

JSW Ispat Special Products Limited

January 03, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3,000.00	CARE A- (RWP)	Revision in credit watch from Positive Implications to (Rating Watch with Positive Implications)
Long Term / Short Term Bank Facilities	805.00	CARE A- / CARE A2+ (RWP)	Revision in credit watch from Positive Implications to (Rating Watch with Positive Implications)
Total Bank Facilities	3,805.00 (₹ Three Thousand Eight Hundred Five Crore Only)		

Details of instruments/facilities in Annexure-1.

CARE Ratings Limited (CARE Ratings) notes the announcement of the scheme of amalgamation with JSW Steel Limited (JSWSL), and in lieu of the above, has continued the ratings of JSW Ispat Special Products Limited (JISPL) under 'Rating Watch with Positive Implications'. On May 27, 2022, JSWSL announced the amalgamation of JISPL and its immediate holding company – Creixent Special Steels Limited – with JSWSL, subject to necessary approvals from various stakeholders, the National Stock Exchange (NSE)/Bombay Stock Exchange (BSE), the Securities and Exchange Board of India (SEBI), the National Company Law Tribunal (NCLT), the Competition Commission of India (CCI), and other regulatory approvals as may be required in due course. The scheme is expected to be completed in a year's time. Upon the effectiveness of the scheme, the shareholding of JSWSL will be extinguished and the other shareholders of JISPL and Creixent Special Steels Limited will receive the shares of JSWSL based on the approved swap ratio for their holding in the respective companies, and both, JISPL and Creixent Special Products Limited will cease to exist. The scheme of amalgamation is expected to bring operational synergies with a change in the raw material procurement for the Raigarh plant of JISPL (from merchant mines earlier to captive mines of JSWSL), a simplified structure, and an increased presence of JSWSL in Central India. From the financial viewpoint, it will bring about a competitive rate of interest on borrowings as against the current rates. The Raipur plant of JISPL may be hived off under a new or existing subsidiary of JSWSL as secondary steel is manufactured in the plant.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of JSW Ispat Special Products Limited (JISPL) considers improved volume sales of pellets during FY22 (FY refers to the period between April 01 to March 31) which are further aided by increase realization in the ferro alloys segment. The company launched "slabs" in FY22 which contributed ~Rs 400 crore in the first year of launch. The ratings are further supported by resourceful and experienced promoter – JSW Steel Limited (JSWSL), having an established presence in the Indian steel industry, access to JSWSL's supplier and marketing network and stable debt metrics.

The ratings also consider the slowdown in the operations during H1FY23 owing to the volatile industry scenario and regular maintenance activity leading to operating losses during the same period. However, with the upliftment of export ban and stabilized raw material prices CARE expects the operations of JISPL to improve in the second half Vis-à-vis first half of FY23.

The above rating strengths are, however, tempered by the company's presence in a highly cyclical steel industry, the exposure to foreign exchange risk and commodity pricing risk, and commitments towards various capital-intensive projects.

Rating sensitivities

Positive Rating Sensitivities– Factors that could lead to positive rating action/upgrade:

- ✓ Successful ramp-up of operations of the integrated steel plant, registering an operating margin of at least 12.5%.
- ✓ Improvement in the gearing below 1.30x on a sustained basis.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- ✓ Improvement in the total debt to gross cash accruals (TDGCA) ratio to less than 3x.

Negative Rating Sensitivities— Factors that could lead to negative rating action/downgrade:

- × Decline in sales volumes below 1.5 million tonne per annum (mtpa) (pellets, steel intermediates and finished steel).
- × Deterioration in the overall gearing beyond 2.20x on a sustained basis on account of any significant increase in the working capital requirement or an unforeseen increase in the debt requirement for the ongoing capex.
- × Deterioration in the credit profile of JSWSL.

Detailed description of the key rating drivers**Key rating strengths****Healthy operational performance supported by strong realisation**

During H2 FY22 aided by the uptick in the construction activity and government spending, steel players have started to increase their production levels. After necessary augmentation of its CAPEX activity, the company started increasing its operating levels its billets category and has maintained stable CU in all other segments. However improved realisation in almost all the categories that the company operates lead to strong financial performance.

Post FY22, there prices of raw materials were on the higher side leading to contracting margins in the steel industry. During the same time the company has recorded inventory losses. The management of JISPL decided to prepone its maintenance activity to Q2FY23 as monsoon and industry dynamics were already softening the demand. This had led to moderate performance in H1FY23.

Support from experienced and resourceful promoters

On July 24, 2018, JSWSL and AION Investments Private II Limited, through its special purpose vehicle (SPV) company – Milloret Steel Limited (MSL) – acquired JISPL through the Corporate Insolvency Resolution Process (CIRP) under the Insolvency & Bankruptcy Code 2016 (IBC). AION Investment Private II Limited is a wholly owned subsidiary of AION Capital Partners Limited (AION), which is a private equity fund incorporated in Mauritius. AION is a strategic partnership between Apollo Global Management LLC (Apollo), which is one of the world's largest alternative asset managers, and ICICI Venture Funds Management Company. Apollo is among the largest investors in the metals and mining sector globally and specialises in investing in stressed and distressed assets, buyouts, leveraged buyouts, growth capital, mezzanine, recapitalisations, special situations, special credit opportunities, and non-performing loans. The JSW group, headed by Sajjan Jindal, has a significant presence in diversified business segments like steel, energy, infrastructure, cement, and sports. JSWSL, with its steelmaking capacity of 23 mtpa (excluding the Bhushan Power & Steel Limited [BPSL] and JISPL facilities), has a considerable presence in the steel industry in India. Furthermore, over the past years, JSWSL has ramped up its capacities in a timely and cost-effective manner to become the leading steelmaker in the private sector in India. In addition, it owns a plate and pipe mill and steelmaking facility in the US and a downstream steelmaking facility in Italy. The company has shown a strong track record in executing greenfield and brownfield projects as well as turning around distressed assets such as Ispat Industries Ltd, Welspun Max Steel Ltd, Southern Iron & Steel Co Ltd, and Vallabh Tinplate Private Limited. JSWSL has also provided a letter of awareness to the lenders of JISPL. Under the control of the consortium of AION and JSWSL, JISPL is likely to have a better market standing with the potential to transact business on better terms as compared to its erstwhile business terms.

