JSW Techno Projects Management Limited

December 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,051.57 (Reduced from 1,156.06)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long-term / Short-term bank facilities	25.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A2 (Single A Minus; Outlook: Stable / A Two)
Total bank facilities	**1,076.57** **(₹ One thousand seventy-six crore and fifty-seven lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of JSW Techno Projects Management Limited (JTPML) considers the improvement in operating cash flows driven by profitability from trading of pellets, stable income from operations and maintenance (O&M) business and supply of oxygen and other industrial gases to JSW Steel Limited (JSWSL; 'CARE AA; Stable/CARE A1+') and dividend income received from JSWSL in FY22. For the capex under implementation (2*2063 TPD oxygen plant at Vijayanagar), first-unit of 2,063 TPD is in the process of commissioning, whereas the second unit of 2,063 TPD is expected to get commissioned by Q3FY24. With the commissioning of both the oxygen units (the company shall have a sizeable capacity of 9,526 TPD of oxygen) and the take or pay agreement with JSWSL, the company is expected to earn a stable PBILDT of ₹400-450 crore from FY25 and onwards from its oxygen and industrial gases division. Furthermore, the cash flows from the oxygen plant are prioritised for meeting debt obligations of the project.

In addition, JTPML derives significant financial flexibility by virtue of its holding in JSWSL, 10.95% direct stake and 2.83% stake through its subsidiary JTPM Metal Traders Private Limited. The aggregate market value of the equity holding in JSWSL is close to ₹23,000 crore as on December 02, 2022. The external debt, excluding debt availed for setting up oxygen plant at Dolvi and now at Vijayanagar, stands at ₹1,929.20 crore with a healthy debt cover (market value of unencumbered equity shares to external debt) as on March 31, 2022. The JSW Group has been supporting the company on a timely basis by infusion of funds in the form of preference capital, optionally convertible debenture or unsecured loans.

The rating strengths are, however, tempered by the exposure to fluctuation in the market value of investment and O&M contract ending by March 31, 2023. The company has obtained support from the JSW Group in the past for undertaking refinancing. Implementation of debt-funded capex is likely to keep debt coverage indicators at similar levels in the medium term. The revenue and financial dependence on group companies further act as limiting factors in the rating.

Rating sensitivities

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

- Timely completion of on-going capex without any cost and time overrun.
- Sustained improvement in overall revenue and profitability level, resulting into significant improvement in debt repayment position on a standalone basis, without any support from group companies.
- Improvement in total debt to PBILDT ratio to below 3.0x on a sustained basis.

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

- Any delay in implementation of capex resulting into cost overrun and delay in generation of cash flows.
- Deterioration in revenue and profitability ratio level, resulting into deterioration in its debt repayment position and thereby requiring support from group companies.
- Deterioration in the overall gearing ratio above 1.0x on a sustained basis.
- Adverse impact on its ability to refinance the debt in future.
- Significant decline in value of the investments held, resulting into deterioration in capital structure.

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

Detailed description of key rating drivers

Key rating strengths

Prominent promoters and experienced management: The JSW group, headed by Sajjan Jindal, has presence across various sectors, such as steel, energy, infrastructure, cement, paints, sports and venture capital. JSWSL is one of the leading steel producers with a steelmaking capacity of 28 MnTPA in India and USA (including capacities under joint control). In India, its integrated steel manufacturing units are located in Vijayanagar Works, Karnataka (12 MnTPA), Dolvi Works, Maharashtra (10 MnTPA), Salem Works, Tamil Nadu (1 MnTPA) and BPSL plant in Jharsuguda, Odisha (2.75 MnTPA) to produce a wide range of flat and long steel products. There is a 1.5 MnTPA capacity steel plant in Ohio, USA. Furthermore, through its wholly-owned subsidiary (JSW Steel Coated Products Ltd), the company is one of the leading producers of value-added downstream steel products in India specialising in galvanised sheets, galvalume products and high-end colour-coated sheets. By virtue of being part of the JSW Group, JTPML draws significant support from the promoters' experience and resourcefulness.

