



Rating Rationale

Adarsh Advisory Services Pvt. Ltd.

30 Oct 2019

Brickwork Ratings revises the Rating of Zero-Coupon Non-Convertible Debentures (NCD) Issue of Rs. 540 Crs and assigns the rating for the proposed NCD issue of Rs. 540 Crs by Adarsh Advisory Services Pvt. Ltd.

Particulars

Facility*	Tenor	Previous Amount (Rs. Cr)	Present Amount (Rs. Cr)	Previous Rating** (Nov-2018)	Present Rating
NCD	Long Term	540.00	540.00	BWR A (SO) (Outlook: Stable)	BWR A (CE) (Outlook: Negative)
Proposed NCD	Long Term	-	540.00	-	BWR A (CE) (Outlook: Negative) Assigned
Total		540.00	1080.00	(INR One Thousand and Eighty Crores Only)	

*Details at Annexure I, Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** SO changed to CE via press release dated 14-Sep-2019

Rating Action:

BWR has revised the rating of NCD issue of Rs. 540 Crs at BWR A (CE) with revision in outlook to negative from stable and has assigned the rating of BWR A (CE) with a negative outlook for the proposed NCD of Rs. 540 Crs.

Rationale:

The rating with CE subscript takes into account, inter alia, the promoter JSW Group, the underlying securities (collateralized by the shares of JSW Steel Ltd and JSW Energy Ltd with combined coverage of twice the outstanding principal and accrued interest amount), strength of the underlying companies and structural protection in the form of Top-up trigger based on security cover.



However the rating is constrained by the fact that the issuer is non-operational with weak financials and repayment's dependency on the cash-flow of the group companies or through refinancing/sale of shares by the investor.

The negative outlook factor in the moderation in the financial performance of JSW Steel Ltd (underlying company) in Q1FY20 and Q2FY20, elevated debt levels and overall slowdown in the steel sector. The revision in outlook also factors the potential acquisition of thermal power assets of GMR Kamalanga Energy Limited and Ind-Barath Energy (Utkal) Limited by JSW Energy Ltd (underlying company) as these acquisitions are likely to be largely debt funded and might increase the debt significantly in JSW Energy Ltd.

The outlook may be revised to stable in case of improvement in the steel industry scenario and/or improvement in the credit profile of JSW Steel Ltd ensuring higher cash flows & better profitability and clarity on the exact implications of potential acquisitions on the financial risk profile of JSW Energy Ltd.

BWR has essentially relied upon the terms of the issues, security coverage, underlying securities, financial results of JSW Steel Ltd. up to Q2FY20 & JSW Energy Ltd. up to Q1FY20, publicly available information and other information/clarification provided by the management.

O/s NCD Details:

The company had raised the structured NCD of Rs. 540 Crs in three tranches with maturity of 05-Jan-2021, 05-July-2021 and 05-Jan-2022 respectively. There will be zero coupon payment and the applicable redemption premium will be payable on maturity date. The NCD's are secured by way of pledge of equity shares of JSW Steel Limited providing 1.25x cover and JSW Steel Limited and/or JSW Energy Ltd. providing 0.75x cover with combined coverage of twice the outstanding principal and accrued interest amount. There is provision for top up if the share collateral cover falls below the 1.80x, within 2 business days of such event; the security provider shall create a pledge over such number of shares such that the share collateral cover is equivalent to required collateral cover.



Proposed NCD Details:

The proposed NCDs of Rs. 540 Crs will be issued in two tranches (Series A and Series B) of amounts Rs. 270 Crs each with Series A having maturity date of 6th March 2021 and Series B having maturity date of 6th March 2022 respectively. The Proposed NCD is backed by underlying securities i.e. listed shares of JSW Steel Ltd (JSWSL) and JSW Energy Ltd (JSWEL) , Shares of JSW Steel equivalent to [1.7]x of the Financing Amount and Shares of JSW Energy equivalent to [0.3]x of the Financing Amount pledged by the promoter group companies, with combined coverage of 2.0 times. There is provision for top up if the share collateral cover falls below the 1.80x, within 2 business days of such event; the security provider shall create a pledge over such number of shares such that the share collateral cover is equivalent to required collateral cover. On or prior to the Repayment Reserve Start Date (7 days prior to scheduled redemption date for each respective series of Debentures), the Issuer shall deposit a sum equivalent to the Repayment Amount for the respective series of Debentures into the Cash Account to be applied towards the redemption of the Debentures. The Purpose of the proposed NCD is Re-financing of existing loans, loans to / investments in JSW Group of companies and general corporate purposes.

Analytical Approach:

For arriving at the rating, BWR has applied its rating methodology as detailed in the rating criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities:

The ratings are sensitive to the performance of the JSW Steel Ltd and JSW Energy Ltd (the underlying companies) whose equity shares have been pledged, price of the pledged stock, the quantum of the pledge of promoter held shares, maintenance of enough shares as cushion for timely Top-up and compliance to the terms of the issue.

