Arcelormittal Nippon Steel India Limited (Revised)

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	2,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the instruments of ArcelorMittal Nippon Steel India Limited (AMNSIL) continues to factor the strong synergies driven by being a part of the consortium of ArcelorMittal SA ("AMSA"), Luxembourg (60%) and Nippon Steel Corporation (NSC), Japan (40%). The rating positively considers the improvement in its integrated nature of operations with acquisition of connected infrastructure assets (ports and power related assets, largely acquired from the Essar Group), backward integration for raw materials (60% of iron ore requirement from captive mines) and strong risk management and hedging practices (primarily for commodities like natural gas which is used in steel manufacturing).

The rating reaffirmation further factors in the debt-funded capital expenditure of around Rs. 65,000-70,000 crores to be completed by CY26, which is expected to moderate the debt coverage ratios over the short to medium-term period. Majority of the debt is availed through the JV partners (also referred as shareholders or parents) who have demonstrated strong financial support, owing to the potential economic incentive of the project to the shareholders.

Sales volume for FY24 (refers to the period April 01 to March 31) improved to 7.34 million tonne (MT) (vs 6.58 MT in FY23) and further to 1.8 MT in Q1FY25 (refers to the period from April 01 to June 30). Given that the Q1FY25 was partly impacted due to maintenance shutdown activity, we expect the volumes to pick up going ahead for the rest of the fiscal. On the other hand, the consolidated PBILDT (Profit before interest, lease, depreciation and tax) has increased from Rs. 12,302/tonne in FY23 to Rs. 14,174/tonne in FY24, primarily due to stability in the prices of raw materials particularly iron ore. Additionally, the company has recorded exceptional gains on settlement of derivative contracts of Rs. 4983 crores during FY24 related to sales of contracted natural gas, resulting in the gross cash accruals (GCA) surging to Rs. 12,657 crores during FY24. Going ahead, we expect the operating profitability to remain within comfortable range, supported by the augmentation of value-added downstream capacities.

The company has been undergoing large debt-funded capex for capacity expansion from 8.6 MTPA to 15 MTPA (million tonnes per annum) of finished steel by FY27. The company has planned various other capex primarily including upstream pellet capacity expansion, various downstream capacities, ancillary facilities like coke oven and installation of additional slurry pipeline for the pellet transportation. For the cumulative capex of more than Rs. 65,000 crores, the JV partners have extended line of credit of USD 5 billion (~ Rs. 42,000 crores) with moratorium period until the completion of project by FY27. With majority capex to be funded by debt, and gestation period during the construction phase, the debt coverage metrics are expected to be impacted over the medium-term. However, post commissioning, the operating cash flows from added capacity to help improve the debt coverage metrics over long-term. Separately, the project execution risk is relatively low given the backing of the resourceful promoters. In addition, the company has strong cash and bank balance along with liquid investments amounting to ₹6,870 crore as on June 30, 2024, which provides further cushion to the financial risk profile of the company.

The above rating strengths are, however, tempered by the company's presence in a highly cyclical steel industry, forex exposure and commodity pricing risk, and commitments towards various capital-intensive projects. Some of these factors are however, partly mitigated by AMNSIL entering into hedging contracts for its gas requirements. Additionally, the company is adequately

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

covered in terms of raw material security for the added expansion. Furthermore, the impact of the Supreme Court judgement upholding the power of the states for levying tax on mining operations also remains a key monitorable, until further clarity for the same emerges, especially with respect to the retrospective tax burden (if any).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to lead to positive rating action-

Not applicable

Negative factors - **Factors likely to lead to negative rating action**

- Significant decline in volumes and profitability than envisaged.
- Any time or cost overruns faced by the company in connection with the expansion of the overall capacity of production leading to overall gearing of more than 2x on a sustained basis.
- Deterioration in the credit profile of the promoters

Analytical approach: Consolidated

Considering direct and indirect subsidiaries, having significant operational and financial linkages. The list of entities consolidated has been mentioned below in Annexure-6. Additionally, CARE Ratings has factored the support provided by the majority shareholder- AMSA (indirectly holds 60% stake) and accordingly applied the parent notch-up framework.

Detailed description of key rating drivers:

Key strengths

Strong promoter entities and brand reputation globally

AMNSIL is owned by a consortium of Arcelor Mittal SA, Luxembourg (AMSA- 60%) and Nippon Steel Corporation, Japan (NSC-40%). Both AMSA and NSC remain one of the largest integrated steel manufacturing companies in the global steel industry with a combined total capacity of more than 120 million tonnes (as on March 31, 2024). ArcelorMittal operates as an integrated steel producer in Europe, with steel-making operations in 15 countries and higher self-sufficiency for raw materials at 57% for iron ore and 98% for coke. Both the JV partners have infused significant capital over the past few fiscals for debottlenecking of the operations, acquiring key infrastructure assets and further to fund the future capital expansion plans. Apart from the Rs. 24,000 crores INR-denominated loans, the JV partners have provided USD 5 billion line of credit for the capacity expansion and related upstream projects.