Priority for the project debt repayment from project cash flows: The lenders of term loans for oxygen project have a priority on the cash flows of the project through the project revenue account. JTPML maintains a TRA account with the lenders and the cash flows generated from the oxygen project to be utilised first for meeting the repayments obligations (including interest) for the project loan and operating expenses of the project. JTPML is required to maintain a minimum project DSCR of 1.05x upto March 31, 2025 and 1.15x thereafter. Furthermore, a DSRA for an amount equivalent to two month's interest is maintained by the company.

Assured off-take of the end products and return on paid-up capital: JSWSL has entered into agreement with JTPML, wherein JSWSL will purchase entire output of industrial gases as per pre-determined pricing formula ensuring fixed return on paid-up capital along with ear-marked cash flows for debt servicing, interest payment, variable costs and taxes. Thus, such arrangement ensures stable cash flows for JTPML.

Relevance of oxygen plant for JSWSL: JTPML operates 5,400 TPD units oxygen plant at Dolvi, Maharashtra, the entire oxygen supply is taken by JSW Steel Limited for its 10 mtpa steelmaking capacity at Dolvi. JTPML is also setting up 2 Air Separation Units (ASU) of 2,063 TPD units of oxygen at Vijayanagar at a cost of ₹900 crore funded through debt of ₹606 crore and balance equity. JSWSL has announced capacity expansion at its Vijayanagar plant by 6 mtpa from existing 12 mtpa in phases. The total capacity of JSWSL to reach 18 mtpa by FY25. The oxygen requirement for the incremental capacity of 6 mtpa will be supplied by these two units being set-up by JTPML. Unit-I is being commissioned, whereas Unit-2 is expected to get commissioned by Q3FY24.

Profitability from trading in pellets in FY22, however, moderated in H1FY23: JTPML had acquired 49% stake in Brahmani River Pellets Limited (BRPL) in February 2018. The output of BRPL is acquired by its shareholders in their ratio of holding at cost of production plus fixed margin of ₹350/MT. The share of Mitsun Steel Private Limited, i.e., 2% is taken by JTPML. Thus, JTPML has 51% of the output of BRPL. Since acquisition of BRPL by new promoters, the company's performance has improved over the period. In FY22, though realisations improved both in export and domestic market, the increase in the cost of production was higher than price increase resulting in decline in profitability compared with FY21, however, continued to remain healthy. Furthermore, in H1FY23, the performance moderated with the levy of export duty by Government of India on export of pellets. With the scrapping of duty in November 2022, the company expects export demand to improve in H2FY23.

Key rating weaknesses

Exposure to fluctuation in market value of investments: The value of investments held by JTPML remains susceptible to the economic downturn as well as any deterioration in the performance of JSWSL. The financial flexibility in terms of cover available would depend largely on the market sentiments and share price of the listed entities. Any increase in the market-related risks leading to a sharp fall in the share prices of its investments will be a key rating sensitivity factor.

Low standalone revenue generation from investment activities: The dividend and interest income are the two revenue components for its investment division. The company received ₹172.66 crore as dividend income in FY22 (refers to the period April 1 to March 31) as against ₹53.25 crore in FY21, and ₹458.83 crore was received in H1FY23. The market value of unencumbered equity investments vis-à-vis the debt is significant providing adequate financial flexibility to the company to meet shortfall if any, in debt servicing from its regular operating cashflows.

Inherent cyclicality in the steel industry: JTPML is exposed to the cyclicality of the steel industry as majority of its revenue is dependent on the steel business of JSWSL.

Moderate project execution risk: JTPML has planned to install two new 2,063 TPD each, oxygen plants at Vijayanagar facility, wherein first unit is in the process of commissioning and the second unit is envisaged to be commissioned by Q3FY24. Though JTPML carries the risk of timely completion of project within the budgeted cost and timelines, the project risk is reduced to certain extent given that JTPML has completed similar project at Dolvi facility of JSWSL in the past.