Raw material sourcing arrangements aided by access to JSWSL's supplier network:

JSWSL was declared as the preferred bidder for four operational mines auctioned in Odisha in January and February 2020. The estimated iron ore reserves of the above mines are around 1,131 million tonnes. JSWSL has commenced the mining operations and JISPL has commenced receiving raw materials from these mines. JISPL sources its iron ore requirement from JSWSL's mines and the balance from third-party mines in Odisha. Since the bulk of its iron ore requirement is expected from JSWSL's mines, JISPL has been able to negotiate better contracts with logistics providers for the transportation of iron ore. JISPL sources its coal requirements for its DRI plant from imports and for its captive power plant from the auction by Coal India Limited (CIL).

Furthermore, JISPL has also entered a coal-to-coke conversion contract, apart from sourcing coke from imports and domestic markets.

Marketing synergies from JISPL's presence in Eastern India

JISPL has modified its manufacturing facilities at Raigarh to produce special steel products. However, JISPL can also sell intermediate products like pellet, DRI, and pig iron, depending upon the market prices of these products. For this, JSWSL's marketing network provides strong support to JISPL. JSWSL's manufacturing facilities are in the Southern and Western parts of the country. JISPL's strategic presence in the Eastern part of the country enables JSWSL to tap the markets in the Central, Northern, and Eastern parts of India. In addition, JISPL can place its products under the umbrella of the JSW brand.

Shift towards special steel products:

JISPL had earlier proposed a capex for setting up a wire rod mill over a period of five years, from FY19-FY23. However, with the new Italy-based acquisition of JSWSL, it already has a wire rod mill of 0.6 MTPA as part of a total 1.4 MTPA capacity of long steel products. Thus, considering the market scenario, JISPL scrapped its plan for a wire rod mill. Instead, it planned to carry out modification works to manufacture special steel products for ₹225 crore and augment its pellet plant capacity to 2.5 MTPA from 2 MTPA.

Key rating weaknesses

Moderate Capital structure

At the time of acquisition, in August 2018, the financial creditors were repaid using the funds from a new term loan of ₹1,900 crore. Furthermore, the capex for modifying manufacturing facilities to produce special steel products was funded via an additional term loan. As on March 31, 2022, the capital structure of the company is marked with an over all gearing of 2.01x (PY: 1.97x).

Cyclicality of the steel industry

The prospects of the steel industry are strongly co-related to economic cycles. The demand for steel is sensitive to trends in particular industries, viz, automotive, construction, infrastructure, and consumer durables, which are the key consumers of steel products. These key user industries, in turn, depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates, and inflation rates, among others, in the economies in which they sell their products. When downturns occur in these economies or sectors, the steel industry may witness a decline in demand.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cash and liquid investments of ~ Rs 180 crore as on September 30, 2022. Further, the company gets support from the parent in terms of any liquidity mismatch.

For the year FY23, the company has a total repayment obligation of Rs 130 crore out of which Rs 52.00 crore has already been repaid in H1FY23.

Analytical approach: Standalone. However, financial, and operational linkages with JSWSL have also been considered.

Applicable criteria

Policy on Default Recognition

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Nonfinancial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

Rating Methodology -Manufacturing Companies

[Iron & Steel](#)

[Policy on Withdrawal of Ratings](#)

About the company

JISPL is engaged in the manufacturing and sale of pellets, special steel products, billets, and ferro alloys. On July 24, 2018, JSWSL and AION, through its SPV company – MSL – successfully acquired JISPL through the CIRP under the IBC. MSL was then amalgamated with JISPL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	4,187.74	6,057.46	2,422.02
PBILDT	398.30	471.96	-74.95
PAT	-104.99	9.18	-300.54
Overall gearing (times)	1.97	2.01	1.84
Interest coverage (times)	1.44	1.74	-

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	400.00	CARE A- (RWP)
Fund-based - LT-Term Loan		-	-	31-07-2031	2600.00	CARE A- (RWP)
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	805.00	CARE A- / CARE A2+ (RWP)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	2600.00	CARE A- (RWP)	1)CARE A- (CW with Positive Implications); Stable (07-Jun-22)	1)CARE A-; Stable (24-Feb-22)	1)CARE A-; Stable (11-Mar-21)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE A-; Stable (02-Apr-19)
2	Fund-based - LT-Cash Credit	LT	400.00	CARE A- (RWP)	1)CARE A- (CW with Positive Implications); Stable (07-Jun-22)	1)CARE A-; Stable (24-Feb-22)	1)CARE A-; Stable (11-Mar-21)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE A-; Stable (02-Apr-19)

3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	805.00	CARE A- / CARE A2+ (RWP)	1)CARE A-; Stable / CARE A2+ (CW with Positive Implications) (07-Jun-22)	1)CARE A-; Stable / CARE A2+ (24-Feb-22)	1)CARE A-; Stable / CARE A2+ (11-Mar-21)	1)CARE BBB+; Stable / CARE A2 (24-Mar-20) 2)CARE A-; Stable / CARE A2+ (02-Apr-19)
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*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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