Integrated plant with strategic location

The captive mines of the company are in the eastern region of the India and spread across Orrisa and Chhattisgarh and the main steel plant is situated on the west coast of India (Hazira). The company has two beneficiation plants of total capacity 20 MTPA for production of pellets used to manufacture steel. The presence of beneficiation plants helps the company to procure iron ore which can be procured at lower price when compared to other players. Output from the beneficiation plant is transferred to the pellet plant via slurry pipeline which helps the company to save on the high transportation costs. The company has two slurry pipelines spanning 253 Km which connect the Dabuna Beneficiation plant to the Paradip pellet plant and other spanning 267 Km which connects the Kirandul beneficiation plant to the pellet plant at Vizag. Post the production of pellets, the production is transferred to the west coast via maritime logistics, further aiding the cost effectiveness. The company has its subsidiary in the shipping industry which takes care of all major logistic activity from pellet plants to the plant.

Presence of connected infrastructure assets and addition of downstream facilities

AMNSIL acquired all the key assets including port, power related and other logistics and infrastructure assets in India from the erstwhile promoters- Essar group at consideration of around Rs. 23,000- 24,000 crores. Majority of these assets were acquired in October and November 2022, while remainder assets being acquired in February 2024 and July 2024. The port assets include deep-water jetty of 25 MTPA at Hazira, 12 MTPA at Paradip and 16 MTPA at Visakhapatnam. Further, the company has invested Rs. 7329 crores in Compulsorily Convertible Preference Shares (CCPS) of AM Mining India Private Limited, which in turn has primarily invested the amount for the acquisition of Uttam Galva Steel Ltd (renamed as AMNS Khopoli) and Indian Steel Corporation (renamed as AMNS Gandhidham). Both these entities comprise downstream facilities which will increase the proportion of value-added products in the AMNSIL portfolio.

Stable performance with surge in cash accruals during FY24

Net sales for FY24 reached Rs. 54,605 crores on consolidated basis with 12% volume growth, alongside dip in sales realisations of 13% during the same period. Though the sales realisations have fallen due to reduction in the domestic steel prices, however the operating margins have improved due to stability in the prices of the raw materials mainly iron ore, resulting in PBILDT margins improving from 14.3% in FY23 to 19.1% in FY24. Further, AMNSIL has capitalised on the exceptional gains on settlement of derivative contracts of Rs. 4983 crores during FY24 related to purchases of natural gas (used for steel production), resulting in the gross cash accruals (GCA) surging to Rs. 12,657 crores during FY24. However, owing to further moderation in sales realisations, import pressures in the domestic market and maintenance shutdown activity done during Q1FY25, the PBILDT margins moderated back to 14.0% on standalone basis. Going ahead, we expect improvement in profitability with the additions of various downstream assets of 2 MTPA including 1 MTPA of Uttam Galva Steels (renamed as AMNS Khopoli) and 0.6 MTPA of Indian Steels (renamed as AMNS Gandhidham). The company has filed with NCLT to merge both these entities into itself, with approval of NCLT being awaited.

Well-established sales channel with increased focus on major consumption hubs

For FY24, close to 71% of the total sales for the company are through service centres and direct sales which are company-owned retail outlets present in the major steel-consumption hubs. In addition to the regular direct steel sales, the company also markets its products in the form of Hypermart (which are company-owned and company-operated shops). The company has 17 retail outlets in the Hypermart form in addition to the conventional franchise customer touch point. The company has five service centres in major industrial hubs like NCR, Chennai, Pune, Gujarat and Indore. In addition to the domestic market, the company also has retail presence in United Arab Emirates (UAE) and Indonesia.

Key weaknesses

Ongoing debt-funded capex to moderate the coverage ratios over medium-term

The debt coverage ratios have improved with net debt/PBILDT and TD/gross cash accruals (GCA) of 3.76x (PY: 4.68x) and 3.87x (PY: 8.63x) respectively as on March 31, 2024. The company has been undergoing capex expenditure of approx. ₹66,000 crore, including expansionary capex of around Rs. 43,000 crores to be completed by CY26. Around 20% of the expansionary project cost has already been incurred as on August 31, 2024. The capex will increase the finished steel capacity from 8.6 million tons per annum (MTPA) to 14 MTPA, while the remainder capex to include downstream capacities, backward integration projects and transition towards renewable energy sources. With majority capex to be funded by debt, and gestation period during the construction phase, the debt coverage metrics are expected to be impacted over the medium-term. However, post commissioning, the operating cash flows from added capacity to help improve the debt coverage metrics over long-term. Separately, the project execution risk is relatively low given the backing of the resourceful promoters.