Liquidity: Adequate

The liquidity is marked by assured nature of cash accruals arising from industrial gases and O&M divisions. JTPML has debt repayment obligation of ₹452 crore in FY23 and ₹1,695 crore (excluding ₹770 crore of interest payment on external debt) in FY24. The company is also undertaking capex, which is expected to complete by Q3FY24. The equity contribution towards the capex is ₹294 crore. The company plans to raise ₹2,000 crore through banks/NBFCs/Financial Institutions in FY24 to refinance its maturing debt. The repayment for FY23 and capex commitment can be met through cash accruals, group support and available cash balance. Also, by being a part of the JSW Group, the company enjoys financial flexibility to raise new debt. As on September 30, 2022, JTPML has cash and cash equivalent of ₹151.23 crore (includes margin money of ₹38.49 crore) to support debt repayment.

Analytical approach: Standalone. Operational and financial linkages with its group company, JSW Steel Limited, have been factored to arrive at the ratings.

Applicable criteria

Policy on default recognition

Financial Ratios – Non financial Sector

Investment Holding Companies

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Manufacturing Companies

About the company

JSW Techno Projects Management Limited (JTPML) was incorporated on May 4, 2010. It is wholly-owned by Sangita Jindal [wife of Sajjan Jindal – Chairman & Managing Director of JSW Steel Limited]. JTPML has four major divisions, i.e., Operations & Maintenance (project management, engineering and management consultancy services for the steel vertical of the JSW Group), Investment holding company of JSWSL, Industrial Gases division (supplying oxygen to JSWSL plants) and Pellet Trading (JTPML receives 51% of the pellet output (49% plus 2% share of Mitsun Steel Private Limited) from BRPL, which it sells in the domestic as well as in the exports market.

JTPML – Standalone financials

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	2278.60	2474.04	1,465.14
PBILDT	806.64	811.39	706.85
PAT	237.02	263.63	349.96
Overall gearing (times)	0.34	0.25	0.30
Interest coverage (times)	1.70	1.84	2.88

A: Audited; Prov: Provisional

The financials have been reclassified as per CARE Ratings' 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 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-Term loan		-	-	31-03-2031	445.57	CARE A; Stable
Fund-based - LT-Term loan		-	-	30-06-2033	606.00	CARE A; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE A; Stable / CARE A1

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	445.57	CARE A; Stable	-	1)CARE A-; Stable (07-Oct-21)	1)CARE A-; Stable (08-Jan-21) 2)CARE BBB+; Stable (07-Apr-20)	1)CARE BBB+; Stable (03-Apr-19)
2	Fund-based - LT-Term loan	LT	606.00	CARE A; Stable	-	1)CARE A-; Stable (07-Oct-21)	1)CARE A-; Stable (08-Jan-21) 2)CARE BBB+; Stable (07-Apr-20)	1)CARE BBB+; Stable (03-Apr-19)
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2 (07-Oct-21)	-	-

*Long term/Short term.

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

Term Loan I	
A.	**Financial Covenants**
1.	Minimum DSCR (for project) of 1.05x from March 31, 2020 to March 31, 2024 and 1.15x thereafter.
2.	Total Debt/EBITDA ratio (for project) not to exceed 4.50x from March 31, 2020 to March 31, 2022 and 3.50x thereafter.
3.	FACR (for project) shall be minimum 1.20x during the tenure of the facility
4.	Total Debt/Tangible Net-worth (for project) not to exceed 2.50x from March 31, 2020 to March 31, 2021 and 2.00 times thereafter.
Term Loan II	
A.	**Financial Covenants**
1.	Debt/Tangible net worth (for project) not to exceed 3.00x
2.	Debt/EBITDA (for project) not to exceed 4.00x
3.	Interest cover (for project) should be more than 2.00x
4.	Minimum DSCR (for project) should be more than 1.20x

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	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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