JSW Ispat Special Products Limited

June 07, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,000.00	**CARE A- (CWP); Stable (Single A Minus) (Under Credit Watch with Positive Implications; Outlook: Stable)**	**Placed on Credit Watch with Positive Implications**
Long-term/short-term bank facilities	805.00	**CARE A-; Stable/CARE A2+ (CWP) (Single A Minus; Outlook: Stable/A Two Plus) (Under Credit Watch with Positive Implications)**	**Placed on Credit Watch with Positive Implications**
Total 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 placed the ratings of JSW Ispat Special Products Limited (JISPL) under 'Credit 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.

The operating and financial performance of JISPL improved in FY22, with the company reporting a total operating income (TOI) of ₹6,061 crore and a positive profit-after-tax (PAT) of ₹9.18 crore, as compared to a TOI of ₹4,190 crore and a net loss of ₹105 crore in FY21, supported by strong steel cycle improving demand and higher price realisation.

The press release dated February 24, 2022, can be accessed here.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of JISPL takes into account the steady improvement in the operational and financial performance of JISPL, post its plant revamping activity, which is in line with CARE Ratings' expectations. Furthermore, the ratings continue to derive strength from the resourceful and experienced promoter – JSWSL, having an established presence in the Indian steel industry, access to JSWSL's supplier and marketing network, as well as JSWSL's track record in turning around distressed acquired assets and executing brownfield projects, along with cost management expertise.

The rating strengths are tempered by the susceptibility of the profitability margins to the volatile input costs, the presence of the company in the inherently cyclical steel industry, the working capital-intensive operations, and the moderate capital structure. However, JISPL has considerable financial flexibility owing to its strong parentage.

Rating sensitivities

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

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

Negative factors – 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

Improved operational performance in FY21 and 9M FY22: During Q1FY21, owing to the first wave of the COVID-19 pandemic, the operations were shut down for a month. However, since the resumption of operations in Q2FY21, it has shown steady improvement. During FY21, the company's revenues improved by more than 50%, to ₹4,189 crore, and recorded a PBILDT of ₹400 crore as compared to a loss of ₹18.53 crore in FY20. During 9MFY22, due to the increased steel prices and revival in demand for steel, the company continued to report better operational performance, on the back of improved capacity utilisation and higher contribution from special products. The profitability margins improved to 8.40%, as against 6.92% in 9MFY21.

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 tonne. 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 into 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 located 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 is able to 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 for ₹65 crore as a Phase-1 project. Accordingly, the Phase-1 capex, including start-up expenses, was revised to ₹550 crore. Phase-2 of setting up a plate mill and a slab caster and commissioning the second electric arc furnace is estimated to cost around ₹200 crore.

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 for the production of special steel products was funded via an additional term loan. These term loans, along with the working capital borrowings, have resulted in a moderate capital structure for JISPL, with an overall gearing of 1.97x as on March 31, 2021.

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

Liquidity is marked as adequate, with cash and bank balance (unencumbered) of ₹95.63 crore as on March 31, 2022, and term loan repayments that have commenced from Q3FY22. Moreover, the average utilisation levels for fund-based bank lines remained at 73% for the last 12 months ending April 30, 2022. The liquidity of the company is also aided by the support extended by JSWSL in terms of short-term loans to support its working capital requirements, which can be availed if required. JISPL enjoys considerable financial flexibility owing to its strong parentage.

Analytical approach: Standalone

CARE Ratings has adopted a standalone approach. However, the management, financial, and operational linkages with JSWSL (equity holding of 23.10% in JISPL and sharing a common brand name) have also been considered.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
Short-term instruments
CARE Ratings' policy on Default Recognition
Liquidity analysis of non-financial sector entities
Financial ratios – Non-financial sector
Rating methodology – Notching by factoring linkages in ratings
Rating methodology – Manufacturing companies
Rating methodology – Steel sector

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, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
TOI	2,663.45	4,189.47	6,060.65
PBILDT	-18.53	400.03	472.86
PAT	-488.16	-104.99	9.18
Overall gearing (times)	1.73	1.97	1.97
Interest coverage (times)	-0.07	1.45	1.75

A: Audited.
Note: Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	July 2031	2,600.00	CARE A- (CWP); Stable
Fund-based - LT-Cash credit		-	-	-	400.00	CARE A- (CWP); Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	805.00	CARE A-; Stable/CARE A2+ (CWP)

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	2,600.00	CARE A- (CWP); Stable	-	1)CARE A-; Stable (February 24, 2022)	1)CARE A-; Stable (March 11, 2021)	1)CARE BBB+; Stable (March 24, 2020) 2)CARE A-; Stable (April 02, 2019)
2	Fund-based - LT-Cash credit	LT	400.00	CARE A- (CWP); Stable	-	1)CARE A-; Stable (February 24, 2022)	1)CARE A-; Stable (March 11, 2021)	1)CARE BBB+; Stable (March 24, 2020) 2)CARE A-; Stable (April 02, 2019)
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	805.00	CARE A-; Stable/CARE A2+ (CWP)	-	1)CARE A-; Stable/CARE A2+ (February 24, 2022)	1)CARE A-; Stable/CARE A2+ (March 11, 2021)	1)CARE BBB+; Stable/CARE A2 (March 24, 2020) 2)CARE A-; Stable/CARE A2+ (April 02, 2019)

*Long term/short term.

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

Not applicable

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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Hitesh Avachat
Phone: +91-90048 60007
E-mail: hitesh.avachat@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**