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JSWSL: SECT: MUM: SE: 2017-18

July 13, 2017

<b>1. National Stock Exchange of India Ltd.</b> Exchange Plaza Plot No. C/1, G Block Bandra - Kurla Complex Bandra (E), Mumbai - 400 051 <b>NSE Symbol: JSWSTEEL</b>  <i>Kind Attn.: Mr. Hari K, President (Listing)</i>	<b>2. BSE Limited</b> Corporate Relationship Dept. Phiroze Jeejeebhoy Towers Dalal Street, Mumbai - 400 001. <b>Scrip Code No.500228</b>  <i>Kind Attn: The General Manager (CRD).</i>
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**Sub: Intimation of revision in ratings under Regulation 30(6) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("Listing Regulations 2015")**

Dear Sir,

In compliance with Regulation 30(6) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, ("Listing Regulations 2015"), we hereby inform you that ICRA has revised JSW Steel Limited's (JSWSL) long-term rating outlook to "Stable" from "Negative". It has also reaffirmed the long term ratings of [ICRA]AA- and short term ratings of [ICRA]A1+ for bank facilities, non-convertible debenture programme and commercial paper programme of JSWSL.

A copy of the Press Release issued by ICRA Limited in this regard is attached herewith.

This is for your information and records.

Yours faithfully,  
For **JSW STEEL LIMITED**

**Lancy Varghese**  
Company Secretary

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July 11, 2017

## JSW Steel Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans / Standby Letter of Credit Facilities	22,583.05 (PY 21,754.12)	[ICRA]AA- Reaffirmed; outlook revised to 'Stable' from 'Negative'
Proposed – Term Loans	5,000.00	[ICRA]AA- (Stable); Assigned
Short-term Fund-Based Limits	1,400.00 (PY 1,488.00)	[ICRA]A1+; Reaffirmed
Short-term Non-fund Based Limits	16,800.00 (PY 15,619.5)	[ICRA]A1+; Reaffirmed
Long Term / Short Term - Fund based/Non-fund Based Limits	5,844.40 (PY 4,370.66)	[ICRA]AA-/ [ICRA]A1+ Reaffirmed; outlook revised to 'Stable' from 'Negative'
Non Convertible Debenture Programme	5,351.04 (PY 10,082.16)	[ICRA]AA- Reaffirmed; outlook revised to 'Stable' from 'Negative'
Proposed Non Convertible Debenture Programme	5,000.00	[ICRA]AA- (Stable); Assigned
Commercial Paper Programme	3,500.00	[ICRA]A1+; Reaffirmed
Proposed Commercial Paper Programme	1,500.00	[ICRA]A1+; Assigned
<b>Total</b>	<b>66,978.49</b>	

\*Instrument details are provided in Annexure-1; PY: Previous Year

### Rating action

ICRA has reaffirmed the long-term rating to the Rs. 5,351.04 crore<sup>1</sup> (reduced from Rs. 10,082.16 crore) non-convertible debenture (NCD) programme and the Rs. 22,583.05 crore (enhanced from Rs. 21,754.12 crore) term loans / Standby Letter of Credit facilities of JSW Steel Limited (JSW Steel) at [ICRA]AA- (pronounced as ICRA double A minus)<sup>2</sup>. ICRA has also assigned an [ICRA]AA- rating to the Rs. 5,000.00 crore proposed term loans and the Rs. 5,000.00 crore proposed NCD programme of JSW Steel. The outlook on the long-term rating, however, has been revised to 'Stable' from 'Negative'. ICRA has reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 3,500.00 crore commercial paper (CP) programme, the Rs. 1,400.00 crore (reduced from Rs. 1,488.00 crore) fund-based bank facilities and the Rs. 16,800.00 crore (enhanced from Rs. 15,619.50 crore) non-fund based bank facilities of JSW Steel. ICRA has also reaffirmed the long-term rating at [ICRA]AA- and the short-term rating at [ICRA]A1+ for the Rs. 5,844.40 crore (enhanced from Rs. 4,370.66 crore) long term/short term, fund based/non-fund based bank facilities of JSW Steel and revised the outlook on long-term rating to 'Stable' from 'Negative'. ICRA has also assigned an [ICRA]A1+ rating to the Rs. 1,500.00 crore proposed CP programme of JSW Steel.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

