Amba River Coke Limited

December 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00 (Reduced from 286.00)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Short Term Bank Facilities	1,316.20 (Enhanced from 1,305.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**1,366.20 (Rs. One Thousand Three Hundred Sixty-Six Crore and Twenty Lakhs Only)**		
Non-Convertible Debentures	**180.00 (Rs. One Hundred Eighty Crore Only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Commercial Paper	**240.00 (Rs. Two Hundred Forty Crore Only)**	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term ratings assigned to the bank facilities and instruments of Amba River Coke Limited (ARCL) is on account of the revision in the long-term rating of JSW Steel Limited (JSWSL, rated CARE AA; Stable/CARE A1+ revised from CARE AA-; Stable/ CARE A1+). JSW Steel Limited has a strong and well-established presence in the Indian Steel Industry. ARCL, a wholly owned subsidiary of JSWSL, has a take or pay arrangement with JSWSL for purchase of coke and pellet output at a pre-determined pricing formula, which ensures steady earnings and adequate cash flows for debt servicing. The ratings further consider, ARCL's significance in backward integrating the Dolvi steel complex of JSWL by ensuring steady supply of coke and pellets through its coke oven and pellet plant. The rating strengths, however, continue to be tempered by the presence of the company in inherently cyclical steel industry.

Rating Sensitivities

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

- Improvement in the financial profile of the holding company, JSW Steel Limited marked by significant improvement in operating profitability and rationalization of debt levels

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

- Deterioration in the financial profile of the holding company, JSW Steel Limited
- Any significant increase in working capital requirement or any unforeseen debt funded capex/acquisition without any explicit support from any take or pay or similar agreement with JSWSL

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and experienced management

ARCL is a wholly-owned subsidiary of JSW Steel Limited (JSWSL). JSWSL is a part of the JSW group, which in turn is part of the O.P. Jindal group. The JSW group has presence across various sectors, such as energy, infrastructure, cement, paints, sports and venture capital.

JSWSL, with its steelmaking capacity of 23 MnTPA, has an established presence in the Indian steel industry and a dominant market share in Southern and Western India. Its multi-location steel manufacturing facilities produce various upstream products ranging from Mild Steel (MS) slabs/billets and Hot Rolled (HR) coils/steel plates/sheets, bar and wire rod products to the downstream products like cold rolled coils/sheets, colour coated coils/sheets and galvanized coils/sheets. ARCL draws strength from JSWSL's well-established position in Indian steel industry as well as its operational and cost management expertise.

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

During FY21 (refers to the period April 1 to March 31), JSWSL registered a consolidated total operating revenue of Rs.79,839 crore with Profit after Tax of Rs.7,873 crore. JSWSL's consolidated net-worth stood at Rs.43,646 crore as on March 31, 2021.

Significance of the coke oven and pellet plants for JSWSL's operations

As part of a turnaround strategy, JSWSL (through ARCL) has set up backward integration facilities (viz., coke oven and pellet plants) adjacent to its steel complex at Dolvi unit. These facilities ensure continuous, high-quality and cost-effective supply of these key raw materials to the Dolvi steel plant. In addition, surplus coke oven gas is being used as feed to JSWSL's Dolvi steel plant replacing natural gas resulting in overall cost savings for JSWSL. Furthermore, ARCL has entered into agreement with JSWSL for provision of utilities and shared services (such as water take off system, jetty services, raw material handling services, gas supply, IT services, etc.).

During FY21 and H1FY22, ARCL's capacity utilisation declined to 80% for pellets and around 90% for coke owing to impact of first and second wave of the pandemic.

Going forward, the output & off-take is expected to improve in H2FY22, given the increased capacity utilization of JSWSL's plant and revival of steel demand.

