility due to fixed-price nature of contracts and low acceptance of FSS products in Indian construction market.

JSSL's ability to further enhance its operating efficiency and improve profitability are the key rating sensitivities.

Background

JSSL is a 50:50 Joint Venture (JV) company of JSW Steel Limited (JSWSL, rated CARE AA-/A1+) and Severfield Rowen Mauritius Limited (SRML), a wholly-owned subsidiary of Severfield Plc (former Severfield Rowen Plc), based in the UK. The flagship company of the JSW group, JSWSL is one of the largest steel producers in India with a steelmaking capacity of 18 million tonnes per annum (mtpa). Founded in 1978, Severfield Plc is the largest structural steelwork fabrication and erection company in the UK with a combined FSS manufacturing capacity of 1,50,000 tpa.

JSSL is engaged in the design, manufacturing of FSS products and their erection on construction sites in India. As on March 31, 2016, JSSL's manufacturing capacity stood at around 55,000 tpa of FSS – consisting of two fabrication lines and a plate line – in its Bellary plant (Karnataka).

Credit Risk Assessment

Prominent promoters and experienced management; financial support from the promoters

JSSL is a 50:50 JV company of JSWSL (rated CARE AA/A1+) and SRML, a wholly-owned subsidiary of Severfield Plc. JSWSL, with its steelmaking capacity of 18 mtpa, is one of the largest steel producers in India. Its multi-location steel manufacturing facilities produce various upstream products ranging from Mild Steel (MS) slabs/billets and Hot Rolled (HR) coils/steel plates/sheets, bar and wire rod products. Severfield Plc is the largest structural steelwork group in the UK with four FSS manufacturing facilities having a combined capacity of 1,50,000 tpa. The group provides full in-house service offering streamlined design, fabrication and construction capability across various sectors. Severfield Plc has experience in construction of FSS structures for bridges, commercial complexes, power projects, airports, stadiums, car parks and industrial projects across Europe. JSSL derives strong operational advantage from substantial experience of its promoters and management team in steel and construction industries. The promoters have regularly infused equity funds (contributed in the ratio of equity holding of 50:50) over the past few years supporting liquidity position of JSSL. However, there was no equity infusion in FY16. The financial support from the promoters is expected to continue in the future, if required.

Project execution capabilities

JSSL has demonstrated its project execution ability by executing projects in excess of Rs.1,160 crore, since commencement of operations. Despite challenging business environment, the company has been able to secure contracts from wider selection of customers across sectors (such as power & energy, oil & gas, transport & airport, real estate, industrial and commercial sectors). This was on the back of high quality product and short delivery times as well as full spectrum of services offered by JSSL ranging from engineering solutions at conceptual stage to full design, fabrication and site construction. During FY16, the company executed SRR3 Office Building project (4424MT) for Intel at Bangalore, which was a unique top-down construction system, first of its kind in India. This erection was completed ahead of the project schedule. This led to successful award of new projects, which currently include hospital building project in Kerala (15000 MT), industrial projects including assignments for L&T, JSWSL, LANCO, Doosan and ITC as well as commercial projects for Raheja (Mumbai) and Advant (New Delhi). However, JSSL is yet to

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

establish itself as a key player amidst low acceptance level of FSS in the domestic market.

Order book

As on April 1, 2016, JSSL had a noteworthy order book position of Rs.314 crore. The outstanding order book accounts for about 32.06K tonnes of FSS in terms of volume to be executed within six months to one year period. Furthermore, out of this around 81% are in commercial segment (higher margin business as compared to industrial segment), while contribution from industrial segment has declined marginally to 19% from 20% in FY15. These contracts have better advance payment terms which will reduce JSSL's dependence on working capital funding and also improve future cash flows. Thus, JSSL's order book provides medium-term (about a year's) revenue visibility for the company.

Subdued performance in FY16

The performance during FY16 was impacted by continuing slowdown in the construction industry, particularly commercial construction segment, leading to lower than optimal level of operations at its plant. The company had also taken up some industrial projects at a level less than full overhead recovery owing to fill up the slippages from deferment of certain commercial projects like Proplarity (Noida) and Reliance-IDC (Nagpur). This led to deterioration in profitability margins in FY16. The company posted a total income of Rs.385.42 crore, PBILDT of Rs.34.28 crore (PBILDT margin of 8.89%) and a net loss of Rs.11.40 crore in FY16.

However, the production mix during FY16 has improved with contributions of 68% and 32% from industrial and commercial segments respectively (78% industrial, 22% commercial in FY15).

The capacity utilization during Q1FY17 increased to 75%. The company registered a turnover of Rs. 67 crore with PBILDT margin of 11.69% in Q1FY17. With a healthy order book in hand which consists of more than 80% commercial orders, the production mix in FY17 is expected to have contribution of about 51% from the commercial segment.

Leveraged capital structure; weak debt coverage indicators

JSSL's capital structure, though improved, yet remained leveraged with overall gearing of 3.52x as on March 31, 2016 (4.14x as on March 31, 2015) owing to erosion of networth due to net loss in FY16. The repayment of debt started in FY16 which marginally improved the gearing level. Fund-based working capital bank limit utilization also stood moderate at 64% during the 12-month period ended June 2016. The interest coverage ratio deteriorated to 0.89x in FY16 from 1.39x in FY15.

JSSL has debt repayments in the next 2-3 years which are significant as compared to its annual cash generation. As such, the company's debt service coverage indicators remain moderate in the medium term and are sensitive to improvement in annual cash flows from operations.