### **Rationale**

The reaffirmation of ratings and revision in outlook take into account improved operating performance of JSW Steel in FY2017, supported by ramp-up of additional capacities set up in the beginning of the fiscal which, along with higher steel prices led to a strong revenue growth, healthy operating profitability and improved debt-protection metrics. ICRA also notes that the definitive anti-dumping duties on certain flat products imposed by the Government of India till August 2021 are likely to provide a cushion to domestic prices against downturns in international steel prices. The ratings also favourably factor in the status of JSW Steel as the largest steel producer in India with a strong market position in western and southern India, and its position of being the largest Indian exporter of steel. Though the company has limited vertical integration in the form of captive raw material sources, ICRA notes that JSW Steel has been able to maintain a healthy operating profitability during the last few years, which can be attributed to the efficient and technologically-advanced operations of the company, which keep conversion costs low.

The ratings also favourably factor in the company's diversified product mix with a large share of higher value-added products in the overall sales mix, and the company's opportunistic shift between export and domestic markets, which reduces geographical concentration risks. In order to enrich its product profile further, the company has also started using the services of third-party downstream steel product manufacturers in the current financial year, which would result in an increased share of value-added products in the company's sales mix without any significant capital investments in the near term. ICRA also takes note of JSW Steel's demonstrated ability to execute various capacity expansions and cost-optimisation programmes within the stipulated time and costs, and the advantages accruing to the company by virtue of one of its manufacturing locations being at Dolvi, which is in close proximity to port, thereby resulting in freight cost savings.

The ratings are, however, constrained by a leveraged capital structure of the company at present. ICRA expects the leverage levels to remain high in the short to medium term on account of the large debt to be contracted by the company in the next three to four years to part-fund its recently-announced capacity expansion plans. Although the proposed expansion with an estimated project cost of Rs. 26,800 crore would be implemented in phases over the next three to four years and would be part-funded by rising internal accruals of the company, the overall debt levels of JSW are likely to remain high and would keep its coverage indicators at moderate levels in the medium term. Nevertheless, the proposed expansion would benefit the company in terms of increased economies of scale, significant fuel cost savings, improved product mix with higher share of value added products and higher cost efficiencies in the medium term. ICRA also notes that some of the announced projects have shorter gestation periods and would start yielding operational benefits to the company in the next two years.

The ratings, however, also remain tempered by the company's exposure to price risks and supply uncertainties in the absence of captive sources of raw materials. Sharp volatility in coking coal prices in the last few months heightens such price risks. Although the company emerged as a preferred bidder for five category-C mines in Karnataka in October 2016, the mines would cater to a small portion of the company's overall iron ore requirements and are expected to start full mining operations by the end of the current fiscal. Nevertheless, these mines along with a coking coal block allotted in Jharkhand are expected to improve JSW Steel's raw material security in the medium term. The ratings also take into consideration the fact that the financial profiles of the company's overseas subsidiaries, viz. JSW Steel (USA) Inc. and Santa Fe Mining (Chile) remained under pressure in FY2017 due to weak demand conditions and unfavourable iron ore prices, respectively, and the same adversely impacted the consolidated financial position of JSW Steel. The cyclicality associated with the steel industry, causing variability in players' profits and cash accruals, also impact the company's ratings.

ICRA also notes that JSW Steel remains exposed to forex risks due to its dependence on imports to meet its coking coal requirements, and the fact that about 37% of the company's total debt as on March 31,

2017 was denominated in foreign currency, which was partly hedged. However, the forex risks are partly mitigated by the company's export sales, which act as a natural hedge and by the company's formal hedging policy to cover both the forex inflows and outflows on its revenue side.

Any higher-than-anticipated capital expenditure or unanticipated acquisition/investment resulting in a further increase in debt levels could adversely impact the financial risk profile of the company. Also, any adverse movement in raw material prices and/or forex rates would affect JSW Steel's profitability and remains a key rating sensitivity. On the other hand, an improvement in domestic demand conditions would lead to better business performance the company.