About the Company:

Adarsh Advisory Services Pvt. Ltd. (AASPL) is a part of JSW Group. It is 100% owned by Sajjan Jindal Family Trust. At the end of 31-3-2019, it holds 89.30 Crs unquoted equity shares of JSW Cement Limited valued at Rs. 946.65 Crs at cost.



Financial Performance of the Underlying Companies:

JSW Steel Ltd.:

JSW Steel Ltd is among India’s leading integrated steel producers with installed crude steel production capacity at ~18 MTPA. As per FY19 (A) financials, the company’s consolidated total operating income stood at Rs. 84,757 Crs with net profit of Rs. 7524 Crs as against total operating income of Rs. 73,211 Crs with net profit of Rs. 6113 Crs. On a consolidated basis, the overall gearing improved to 1.46x as on March 31, 2019 as compared to 1.51x as on March 31, 2018. JSW Steel Ltd revenue from operations on a consolidated basis declined in Q1FY20 to Rs. 19,812 from Rs. 20,519 Crs in Q1FY19 by ~3.4% on account of weaker economic activity and sluggish demand. JSW Steel has reported consolidated net profit at Rs. 1008.00 Crs for Q1FY20 a decline of 56.90 per cent from Q1FY19 net profit of Rs. 2339 Crs. Revenue from operations during Q2FY20 declined by 18% YoY to Rs. 17572 Crs. Operating Ebitda stood at Rs. 2731 Crs. PAT for the quarter stood at Rs. 2536 Crs after incorporating the financials of subsidiaries (including the impact of tax changes in all subsidiaries) and Joint ventures. The list of the subsidiaries of JSW Steel Limited and Joint ventures is at annexure II.

Key Financials of JSW Steel Limited (Consolidated):

Amounts in Rs. Cr.	FY 18 (Audited)	FY 19 (Audited)
Total Operating Income	73,211.00	84,757.00
PAT	6113.00	7524.00
Tangible Networkth	26,419.00	32,956.00
Total Debt	39,869.00	48,126.00

JSW Energy Ltd.:

JSWEL is the holding company for the JSW group’s power business having operational capacity of 4.54 GW (consolidated) as of March 31, 2019. As per FY19 (A) financials, the company’s consolidated total operating income stood at Rs. 9137.59 Crs with net profit of Rs. 684.49 Crs as against total operating income of Rs. 8048.96 Crs with net profit of Rs. 84.91 Crs. The consolidated overall gearing which was 1.25x as on March 31, 2018 improved to 1.03x as on March 31, 2019. During the Q1FY20, total revenue on a consolidated basis increased by ~1.4% on YOY basis to Rs. 2464 Crs as against Rs. 2428 Crs in Q1FY19. The net profit for Q1FY20 stood at Rs. 244 Crs as against Rs. 229 Crs in Q1FY19. The list of subsidiaries of JSW Energy Limited is at annexure III.



Key Financials of JSW Energy Limited (Consolidated):

Amounts in Rs. Cr.	FY 18 (Audited)	FY 19 (Audited)
Total Operating Income	8048.96	9137.59
PAT	84.91	684.49
Tangible Networkth	9525.35	10275.63
Total Debt	11883.26	10554.88

Key Financials of AASPL:

Amounts in Rs. Cr.	FY 18 (Audited)	FY 19 (Audited)
Revenue	0.01	0.01
PAT	-64.69	-114.24
Tangible Networkth	-68.93	-183.18
Total Debt	987.52	1040.40

Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2019)			Rating History			
		Type (Long Term/Short Term)	Amount (Rs Crs)	Rating	14-Sep-2019	27-Nov-2018	27-Nov-2017	2016
1	NCD Issue	Long Term	540.00	BWR A(CE) (Outlook:Negative)	BWR A(CE) (Outlook: Stable)	BWR A(SO) (Outlook: Stable)	BWR A(SO) (Outlook: Stable)	-
2	Proposed NCD Issue	Long Term	540.00	BWR A (CE) (Outlook: Negative) Assigned	-	-	-	-
Total			1080.00 (INR One Thousand and Eighty Crores Only)					



Annexure I:

Instrument	Issue Date (DD/MM/YY)	Coupon Rate	Maturity Date (DD/MM/YY)	ISIN	Amount (Rs. Crs)
NCD	05-12-17	Zero Coupon	05-01-21	INE868Y07019	200.00
NCD	05-12-17	Zero Coupon	05-07-21	INE868Y07027	175.00
NCD	05-12-17	Zero Coupon	05-01-22	INE868Y07035	165.00
Proposed NCD	-	Zero Coupon	Series A: 6 th March 2021 Series B: 6 th March 2022	-	540.00 (Series A: 270 and Series B: 270)
Total					1080.00

Annexure II:

The Company's consolidated financial statements as of 31-3-2019 include the financial performance of the following subsidiaries and joint ventures as:

Subsidiaries:

1. JSW Steel (Netherlands) B.V. 2. JSW Steel Italy S.r.l. 3. JSW Steel (UK) Limited 4. Periana Holdings, LLC 5. JSW Steel (USA), Inc. 6. Purest Energy, LLC 7. Meadow Creek Minerals, LLC 8. Hutchinson Minerals, LLC 9. RC Minerals, LLC 10. Keenan Minerals, LLC 11. Peace Leasing, LLC 12. Prime Coal, LLC 13. Planck Holdings, LLC 14. Rolling S Augering, LLC 15. Periana Handling, LLC 16. Lower Hutchinson Minerals, LLC 17. Caretta Minerals, LLC 18. JSW Panama Holdings Corporation 19. Inversiones Eroush Limitada 20. Santa Fe Mining S.A. 21. Santa Fe Puerto S.A. 22. JSW Natural Resources Limited 23. JSW Natural Resources Mozambique Limitada 24. JSW ADMS Carvão Limitada 25. JSW Steel Processing Centres Limited 26. JSW Bengal Steel Limited 27. JSW Natural Resources India Limited 28. JSW Energy (Bengal) Limited 29. JSW Natural Resources Bengal Limited 30. JSW Jharkhand Steel Limited 31. JSW Steel Coated Products Limited 32. Amba River Coke Limited 33. Nippon Ispat Singapore (PTE) Limited 34. Erebus Limited 35. Arima Holdings Limited 36. Lakeland Securities Limited 37. Peddar Realty Private Limited 38. JSW Steel (Salav) Limited 39. JSW



Industrial Gases Private Limited 40. JSW Utkal Steel Limited 41. Hasaud Steel Limited 42. Milloret Steel Limited (till 27 August 2018) 43. Creixent Special Steels Limited (till 27 August 2018) 44. Dolvi Minerals & Metals Private Limited 45. Dolvi Coke Projects Limited 46. JSW Realty & Infrastructure Private Limited 47. JSW Retail Limited (w.e.f 20 September 2018) 48. Acero Junction Holdings, Inc. (w.e.f 13 June 2018) 49. JSW Steel USA Ohio, Inc. (Previously known as Acero Junction Inc.) (w.e.f 13 June 2018) 50. Aferpi S.p.A (w.e.f 24 July 2018) 51. Piombino Logistics S.p.A (w.e.f 24 July 2018) 52. GSI Lucchini S.p.A (w.e.f 24 July 2018)

Joint Ventures:

53. Vijayanagar Minerals Private Limited 54. Rohne Coal Company Private Limited 55. Geosteel LLC 56. JSW Severfield Structures Limited 57. JSW Structural Metal Decking Limited 58. Gourangdih Coal Limited 59. JSW MI Steel Service Center Private Limited 60. JSW Vallabh Tinplate Private Limited 61. Acciaitalia S.p.A. (till 17 April 2018) 62. Creixent Special Steel Limited (w.e.f 28 August 2018) 63. Milloret Steel Limited (w.e.f 28 August 2018 till 31 August 2018) 64. Monnet Ispat & Energy Limited (w.e.f 31 August 2018)

Annexure III:

The list of the subsidiaries and Joint ventures of JSW Energy Limited is as:

Subsidiaries:

1 JSW Power Trading Company Limited (formerly known as JSW Green Energy Limited) 2 JSW Energy (Barmer) Limited (Formerly known as Raj WestPower Limited) 3 Jaigad PowerTransco Limited 4 JSW Energy (Raigarh) Limited 5 JSW Energy (Kutehr) Limited 6 JSW Energy Natural Resources (BVI) Limited (upto 4th April, 2017) 7 JSW Hydro Energy Limited (Formerly known as Himachal Baspa Power Company Limited) 8 JSW Energy Minerals Mauritius Limited (upto 18th June, 2018) 9 JSW Energy Natural Resources Mauritius Limited 10 JSW Energy Natural Resources South Africa (Pty) Limited 11 South African Coal Mining Holdings Limited 12 Royal Bafokeng Capital (Pty) Limited 13 Ilanga Coal Mines Proprietary Limited (upto 18th July, 2017) 14 Jigmining Operations No.1 Proprietary Limited 15 Jigmining Operations No.3 Proprietary Limited (upto 25th August, 2017) 16 Mainsail Trading 55 (Pty) Limited 17 SACM (Breyten) Proprietary Limited 18 SACM (Newcastle) Proprietary Limited (upto 18th September, 2017) 19 South African Coal Mining Equipment Company Proprietary Limited (upto 10th September, 2018) 20 Umlabu Colliery Proprietary Limited 21 Voorslag Coal Handling Proprietary Limited (upto 12th July, 2017) 22 Yomhlaba Coal Proprietary Limited 23 South African Coal Mining Operations Proprietary Limited 24 JSW Energy Natural Resources UK Limited (upto 29th August, 2017) 25 Minerals & Energy Swaziland Proprietary Limited



(upto 30th November, 2018) 26 JSW Solar Limited (w.e.f. 1st January, 2018) 27 JSW Electric Vehicles Private Limited (w.e.f. 5th March, 2018)

Joint Ventures:

1 Barmer Lignite Mining Company Limited (Joint Venture) 2 Toshiba JSW Power Systems Private Limited (Associate)

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Credit Enhancement](#)

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