

## JSW Vijayanagar Metallica Limited

September 14, 2022

### Ratings

Sr. No.	Instrument	Amount (Rs crore)	Rating/Grading	Rating Action
1	Long-term Bank Facilities	5000.00	<b>CARE AA-; Stable (Double A Minus; Outlook: Stable)</b>	Assigned
	<b>Total facilities</b>	<b>5000.00 (Rs. Five thousand crore only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of JSW Vijayanagar Metallica Limited (JVML) primarily factors in the strong parentage of the company as it is a wholly owned subsidiary of JSW Steel Limited (JSWSL; rated CARE AA; Stable/CARE A1+) along with its strong managerial, operational, and financial support that it derives from JSWSL.

JVML is promoted by JSWSL for setting up a 5 MTPA steel making facility plant in Vijayanagar, Karnataka and is strategically important subsidiary of JSWSL in HRC product manufacturing. This project will further enhance the presence of JSW Group as the largest domestic steel player in the steel industry. When fully operational, JVML is expected to contribute ~15% of the total installed capacity of JSWSL apart from aiding the revenue growth.

The ratings also factor in the comfort from the support provided by JSWSL in the form of Letter of Comfort (LoC) reflecting strong linkages between the parent and the subsidiary.

The ratings further derive comfort from the strong presence of JSWSL in the steel industry. The company has increased its focus on strengthening its presence in the rural markets which is expected to lead to further expansion in its customer base. The ratings take cognizance of the strategic location of all its manufacturing units with strong raw material linkages.

The rating is however constrained by the pre and post project implementation risk, presence of the company in cyclical industry, exposure to foreign exchange risk and commodity pricing risk.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Improvement in the financial health/credit profile of the parent (JSWSL)

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Deterioration in the credit profile of the parent JSWSL.
- × Delay in the project schedule leading to significant time and cost overrun, impacting the capital structure of the company in the projected period
- × Sustained levels of debt and deterioration of Net Debt/PBILDT ratio from current levels to above 3.0x at parent level.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Strong parentage of JSWSL along with vast experience of the promoter group in steel manufacturing business

JVML derives significant business acumen by the virtue of being a wholly owned subsidiary of JSWSL. Incorporated in 1994, JSW group has strong track record of operation in the steel industry and belong to O.P. Jindal (One of the largest business conglomerates in India). The current promoter, Mr. Sajjan Jindal- Chairman of JSW Group has more than three decades of experience in metals, energy, and infrastructure business. The promoter group is ably supported by the senior management team who also have extensive experience in the industry.

#### Strong financial support by parent for the project

As per the initial estimates, the total cost of the project is Rs 20,000 crore which will be funded with a debt equity ratio of 1.00x. The promoters have also infused over Rs 2500 crore (As on August 31, 2022) for placing the orders for various machineries. The company is in talks to raise its debt requirement and is expected to tie up the funds required for the initial phase by Q3FY23. Further, as stated by the company, the sanctioned facilities of JVML will be backed by the letter of comfort provided by JSWSL.

#### Established presence of parent (JSWSL) in the Indian steel industry, strong track record of the management in project execution and cost management expertise:

JSWSL, with a steelmaking capacity of 27 Mtpa (including entities under joint control) in the domestic market as on March 31, 2022, has considerable presence in the Indian steel industry. The company has a leading market share in the southern and western India. Its multi-location steel manufacturing facilities produce various upstream and downstream products. Over the past years, JSWSL has ramped up its capacities in a timely and cost-effective manner to become one of the leading steelmakers in India. Furthermore, the company has managed to maintain competitive margins due to its efficient operations. Apart from turning around stressed acquired assets, the company has demonstrated strong track record in greenfield and brownfield project execution as well as cost management expertise. The company successfully integrated BPSL to increase its presence in the northern and eastern India. The announcement made on amalgamation of JISPL with and into JSWSL will enable the company to increase its presence in central India. Moreover, JSWSL plans to take near term capacity in India to 37 Mtpa (including capacities under joint control) in phases by FY25 through new capacity expansion and de-bottlenecking of existing facilities.

### **Parent's presence across the steel spectrum of steel products**

JSWSL earns its revenues from a well-diversified portfolio of steel products. The product portfolio continues to be dominated by flat products with a share of around 73% of the total sales volume in FY22 (74% for FY21). The share of margin-accretive valued-added and special products (VASP) stood at around 60% during FY22 compared with 52% during FY21. Export sales accounted for about 28% of the total sales in FY22. Furthermore, the company has completed expansion of finished steel capacity at Dolvi (Maharashtra), which will further provide volume growth and contribute to overall sales mix in FY23.