### **Key rating drivers**

#### **Credit strengths**

- Improved operating performance in FY2017 on the back of a ramp-up of operations of recently-commissioned capacities, leading to strong revenue growth, healthy operating profitability and improved coverage indicators; healthy growth in exports volumes in FY2017
- Status as the largest steel producer in India and as the largest Indian exporter of steel with healthy market position in western and southern India
- Diverse product portfolio with presence in both flat and long steel segments; healthy share of higher value-added products in the sales mix augurs well for the operating profile
- Healthy operating profitability even in the absence of any captive raw material sources due to investments in backward integration facilities and technologically-advanced operations; strategic partnership with JFE (15% shareholder) improves its position in higher margin automotive grade and electrical steel segments
- Definitive anti-dumping duties on flat products to provide pricing support in the domestic market
- Location-specific advantages due to its proximity to ports for the Dolvi plant, which results in freight cost savings
- Demonstrated capabilities to execute capital expansions at a significantly lower cost than its peers

#### **Credit weaknesses**

- Aggressive capital structure and coverage indicators, notwithstanding an improvement in FY2017, due to elevated debt levels; large capex to be incurred over the next three to four years part-funded by a debt of around Rs. 15,000 crore would constrain any significant improvement in the capital structure in the near to medium term and keep free cash flows under check
- Absence of any captive source of raw materials at present exposes the company to price and supply risks
- Exposure to the cyclical nature inherent in the steel industry; mitigated partially by JSW's cost efficiencies and a portfolio of value-added products
- Exposure to forex risks due to imports of coking coal and partly-hedged forex debt; exports, however, provide a natural hedge to an extent
- Weak financial profile of the US-based plate and pipe mill due to subdued demand, which adversely impacts the consolidated financial risk profile of the company

#### **Description of key rating drivers:**

JSW Steel is the largest domestic steel producer with an installed capacity of 18 million tonne per annum (mtpa). The company operates out of six manufacturing locations in India and also has presence in the US, Chile and Mozambique for backward integration and manufacturing of value-added products. JSW Steel ramped-up its additional brown-field capacities in the first quarter of FY2017 and its average capacity utilisation of 88% in FY2017 remained much higher than India's overall capacity utilisation levels of about 77% during the same period on the back of various trade remedial measures taken by the

Government of India to curb cheaper imports of steel. JSW's overall sales volumes grew by 22% on a YoY basis in FY2017, mainly focused towards exports and value-added products. Supported by favourable international prices, exports surged 163% in FY2017 and accounted for 26% of JSW Steel's total sales volumes during the year compared to 12% in the previous year. Share of value-added and specialty steel products also remained high at 34% in the overall sales mix in FY2017. JSW Steel's operating profitability also improved to 22.9% in FY2017 from 17.2% in FY2016 due to strong volume growth and improved realisations, which in turn led to profitable operations during the year compared to loss-making operations in FY2016.

JSW Steel recently announced a large capex plan entailing total investment of Rs. 26,800 crore over the next three to four years, which mainly includes (a) doubling of installed capacity of its Dolvi plant to 10 mtpa, (b) increasing the downstream capacities at Vijayanagar, Vasind and Tarapur, (c) carried forward capex of the previous year, (d) mining capex and (e) various cost-saving projects. The company would part-fund this capex by contracting a debt of about Rs. 15,000 crore over the next three years, which would keep JSW Steel's overall debt and in turn leverage level high in the near to medium term. Also, weak financial health of JSW Steel's overseas subsidiaries, with loss-making operations continuing in FY2017, adversely impacted the consolidated financial risk profile of the company.

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of JSW Steel and its subsidiaries and has also applied its rating methodologies as indicated below.

**Links to applicable criteria:**

**[Rating Methodology for entities in the Ferrous Metals Industry](#)**  
**[Corporate Credit Rating Methodology](#)**

**About the company:**

JSW Steel Ltd. (JSW Steel), a part of the O.P. Jindal Group, manufactures iron and steel products. The company's products include hot-rolled steel strips, sheets/plates, mild steel (MS) cold-rolled coils/sheets, MS galvanised plain/corrugated/colour-coated coils/sheet, steel billet, bars and rods. As on date, the company's plants in Karnataka, Tamil Nadu and Maharashtra have a combined installed capacity of 18.0 million tonne per annum (mtpa). JSW Coated Products Ltd., a 100% subsidiary of JSW Steel, has manufacturing facilities at Vasind and Tarapur (near Mumbai) and Kalmeshwar (near Nagpur) in Maharashtra for value-added steel products. The company also has plate-and-pipe-mill business in the US, iron ore mines in Chile and coal mines in the US and Mozambique, which are operated through its international subsidiaries.

