Monnet Ispat and Energy Limited

March 24, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities (Term Loan)	2,600.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Long Term Bank Facilities (Fund Based-Cash Credit)	400.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Long term/ Short term Bank Facilities (Non fund based)	500.00	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Revised from CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)**
Total	**3,500.00 (Rupees Three Thousand Five Hundred Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Monnet Ispat and Energy Limited (MIEL) takes into account slower than expected turnaround of operations post acquisition under IBC framework, resulting into continued cash losses.
Moreover, the ratings continue to be tempered by susceptibility of profit margins to volatility in input costs as well as presence of the company in inherently cyclical steel industry.
Nonetheless, the ratings continue to derive comfort from its resourceful and experienced promoter - JSW Steel Limited (JSWSL; rated CARE AA-; Stable/CARE A1+) having established presence in the Indian steel industry, access to JSWSL's supplier network as well as JSWSL's track record in turning around distressed acquired assets and executing brownfield projects along with cost management expertise.

Rating Sensitivities

These indicate broad level of operating and/ or financial performance levels that could trigger a rating change, upward or downward.

Positive Factors:

- Timely completion of its capex activities and successful ramp-up of its integrated steel plant operations at Raigarh plant, with improvement in its operating profitability to more than 12.50%
- Generation of healthy cash accruals resulting in improvement in TDGCA (Total Debt to Gross Cash Accruals) ratio

Negative Factors:

- Continued operating losses for a prolonged period or non-generation of cash-flows as envisaged
- Discontinuance of support from JSWSL for overall operations of MIEL
- Any significant increase in working capital requirement or unforeseen increase in debt requirement for ongoing capex

Detailed description of the key rating drivers

Key Rating Strengths

Support from experienced and resourceful promoters

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

On July 24, 2018, JSW Steel Ltd (JSWSL; currently rated CARE AA; Negative /CARE A1+) and AION Investments Private II Ltd (AION) through its special purpose vehicle company i.e. Milloret Steel Limited (MSL) acquired MIEL 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 fund management company incorporated in Mauritius. AION with an India-focused capital of US$ 825 mn is a strategic partnership between Apollo Global Management LLC ("Apollo"), which is one of world's largest alternative asset managers and ICICI Venture Funds Management Company. 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, promoter financing, mezzanine, recapitalizations, special situations, special credit opportunities, spin offs, non-performing loans, and financial restructurings.
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 18 mtpa, 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. Globally, it owns a plate and pipe mill and steel making facility in USA, mining assets in USA and Chile and downstream steel making facility in Italy.
The company has shown successful 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 Pvt. Ltd.
JSWSL has also provided a letter of awareness to the lenders of MIEL. Under the control of the consortium of AION and JSW Steel, MIEL 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
MIEL sources its iron ore requirements mainly from Odisha by leveraging JSWSL's existing relationship with its suppliers from whom JSWSL sources iron ore annually. MIEL is sourcing coal for its DRI plant majorly from imports and for captive power plant from open auction by Coal India. MIEL sources majority of its coke requirements from Jajpur region (Odisha).
Furthermore, JSWSL recently was declared as the "Preferred Bidder" for four operational mines recently auctioned in Odisha in Jan-Feb 2020. The estimated iron ore reserves of the above mines are around 1,131 million tonnes. Post-execution of the Mine Development and Production Agreement and all statutory clearances, JSWSL is expected to start the mining operations. The proximity of these mines to MIEL's plant in Chhattisgarh is expected to increase the raw material availability for MIEL.

Proposed expansion programme to improve the cash flows
MIEL had earlier proposed setting up of a wire rod mill. However, it later scrapped its plan for Wire Rod Mill and instead, it planned to carry out modification works so as 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 crore as a Phase 1 project. Accordingly, the Phase 1 Capex cost including start-up expenses is revised to Rs. 500 crores, funded from bank term loan.
Phase II capex of Rs. 200 crores for completion of plate mill set-up and EAF2 is still contingent and under discussions.
So, the revised cumulative capex stands at ~Rs. 700 crores. However, the above includes provision for contingent expenses as well. MIEL estimates the actual capex outflow to be lower.
The proposed capital expenditure is expected to remove bottlenecks, integrate the facilities at the Raigarh plant and enable the Raigarh plant to achieve production of finished steel at its existing optimum capacity.