Fixed price contracts with susceptibility to raw material price volatility

Hot Rolled (HR) steel accounts for about 90% of the total raw material cost for JSSL. Steel prices are volatile in nature and are driven by the global prices and domestic demand supply scenario. The contracts bagged by JSSL are on fixed-price basis without escalation clause exposing its profit margins to steel price volatility. JSSL has entered into an agreement with JSWSL and Jindal Steel & Power Ltd (JSPL) for the supply of HR steel. While the price of steel are decided at arm's-length at market-linked rates, this arrangement ensures smooth supply of the key input besides saving on freight costs due to the plant's proximity to JSWSL's Vijayanagar works. Further, JSSL places back-to-back orders for its entire steel requirement upon receiving firm order from the client to mitigate the risk to an extent.

Benefits of FSS over reinforced concrete; but low acceptance in Indian market

FSS has certain inherent benefits over the conventionally used reinforced concrete. Unlike concreting, which is usually a wet process conducted at site, FSS building derives most of its competitive advantage from the virtue of prefabricated components which are produced and subsequently fabricated within a controlled environment to be assembled swiftly at site. This ensures high quality, offsite manufacturing with improved precision and enhanced speed of construction at site. Moreover, FSS structures are completed in half the time, are 40% lighter and provide more usable space. These are 100% recyclable and are earth quake resistant. Though the product is moderately costlier (about 5%-15%) than the traditional reinforced concrete.

Steel is already used in many sectors in India, including power projects and industrial construction, but its adoption over reinforced concrete in these and other sectors is yet to gain momentum. The company has taken measures to enhance awareness as well as credibility of the product. The company is largely focusing on South and West Indian markets, in anticipation of demand for FSS from industry for upcoming high rise buildings and complex commercial structures.

Prospects

Recovery of the construction sector and rise in demand for FSS products over reinforced concrete would drive the future growth in JSSL's revenue. With the plant operating at optimum levels, operating profitability is expected to improve. JSSL's ability to establish the credibility of FSS, further enlarge its order book and increase proportion of higher margin commercial contracts, thus improving its profitability, remain crucial from the credit perspective.

Financial Performance (Rs. Cr)

For the period ended / as at Mar.31,	2014 (12m, A)	2015 (12m, A)	2016 (12m, A)
Working Results			
Net Sales	250.86	407.23	376.65
Total Operating income	260.28	419.65	385.42
PBILDT	-36.39	54.48	34.28
Interest	33.25	39.22	38.47
Depreciation	12.02	13.75	14.15
PBT	-85.85	1.46	-18.19
PAT (after deferred tax)	-85.85	1.46	-11.40
Gross Cash Accruals	-73.83	15.21	2.76
Financial Position			
Equity Capital	196.88	230.88	230.88
Networth	37.72	72.85	61.31
Total capital employed	243.86	299.56	216.25
Key Ratios			
Growth			
Growth in Total income (%)	1.91	61.23	-8.16
Growth in PAT (after D.Tax) (%)	NM	NM	NM
Profitability			
PBILDT/Total Op. income (%)	-13.98	12.98	8.89
PAT (after deferred tax)/ Total income (%)	-32.98	0.35	-2.96
ROCE (%)	-22.12	14.97	7.86
Solvency			
Long Term Debt Equity ratio (times)	3.75	1.99	2.04
Overall gearing ratio(times)	5.46	4.14	3.52
Interest coverage(times)	NM	1.39	0.89
Term debt/Gross cash accruals(years)	NM	9.53	45.36
Liquidity			
Current ratio(times)	0.82	0.87	0.69
Quick ratio(times)	0.79	0.80	0.65
Turnover			
Average collection period (days)	123	84	88
Average creditors (days)	118	117	133
Average inventory (days)	8	14	18
Operating cycle (days)	14	-18	-27

Note:
NM = Not Meaningful

Details of Rated Facilities
1. Long term Facilities
1. A. Rupee Term Loan (Rs. Cr)

Name of Bank	Rated Amount	Remarks
ICICI Bank	125.00	Repayable in 16 unequal quarterly instalments starting from June 30, 2015.
Total	**125.00**	

1. B. Fund Based Limits (Rs. Cr)

Name of Bank	Cash Credit	Other	Total fund based limits
Axis Bank	40.00	-	40.00
IDBI Bank	5.00	-	5.00
ICICI Bank	25.00	-	25.00
Total	**70.00**	**-**	**70.00**

1. C. Non-Fund Based Limits (Rs. Cr)

Name of Bank	Bank Guarantee	Other	Total
Axis Bank	115.00	-	115.00
IDBI Bank	68.00	-	68.00
Total	**183.00**	**-**	**183.00**

Total long-term facilities (1.A.+1.B.+1.C.) **Rs.378.00 crore**

2. Short term Facilities
2. A. Non Fund based limits (Rs. Cr)

Name of Bank	Letter of Credit	Total
Axis Bank	45.00	45.00
IDBI Bank	30.00	30.00
ICICI Bank	25.00	25.00
Total	100.00	100.00

Total short-term facilities (2.A) **Rs.100.00 crore**

3. Long/Short term Facilities
3. A. Fund/Non-Fund based limits

Sr. No.	Name of Bank	Amount (Rs. Crore)
1	Ratnakar Bank Ltd.	50.00
	TOTAL	**50.00**

Total short-term/long-term facilities (3.A.) **Rs.50.00 crore**

Analyst Contact
Name: Mr Puneet Bhatia
Tel: 022-6754 3453
Email: puneet.bhatia@careratings.com

(This follows our brief rationale for entity published on 06 September, 2016)

CONTACT

Head Office Mumbai

Mr. Saikat Roy
Mobile: + 91 9820998779
E-mail: saikat.roy@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com | Website: www.careratings.com

REGIONAL OFFICE

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55, First Floor,
Phase 11, Sector 65, Mohali 160062
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Cell: +91-98407 54521
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, PashupatiAkshatHeights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

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

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677; Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691