### **Strategic location of the plant with strong raw-material linkage**

The manufacturing facilities of JVML will be set up in Vijayanagar, Karnataka which is adjacent to the existing plant of 12 MTPA of JSWSL. JVML has entered into conversion agreement with the parent, where the company will provide iron ore and coal and in turn will receive pellets and coke for its operations.

### **Key Rating Weakness**

#### **Exposed to foreign exchange risk:**

As per the initial estimates the company is planning to fund 25% of the project cost with foreign currency loans from various banks/financial institutions. Further, owing to high dependence on imports for its coking coal as well as foreign currency denominated debt, the company remains exposed to forex risks, which is likely to be partially mitigated by way of its hedging policy.

#### **Cyclicality of the steel industry:**

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand-supply mismatch. Furthermore, the producers of steel products are directly exposed to the volatility of the steel industry.

#### **Regulatory risk – Imposition of export duty on iron ore, pellets, and steel intermediaries by the Government of India:**

Government of India has announced imposition of export duty on iron ore, pellets and few steel and steel intermediaries on May 20, 2022. In case of iron ore, the duty has been raised to 50% on all categories up from 30% that was on lumps above 58% iron content. In case of iron ore pellets, a 45% duty has been imposed which currently does not attract export duty. In case of other classes of steel and intermediaries, a 15% export duty has been imposed w.e.f May 22, 2022. On the other hand, Government has reduced import duty on coking coal and anthracite coal to 0% from 2.5%, and on coke and semi-coke to 0% from 5% to reduce cost of domestic production of steel products.

#### **Liquidity:** Strong for the parent (JSWSL)

Liquidity position is marked adequate with cash & cash equivalents at Rs 9,789 crore as on June 30, 2022, Vis-à-vis Rs. 17,390 crores as on March 31, 2022. The projected cash accruals for FY23 as supported by cash and cash equivalent at the beginning of FY22 are adequate to cover its repayment and capex requirement for FY23. Out of the total repayment obligation for FY23 Rs.11,853 the company repaid approximately Rs.5693 crore up to June 30, 2022. The working capital limits are utilized at around 60% during last 12-months ended June 2022 due to increasing commodity prices. The working capital utilization is expected to ease a little with correction in commodity prices in the near term. JSWSL, being the flagship company of JSW Group with a leading position in steel industry enjoys strong financial flexibility and strong access to capital markets.

**Analytical approach:** Standalone, However, synergies derived by being a wholly owned subsidiary of JSWSL and also location of plant in the vicinity of existing operational JSWSL Vijayanagar facility. The ratings also consider the operational and financial linkages/synergies between the parent entity and the subsidiary.

#### **Applicable Criteria**

[Policy on Default Recognition](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings](#)

[Rating Methodology - Steel Industry](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology – Project-Stage Companies](#)

[Notching by Factoring Linkages in Ratings](#)

#### **About the Company**

JSW Vijayanagar Metallica Limited (JVML) is a wholly owned subsidiary of JSW Steel Limited (JSWSL, rated CARE AA; Stable/CARE A1+ vide PR dated July 06, 2022). JVML is setting up an Integrated Steel Plant of 5 million Tonne Per Annum production capacity at Vijayanagar, Karnataka. The proposed plant shall be based on Blast Furnace – Basic Oxygen Furnace (BF-BOF) route with appropriate auxiliary facilities. The project is proposed to be set up adjacent to the existing 12 MTPA integrated steel plant facility of JSWSL at Toranagallu, Dist. Bellary, Vijayanagar, Karnataka.

**Brief financials of the parent**

Brief Financials (Rs. crore)	31-03-2021(A)	31-03-2022 (Abr.)	Q1FY23
Total operating income	79140	146,371	38,275
PBILDT	19377	39007	4,309
PAT	7873	20938	839
Overall gearing (times)	1.79	1.37	-
Interest coverage (times)	4.96	7.85	3.03

A: Audited; Abr.: Abridged

**Status of non-cooperation with previous CRA:** NA**Any other information:** NA**Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / facility:** 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-Long Term		-	-	-	5000.00	CARE AA-; Stable

**Annexure-2: Rating History of 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-Long Term	LT	5000.00	CARE AA-; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	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 instrument:** CARE Ratings Ltd. 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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