Marketing synergies to JSWSL from MIEL's presence in Eastern India
MIEL is currently selling pellets and DRI from its Raigarh Plant as there are a large number of small secondary producers available in the area. As the integrated operations have restarted in March, 2020, it has also resumed the sale of billets and bar rods recently. JSWSL's manufacturing facilities are located in the Southern and Western parts of the country. MIEL's strategic presence in the Eastern part of the country will enable the JSW Steel Group to tap the markets in Central, Northern and Eastern parts of India.

Key Rating Weaknesses/Challenges

Subdued operational and financial performance owing to slower than expected ramp up of operations
MIEL has two manufacturing facilities, namely at Raigarh and Raipur in Chhatisgarh.
Post-acquisition of management control in August 2018, operation of the *Raigarh* DRI plant was started in Oct 2018 and production was ramped up to around 90% of the installed capacity. The company had restarted the blast furnace (for Iron making), electrical furnace (Steel making), ladle refinery and continuous casting of Steel in Feb, 2019. However, since June 21, 2019, the integrated plant had been shut down, for modification of plant and machinery for manufacturing special steel products. The operations have restarted from March 02, 2020.

Performance during 9MFY20 had been subdued as reflected from the operating loss of Rs. 36 crores, on account of fixed costs owing to partial shutdown of its plant (except DRI & Pellet plant).

Going forward, the company's ability to successfully ramp up its scale of operation and to improve profitability in a time bound manner would remain crucial. However, JSWSL's experience in turning around distressed acquired assets and running steel plants at high efficiency levels is a significant mitigating factor.

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.

Prospects
During FY19, finished steel production rose by 5.9% on a Y-o-Y basis to 111 million tonnes backed by a consumption growth of 7.5% to 98 million tonnes. An increase in demand from user industries like infrastructure and construction, railways, consumer durables among others were the driving factors for the rise in steel output and consumption during the year.
Finished steel production growth is likely to moderate to 3%-4% during the year FY20 on a y-o-y basis. This is because no major capacity is expected to come up from large steel players while the small steel players are estimated to increase their output at a rate similar to last year.
India's steel consumption is expected to grow by 4-5% on the back of government's expenditure towards infrastructure and construction. With the same government coming to power, the focus will continue to remain on infrastructure development in the country.

Going ahead, the international steel prices are likely to hover around USD 500 per tonne mainly on account of expectations of a stable demand growth in the long-run. However, the global prices may witness a downward trend, owing to significant volatility in raw material prices and subdued demand growth globally.
In the domestic market as well, steel prices are likely to remain volatile observing the trend in the raw material prices. The overall demand outlook in the domestic as well as the global market is likely to remain muted, adding pressure on the steel price.

Liquidity: Adequate
MIEL had free cash and bank balances of Rs. 165 crore as on March 31, 2019 and Rs. 187 crore as on December 31, 2019. The term loan repayments shall start from November, 2021 (FY22). The utilization of fund based and non-fund based facilities was around 80% during last 12 months. During 9MFY20, it received unsecured loan from JSWSL of Rs. 70 crores. Going ahead, until the operations get stabilized, it is expected to receive support from JSWSL for any shortfall in interest servicing.

Analytical approach: CARE has adopted a standalone approach. However, financial linkages with JSWSL have also been considered.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]
[Rating methodology – Steel Companies]

About the Company
MIEL, incorporated in 1990, is engaged in manufacturing and sale of steel intermediaries e.g., sponge Iron, billets, ferro alloys and & long (rebars) steel products. On July 24, 2018, JSWSL and AION, through its special purpose vehicle company i.e. Milloret Steel Limited (MSL) successfully acquired MIEL through the Corporate Insolvency Resolution Process (CIRP) under Insolvency & Bankruptcy Code 2016 (IBC). MSL was then amalgamated with MIEL. MIEL currently has total steelmaking capacity of 1.32 MTPA.

Brief Financials (Rs. crore)	FY19 (A)
Total operating income	1,905
PBILDT	29
PAT	(3,461)

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August, 2030	2600.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	500.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2600.00	CARE BBB+; Stable	1)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (03-Dec-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	400.00	CARE BBB+; Stable	1)CARE A-; Stable (02-Apr-19)	1)CARE A-; Stable (03-Dec-18)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	500.00	CARE BBB+; Stable / CARE A2	1)CARE A-; Stable / CARE A2+ (02-Apr-19)	1)CARE A-; Stable / CARE A2+ (03-Dec-18)	-	-

Note on complexity levels of the rated instrument: *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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About CARE Ratings:

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