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 inordinate delays in the completion hinders the responsiveness of supply side to demand movements. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Commodity and forex risks:

Commodities are essential inputs to the manufacturing of steel. These commodities have global supply chains, and their prices get significantly impacted by various factors such as geo-political landscape, supply-demand imbalance, weather patterns, policy interventions by governments in key sourcing/consuming countries (especially China), increasing financialisation of commodities markets, etc.

The changing prices of coal and iron are generally reflected through adjustments in the steel prices, which help in managing long-term price trends. The company also enters into long-term contracts with raw material vendors for bulk of its requirements instead of depending entirely on the spot market. In addition, the company also hedges certain commodities in the derivatives market to address short-term volatility. Risk assessment for key vendors is performed to assess the capability of the vendors in meeting the supply requirements.

Liquidity: Strong

The company has strong cash and bank balance along with liquid investments as on June 30, 2024 amounting to ₹6,870 crore on standalone basis. Furthermore, the company has sufficient cushion in the sanctioned working capital limits. Any shortfall of cash or financial requirements of the company is expected to be met by the shareholders, given that majority of the debt has been extended by the JV partners. The parents have demonstrated strong financial flexibility in the past in terms of providing moratorium period, extension of the redemption period during covid and have further during FY24 amended the principal repayment terms to preserve the operational free cash flows at AMNSIL over near-term due to the ongoing capex activity.

Assumptions/Covenants -Not applicable

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Initially, incorporated as Essar Steel India Limited, the company is acquired by a consortium of Arcelor Mittal SA, Luxembourg (AMSA) and Nippon Steel Corporation, Japan (NSC), post the resolution plan was accepted by the Supreme Court on November 19, 2019. AMNS Luxembourg Holding SA, is a 60: 40 joint ventures between AMSA and NS. AMNSIL operates as an integrated flat carbon steel manufacturer with 8.6 MTPA finished steel capacity. The manufacturing facilities comprise of ironmaking, steel-making and downstream facilities spread across India. Effective March 15, 2023, Arcelormittal India Private Limited (AMIPL), earlier parent has been merged with AMNSIL.

Brief Consolidated Financials (₹ crore)	FY2023 (A)	FY2024 (Prov.)	Q1FY2025 (UA)
	Consolidated	Consolidated	Standalone
Total operating income	55,748.15	54,604.86	12,165.89
PBILDT	7,973.74	10,406.09	1,703.91
PAT	2,700.59	7,324.54	289.64
Overall gearing (times)*	1.03	1.11	1.18
Interest coverage (times)	2.19	3.41	2.42

A: Audited, Prov: Provisional, UA: Unaudited; Note: these are latest available financial results.
Note: Financials prepared as per CARE Standards.
*Net worth figure includes goodwill and intangible assets. Intangible assets include port license agreement/service concession arrangement, while goodwill created on acquisition of critical infrastructure assets from erstwhile promoters of the entity. CARE understands that these assets are critical for the business, hence intangible assets and goodwill have been included in net worth calculation.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	NA	Proposed	-	7-365 days	2000.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	-	1)CARE A1+ (25-Oct-23)	1)CARE A1+ (26-Oct-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No.	Name of the entity	Extent of consolidation	Rationale for consolidation
A	**Direct & indirect Subsidiaries**		
1	AMNS Middle East FZE	Full	Subsidiary, Operational & management linkages
2	AMNS International Limited (fka Essar Steel UAE Ltd.)		
3	PT AM/NS Indonesia (fka PT Essar Indonesia)		
4	Essar Steel Trading FZE		
5	AMNS Ports India Limited (w.e.f 15.11.2022)		
6	AMNS Ports Shared Services Private Ltd (w.e.f 15.11.2022)		
7	AMNS Ports Hazira Limited (w.e.f 15.11.2022)		
8	AMNS Ports Paradip Limited (w.e.f 15.11.2022)		
9	AMNS Power Hazira Limited (w.e.f 19.10.2022)		
10	AMNS Shipping and Logistics Private Limited (w.e.f. 23.06.2022)		
11	Bhagwat Steel Limited (w.e.f 19.10.2022)		
12	Snow White Agencies Private Limited (w.e.f 19.10.2022)		
13	Nand Niketan Services Private Limited (w.e.f 22.09.2023)		
14	AMNS Ports Vizag Limited (w.e.f. 17.02.2024)		
B	**Associates**		
15	Essar Steel Processing FZCO	Proportionate	Equity method of consolidation
16	AM Green Energy Private Limited (w.e.f 22.08.2022)		
17	New Age Education and Skills Foundation (w.e.f. 17.01.2023)		

Note: AMNS Shared Services Limited (loss of control w.e.f. 25.10.2023), hence not considered for consolidated.

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

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About us:
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