'Take or pay' agreement ensuring sufficient cash flow for debt servicing

ARCL has entered into 'take or pay' agreement with JSWSL for supply of coke and pellet output at a pre-determined pricing formula. While ARCL is exposed to fluctuation in raw material prices, which may impact cost of production, the offtake agreement with JSWSL provides for pass-through of costs mitigating risk of volatility in raw material prices and ensuring profitability of ARCL. Further, the nature of 'take-or-pay' agreement with JSWSL with annual contracted quantity mitigates market risk for ARCL. Thus, it ensures steady earnings and adequate cash-flow for debt servicing (with a minimum stipulated DSCR of 1.10x as per the agreement).

During H1FY22, the company has prepaid SBI term loan in July 2021 through equity infusion from JSWSL. Further, NCD of Rs.180 crore would be due in February 2022, which would be repaid. While ARCL essentially depends on JSWSL for generation of cash flows, counterparty risk is low as JSWSL is one of the largest steel producers in the country with a sizeable market share.

Key Rating Weaknesses

Cyclicality of the steel industry

ARCL's manufactured pellets and coke are utilized in the steel-making operations of JSWSL. 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.

Liquidity analysis: Adequate

The take or pay arrangement with JSWSL ensures sufficient cash flow for debt servicing of the company, with a minimum stipulated DSCR of 1.10x. The company as on September 30, 2021 had free cash and cash equivalents of Rs.55 crore. Its fund-based working capital utilisation stood nil for past 12 months ended September 30, 2021; which further adds cushion to liquidity. ARCL's operating cycle continued to remain negative during FY21, indicating availability of decent credit period from suppliers. The average credit period including LC based creditors stood at around 83 days for FY21. The company as on date does not have term loan as it has already prepaid the same. Apart from the sustenance capex, the company do not have any major capex plans in the future.

Analytical approach – CARE has adopted a standalone approach. However, operational and financial linkages through take or pay agreement with its parent company, JSWSL, which are integral to the operations of ARCL have been considered.

Applicable criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company

ARCL is a wholly-owned subsidiary of JSWSL, one of the largest steel producers in India with a steelmaking capacity of 23 MnTPA as on October 31, 2021. JSWSL's integrated steel manufacturing units, located across three states (i.e., Karnataka, Maharashtra and Tamil Nadu), have facilities to produce a wide range of flat and long steel products. ARCL, a Special Purpose Vehicle (SPV), was formed for implementing and operating two backward integration units – a 1.0 MnTPA coke oven and a 4.0 MnTPA iron ore pellet plant – at JSWSL's Dolvi steel complex in Maharashtra. Dolvi steel complex has a shore based integrated steel plant with a production capacity of 10 MnTPA, as on October 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	3,943.86	3,932.79	2,657.40
PBILDT	429	497.70	252.33
PAT	194.40	167.70	87.54
Overall gearing (times)	0.63	0.31	0.16
Interest coverage (times)	2.61	4.29	4.66

A: Audited; UA: Unaudited

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 instrument/facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	1316.20	CARE A1+
Debentures-Non Convertible Debentures	INE503N07023	February 10, 2017	8.75 %	February 10, 2022	180.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	240.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA-; Stable (24-Dec-20)	1)CARE AA-; Stable (20-Mar-20)	1)CARE AA; Stable (12-Dec-18)
2	Fund-based - LT-Cash Credit	LT	50.00	CARE AA; Stable	-	1)CARE AA-; Stable (24-Dec-20)	1)CARE AA-; Stable (20-Mar-20)	1)CARE AA; Stable (12-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	1316.20	CARE A1+	-	1)CARE A1+ (24-Dec-20)	1)CARE A1+ (20-Mar-20)	1)CARE A1+ (12-Dec-18)
4	Commercial Paper-Commercial Paper (Standalone)	ST	240.00	CARE A1+	-	1)CARE A1+ (24-Dec-20)	1)CARE A1+ (20-Mar-20)	1)CARE A1+ (12-Dec-18)
5	Debentures-Non Convertible Debentures	LT	180.00	CARE AA; Stable	-	1)CARE AA-; Stable (24-Dec-20)	1)CARE AA-; Stable (20-Mar-20)	1)CARE AA; Stable (12-Dec-18)

* Long Term / Short Term

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

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

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple
5	Non-fund-based - ST-BG/LC	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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