<b>Key financial indicators (Consolidated)</b>	<b>FY2016</b>	<b>FY2017</b>
Operating income (Rs. crore)	41,546.17	55,604.59
PAT (Rs. crore)	-501.45	3,454.05
OPBDIT/OI (%)	17.2%	22.9%
RoCE (%)	2.1%	15.0%
Total Debt/TNW (times)	2.25	1.93
Total Debt/OPBDIT (times)	5.92	3.40
Interest coverage (times)	1.97	3.35
NWC/OI (%)	2%	9%

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

**Any other information:** Not applicable



**Rating history for last three years:**
**Table:**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	October 2016	February 2016	March 2015
1	Term Loans/ Standby Letter of Credit	Long Term	22,583.05	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA (Stable)
2	Proposed Term Loan	Long Term	5,000.00	[ICRA]AA-(Stable)	-	-	-
3	Fund Based Limits	Short Term	1,400.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based/Non Fund Based	Long Term / Short Term	5,844.40	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Negative)/ [ICRA]A1+	[ICRA]AA-(Negative)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
5	Non Fund Based	Short Term	16,800.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Non-convertible Debentures (NCD)	Long Term	5,351.04	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA (Stable)
7	Proposed NCDs	Long Term	5,000.00	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	-	-
8	Commercial Paper (CP)	Short Term	3,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
9	Proposed CP	Short Term	1,500.00	[ICRA]A1+	-	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>ISIN</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. Crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit		-	-	-	1,400.00	[ICRA]A1+
Non-fund Based (LC/BG)		-	-	-	16,800.00	[ICRA]A1+
Fund-based/Non-fund Based Limits		-	-	-	5,844.40	[ICRA]AA-(Stable)/[ICRA]A1+
Term Loans		-	-	Varying from FY2018 to FY2027	22,583.05	[ICRA]AA-(Stable)
Proposed Term Loans		-	-	-	5,000.00	[ICRA]AA-(Stable)
NCD 1	INE019A07126	-	10.25%	17.02.2018	166.67	[ICRA]AA-(Stable)
NCD 2	INE019A07175 INE019A07191	-	10.1%	Maturity in two tranches; first tranche maturity date - 04.11.2017 Second tranche maturity date - 15.03.2018	218.75	[ICRA]AA-(Stable)
NCD 3	INE019A07241	-	10.34%	18.01.2024	1,000.00	[ICRA]AA-(Stable)
NCD 4	INE019A07357	-	10.6%	19.08.2019	425.00	[ICRA]AA-(Stable)
NCD 5	INE019A07167 INE019A07183	-	10.6%	Maturity in two tranches; first tranche maturity date - 02.07.2019 Second tranche maturity date - 02.02.2020	240.63	[ICRA]AA-(Stable)
NCD 6	INE019A07258 INE019A07266	-	10.02%	Maturity in two tranches; first tranche maturity date - 20.05.2023 Second tranche maturity date - 19.07.2023	1,000.00	[ICRA]AA-(Stable)

NCD 7	INE019A07332 INE019A07324	-	10.4%	Maturity in two tranches; first tranche maturity date - 19.08.2017 Second tranche maturity date- 19.08.2019	425.00	[ICRA]AA-(Stable)
NCD 8	INE019A07340	-	10.5%	19.08.2018	175.00	[ICRA]AA-(Stable)
NCD 9	INE019A07365 INE019A07373	-	10.2%	Maturity in two tranches; first tranche maturity date - 05.09.2017 Second tranche maturity date - 11.09.2017	700.00	[ICRA]AA-(Stable)
NCD 10	INE019A07381	-	9.62%	23.12.2017	300.00	[ICRA]AA-(Stable)
NCD 11	INE019A07399	-	9.665%	23.12.2018	300.00	[ICRA]AA-(Stable)
NCD 12	INE019A07407	-	9.72%	23.12.2019	400.00	[ICRA]AA-(Stable)
Proposed NCD		-	-	-	5,000.00	[ICRA]AA-(Stable)
Commercial Paper		-	-	-	3,500.00	[ICRA]A1+
Proposed Commercial Paper		-	-	-	1,500.00	[ICRA]A1+

Source: JSW Steel Limited



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About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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