

**Monnet Ispat and Energy Limited**

April 02, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities (Term Loan)	2600.00	<b>CARE A-; Stable</b> <b>(Single A Minus; Outlook:</b> <b>Stable)</b>	<b>Reaffirmed</b>
Long Term Bank Facilities (Fund Based-Cash Credit)	400.00	<b>CARE A-; Stable</b> <b>(Single A Minus; Outlook:</b> <b>Stable)</b>	
Long term/Short term Bank Facilities (Non fund based-Bank Guarantee)	500.00	<b>CARE A-; Stable/CARE</b> <b>A2+</b> <b>(Single A Minus; Outlook:</b> <b>Stable/A Two Plus)</b>	
<b>Total</b>	<b>3500.00</b> <b>(Rupees Thirty Five</b> <b>Hundred Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities of Monnet Energy and Ispat Limited (MIEL) derive comfort from resourceful and experienced promoters having significant presence in the Indian steel industry, experience in acquiring and turning around distressed companies, access to JSW Steel Limited's (JSWSL; rated CARE AA; Stable/CARE A1+) suppliers' network. The ratings also factor in the promoters' experience in successfully executing various projects as well as turning around various distressed assets.

The ratings, however, factor in the cyclical nature inherent in the steel industry which could make the cash flows of the company volatile. Also, JSWSL's ability to quickly ramp up the MIEL's operations and to improve profitability of the company going forward will be the key rating sensitivities. Further, timely completion of proposed expansion and capex programme to integrate the facilities at MIEL's Raigarh plant to achieve production upto its rated capacity will be crucial.

**Detailed description of the key rating drivers**
**Key Rating Strengths**

**Support from experienced and resourceful promoters:** AION Investment Private II Limited is a wholly owned subsidiary of AION Capital Partners Limited (AION). AION with \$825mn capital 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 specialized 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, ventures and sports. JSWSL, with its steelmaking capacity of 18 mtpa (as on March 31, 2018), 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

steel making facility in USA, mining assets in USA, Chile and Mozambique 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, Welspun Max Steel, Southern Iron & Steel Co. Ltd. and Vallabh Tinplate. 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 current business terms.

**Proposed expansion programme to improve the cash flows:** MIEL is proposing to incur a capital expenditure over a period of 3 years from FY19-FY21. The company is planning to expand its product portfolio at Raigarh to create flexibility in the company's product offerings and to insulate the company's business from the vagaries of global volatility related to specific product categories. The new unit with new product offering is expected to commence operations from FY21 and will enhance the product portfolio of MIEL further.

The product portfolio expansion capital expenditure shall commence after stabilization of the existing plant facilities. As proposed, the company has already restarted the pellet plant, blast furnace, electric arc furnace and bar mill at Raigarh plant. Further, the company shall also incur expenditure to complete the construction of the residual facilities- slab caster, plate mill and lime kiln at Raigarh Plant. The proposed capital expenditure will 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.

**Raw material sourcing arrangements aided by access to JSW's supplier network:** MIEL sources its iron ore requirements mainly from Odisha by leveraging JSW's existing relationship with its suppliers from whom JSW sources iron ore requirement annually. Presently, MIEL is sourcing coal for its DRI plant and captive power plant majorly from imports and balance from the open auction by Coal India. Further, MIEL is sourcing coke from domestic suppliers (partially from JSW).

**Marketing synergies from MIEL's presence in Eastern India:** MIEL proposes to sell pellets, DRI and TMT bar within a 200 km radius of the Raigarh Plant as there are large numbers of small secondary producers available in the area. The company proposes to sell its products primarily in the Central, North and Eastern parts of India. JSW has a PAN India presence with production facilities in the Southern and Western parts of the country. MIEL's strategic presence in the Eastern part of the country will enable the JSW Group to tap the markets in Central, Northern and Eastern parts of India.

**Comfortable liquidity profile:** MIEL has sufficient cash balance including liquid investments. Further, the repayments of the term loan will start from FY22. The company also has 50% unutilized limits of working capital which will provide adequate cushion in case of lower than projected cash flows.

#### **Key Rating Weaknesses/Challenges**

**Subdued operational and financial performance pending ramping up of operations:** Post being acquired by AION and JSW, the capacity utilization level of DRI plant has improved. Further as proposed, the company has already restarted its existing facilities i.e. pellet plant, blast furnace, ladle refinery, continuous casting of Steel and bar mill during February 2019. The quick ramp-up of above units is expected to be seen in the FY20. Going forward, the company's ability to successfully ramp up its scale of operations and to improve profitability in time bound manner would remain crucial. However, JSW's experience in 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 FY18, steel production in India grew by 3.14% to 105 mn tonnes and consumption grew by 7.98% to 90.70 mn tonnes. During FY18, domestic steel prices remained buoyant as they rose in the range of 18%-21% on a y-o-y basis on account of growth in domestic consumption and international prices. Besides, higher raw material prices also resulted in rise in steel prices. On a cumulative basis, finished steel output grew by 6.6% to 82.4 million tonnes during April-December 2018 while consumption rose at a faster pace of 7.9% to 71.6 million tonnes during the period. CARE expects, the total finished steel production in India is likely to grow by 6%-8% during FY20 backed by a growth in demand from user industries like construction & infrastructure, automobiles, consumer durables among others. Domestic consumption of steel is expected to rise in the range of 5.5%-7.5% during FY20.

**Analytical approach:** CARE has adopted a standalone approach. However, linkages with JSWSL, which are integral to the operations of MIEL, have 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) has successfully acquired MIEL under the Insolvency & Bankruptcy Code (IBC) framework of National Company Law Tribunal (NCLT). Post that, MSL has got amalgamated with MIEL. MIEL currently has total steelmaking capacity of 1 mn tonnes per annum.

**Brief Financials:** None as MIEL has been acquired by the new promoters only in FY19.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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#### 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 A-; Stable
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE A-; Stable
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	500.00	CARE A-; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2600.00	CARE A-; Stable	1)CARE A-; Stable (03-Dec-18)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	400.00	CARE A-; Stable	1)CARE A-; Stable (03-Dec-18)	-	-	-
3.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	500.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (03-Dec-18)	-	-	-

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