CARE Ratings
Professional Risk Opinion

APRIL 10, 2015

CARE REVISES THE RATING ASSIGNED TO BANK FACILITIES OF JSW CEMENT LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	1,230.58	**CARE BBB (Triple B)**	Revised from CARE BB+ [Double B Plus]
Short term Bank Facilities	395.00	**CARE A3 (A Three)**	Revised from CARE A4+ [A Four Plus]
Long term Bank Facilities	425.00*	**CARE BBB (SO) [Triple B (Structured Obligation)]**	Reaffirmed
Total Facilities	**2,050.58**		

**backed by unconditional and irrevocable corporate guarantee provided by JSW Investments Pvt Ltd for the term loan facility of Rs.425 crore of JSW Cement Ltd.*

Rating Rationale

The revision in ratings of JSW Cement Ltd (JSWCL) takes into account improvement in operating performance and continued promoter support by way of equity infusion of Rs.49 crore during FY15 as well as support for raising debt which enabled the company to maintain adequate liquidity position and expand business operations. The ratings are also supported by prominent promoter group and experienced management besides group synergies for procurement of raw materials as well as marketing of end-product, location advantage of the plants as well as increase in scale of operations along with effort towards geographical diversification in revenue profile.

The ratings are, however, constrained by weak capital structure, limited track record of profitable operations and moderate debt servicing indicators. The ratings are factors in delay in stabilization of the new slag grinding unit, subdued demand conditions in the cement industry leading to low capacity utilization and higher dependence on debt for expansion.

JSWCL's ability to reap benefits from the expanded capacity and improve its operational performance in the scenario of surplus cement capacity, particularly in South Indian market, remains the key rating sensitivity.

The rating for term loan facility of Rs.425 core is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by JSW Investments Pvt Ltd (JIPL) on behalf of JSW Cement Ltd (JSWCL).

Background

JSWCL is a subsidiary (87% equity stake) of JSW Investments Pvt Ltd (JIPL) along with its associates and affiliates, an investment company controlled by JSW group headed by Mr. Sajjan Jindal. JSWCL was established with a view to utilize the slag generated from the integrated steel plant at Vijayanagar works of JSW Steel Ltd (JSWSL, rated CARE AA/A1+) for production of cement.

JSWCL has facilities to produce 0.60 million tonne per annum (mtpa) of Ground Granulated Blast Furnace Slag (GGBS)/Portland Slag Cement (PSC) adjacent to JSWSL's plant at Vijayanagar (Karnataka). Further, in June 2012, JSWCL commissioned Greenfield cement plant comprising of clinkerization, grinding and blending facilities at Nandyal (Andhra Pradesh). The facility has capacities to produce 2.20 mtpa of clinker and 4.80 mtpa of GGBS/PSC/Ordinary Portland Cement (OPC). In addition, JSWCL has acquired a slag grinding unit in December 2012 with a capacity of 0.1 mtpa of GGBS to utilize slag generated by JSWSL's Dolvi steel complex (Maharashtra). Slag-based cement has certain advantages, such as increased strength, less corrosion, heat and water-resistance and longevity, which JSWCL aims to capitalise on.

During FY14, on a total income of Rs.738.57 crore, the company posted PBILDT of Rs.24 crore and net loss of Rs.191 crore. While, during 11MFY15 (i.e. April'14–Feb'15), on a total income of Rs.877 crore, the company posted PBILDT of Rs.130 crore and net loss of Rs.42 crore.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

About the guarantor – JIPL

Promoted by Ms. Sangita Jindal (wife of Mr. Sajjan Jindal, Chairman and Managing Director of JSWSL), JIPL is an investment company owned by JSW group. JIPL is engaged in investment in group companies, treasury management, portfolio management services, etc. The company's main focus is on making long-term strategic investments in various companies and new ventures of JSW group. JIPL derives majority of its income by way of dividend from the investments made in group companies.

The company holds significant investments in JSWSL (rated CARE AA/A1+; 5.59% stake as on March 31, 2015), JSW Energy Ltd (rated CARE AA-/A1+; 14.97% stake as on March 31, 2015) and other JSW group companies. As on March 31, 2015, market value of listed holding for unencumbered shares stood at around Rs.1850 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CIN - L67190MH1993PLC071691