

JSW Ispat Special Products Limited ^(Revised)

February 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	3,000.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	805.00 (Enhanced from 500.00)	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	3,805.00 (Rs. Three Thousand Eight Hundred Five Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of JSW Ispat Special Products Limited (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's expectation. Furthermore, the ratings continue to derive strengths from the resourceful and experienced promoter- JSW Steel Limited (JSWSL), having 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 susceptibility of profitability margins to volatility in input costs, presence of the company in inherently cyclical steel industry, working capital intensive operations and moderate capital structure. However, JISPL has considerable financial flexibility owing to strong parentage.

Rating Sensitivities

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

- Successful ramp-up of operations of integrated steel plant, registering operating margin of at least 12.5%
- Improvement in gearing below 1.30x on a sustained basis
- Improvement in TDGCA (Total Debt to Gross Cash Accruals) ratio to less than 3 times

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

- Decline in sales volumes below 1.5 mtpa (pellets, steel intermediates & finished steel)
- Deterioration in overall gearing beyond 2.20x on a sustained basis on account of any significant increase in working capital requirement or unforeseen increase in debt requirement for ongoing capex
- Deterioration in the credit profile of JSW Steel Limited

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance in FY21 and 9MFY22, owing to ramping up of operations

During Q1FY21 owing to the first wave of pandemic the operations were shut down for a month. However, the operations restarted in Q2FY21 and since then has shown a steady improvement. During FY21, the company's revenues improved by more than 50% to Rs. 4189 crore and recorded and PBILDT of Rs. 400 crores as compared to loss of Rs. 18.53 crore in FY20. During 9MFY22, due to increased steel prices and revival in demand for steel, the company continued to report better operational performance, on the back of improved capacity utilization 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 Ltd (AION) through its special purpose vehicle company i.e. Milloret Steel Limited (MSL) acquired JISPL through the Corporate Insolvency Resolution Process (CIRP) under 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

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

equity fund incorporated in Mauritius. AION is a strategic partnership between Apollo Global Management LLC (“Apollo”), which is one of world’s largest alternative asset managers. Apollo is amongst the largest investors in the metals & mining sector globally and specializes in making investments in stressed and distressed assets, buyouts, leveraged buyouts, growth capital, mezzanine, recapitalizations, special situations, special credit opportunities and non-performing loans.

The JSW group, headed by Mr. Sajjan Jindal, has significant presence in the diversified business segments like steel, energy, infrastructure, cement and sports. JSWSL, with its steelmaking capacity of 23 mtpa (excl. BPSL and JISPL facility), has considerable presence in the steel industry in India. Further, 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 steel making facility in USA, and downstream steel making facility in Italy.

The company has shown strong track record in implementing greenfield and brownfield project execution 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 JSW Steel, JISPL is likely to have 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 Jan-Feb 2020. JISPL sources its iron ore requirement from JSWSL’s mines and balance from third party mines in Odisha. Since bulk of its iron ore requirement is expected from JSWSL’s mines, JISPL has been able to negotiate better contract with logistics providers for transportation of iron ore.

JISPL sources coal requirement for its DRI plant from imports and for captive power plant from the auction by Coal India. Further, JISPL has also entered into coal to coke conversion contract apart from sourcing coke from imports/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 and 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 Central, Northern and Eastern parts of India. In addition JISPL is able to place its products under the umbrella of JSW brand.

Shift towards special steel products

JISPL had earlier proposed capex for setting up of a wire rod mill over a period of 5 years from FY19-FY23. However, the new Italy-based acquisition of JSWSL already had wire rod mill of 0.6 MTPA as a part of total 1.4 MTPA capacity of long steel products and looking at market scenario, JISPL scrapped its plan for Wire Rod Mill. Instead, it planned to carry out modification works to manufacture special steel products for Rs.225 crore and augment its pellet plant capacity to 2.5 MTPA from 2 MTPA for Rs.65 crores as a Phase 1 project. Accordingly, the Phase 1 Capex including start-up expenses were revised to around Rs.550 crore. Phase 2 of setting up plate mill and slab caster and commissioning the second Electric Arc Furnace is estimated to cost around Rs. 200 crores.

Key Rating Weaknesses

Moderate capital structure

At the time of acquisition, in Aug-18, financial creditors were repaid using the funds from new term loan of Rs 1,900 crore. Further the capex for modifying manufacturing facilities for production of special steel products was funded via additional term loan. These term loans along with working capital borrowings has resulted in moderate capital structure for JISPL with overall gearing of 1.97x as on March 31, 2021.

Cyclicality of the steel industry

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of 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, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand.

Liquidity: Adequate

Liquidity is marked as adequate with cash and bank balance (unencumbered) of Rs.249.51 crore as on December 31, 2021 and term loan repayments which have commenced from Q3FY22. Moreover, average utilization levels for fund-based bank lines remained at 64% for the past 12 months ending Dec-21. Liquidity of the company is also aided by the support extended by JSWSL in terms of short-term loan to support its working capital requirement which can be availed, if required. JISPL enjoys considerable financial flexibility owing to strong parentage.

Analytical approach: Standalone

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

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Short Term Instruments](#)

[CARE's 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 manufacturing and sale of pellets, special steel products, billets and ferro alloys. On July 24, 2018, JSWSL and AION, through its special purpose vehicle company i.e. Milloret Steel Limited (MSL) successfully acquired JISPL through the Corporate Insolvency Resolution Process (CIRP) under Insolvency & Bankruptcy Code 2016 (IBC). MSL was then amalgamated with JISPL.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	2,663.45	4,189.47	4,387.52
PBILDT	-18.53	400.03	368.68
PAT	-488.16	-104.99	-1.74
Overall gearing (times)	1.96	2.24	2.39
Interest coverage (times)	-0.07	1.45	1.82

A: Audited; UA: Un-audited

#Financials are classified as per CARE standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

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

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	July 2031	2600.00	CARE A-; Stable
Fund-based - LT-CC/WCDL	-	-	-	-	400.00	CARE A-; Stable
Non-fund-based - LT/ ST-LC/BG/Export bill discounting	-	-	-	-	805.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	2600.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Mar-21)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (03-Dec-18)
2	Fund-based - LT-CC/WCDL	LT	400.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Mar-21)	1)CARE BBB+; Stable (24-Mar-20) 2)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (03-Dec-18)
3	Non-fund-based - LT/ST-LC/BG/Export Bill discounting	LT/ST*	805.00	CARE A-; Stable / CARE A2+	-	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)	1)CARE A-; Stable / CARE A2+ (03-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated 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 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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About CARE Ratings Limited:

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