



Usha Martin Limited

Regd. Office : 2A, Shakespeare Sarani, Kolkata - 700 071, India
Phone : (00 91 33) 39800300, Fax : (00 91 33) 2282 9029, 39800400/500
CIN : L31400WB1986PLC091621
Website : www.ushamartin.com

UML/SECT/

December 22, 2016

The Secretary
National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor,
Plot No.C/1, G Block,
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051
[Fax No. 022-26598347]

Dear Sir,

In reply to the query raised by you in connection with our communication Ref: UML/SECT/ dated 21st December, 2016 with regard to the reasons for downgrade of the Company's Long-term Issuer Rating from existing 'IND BBB' to 'IND BBB-' the press release made by India Ratings & Research (the rating agency) is enclosed herewith, which is self-explanatory in nature.

Thanking you,

Yours faithfully,
For Usha Martin Limited


Shampa Ghosh Ray
Company Secretary

Encl: as above



India Ratings Downgrades Usha Martin to 'IND BBB-'; Off RWN; Outlook Negative

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By [Rohit Sadaka](#)

DEC 2016

India Ratings and Research (Ind-Ra) has downgraded Usha Martin Limited's (UML) Long-Term Issuer Rating to 'IND BBB-' from 'IND BBB' and removed it from Rating Watch Negative (RWN). The Outlook is Negative. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

Tie-up of Funds Lower Than Expected: The RWN resolution to a rating downgrade and Negative Outlook follows the tie-up of INR16.85 billion of funds by UML with the existing bankers against the expected INR20bn. UML will now be able to meet its debt obligations in FY17 and 1HFY18 as well as to fund its regular capex and development of the existing coal mine. However, any delay in tying up of remaining funds may pressure its liquidity.

Liquidation of Non-core Asset: To support the company's liquidity, its promoters had planned to sell some non-core assets and liquidating long-term investments to bring in about INR2,560 million of cash over FY16-FY18. UML has been able to liquidate around INR1,350 million till October 2016 which has been used to meet a shortfall in EBITDA for making interest payments. UML expects to raise further INR1,210 million till FY18. Also, according to management, UML has received around INR160 million in FY17 till date and is likely to receive around INR1,710m more by FY18 as a compensation for the coal mine deallocated in FY15 according to a Supreme Court order; however, the final amount is yet to be finalised.

Low EBITDA Margin: UML's EBITDA margin for 1HFY17 though improved to 13.64% (FY16: 9.1%; FY15: 16.6%) remained lower than FY15 levels and is not sufficient to meet the interest expense, reflecting weak credit metrics. Interest coverage improved to 0.83x in 1HFY17 (FY16: 0.6x; FY15: 1.2x) and net leverage declined to 8.8x (11.9x; 6x). However, the company met its interest payments through other non-operational cash flows including the sale of non-core assets during 1HFY17.

Increase in Coking Coal Prices may Impact EBITDA: The Negative Outlook reflects the likelihood of a negative impact on the company's profitability margins due to a surge in coking coal price to around USD290/tonne in November 2016 from the low levels of around USD75/tonne. However, according to management, they had planned to change the input mix in steel making to use more of sponge iron and reduce the proportion of hot metal along with reducing the sale of coke and billets to reduce the consumption of coking coal by around 50%. Further, the company has been negotiating with its customers for an increase in price, which if does not happen will lead to a significant decline in EBITDA and interest servicing capability.

Tight Liquidity: The company's use of the working capital facilities was nearly full during the 12 months ended November 2016. The company's liquidity would remain tight in the medium term on account of low EBITDA margins.

Crystallisation of Contingent Liability: UML has a contingent liability of around INR3,620m on account of disputed tax

and duty and Central Bureau of Investigation enquiry in respect of the sale of iron ore from its captive mines over FY06-FY10. According to management, the presence of a clause in mining lease authorises the company to dispose of iron ore/fines from its mine and an order from the Jharkhand High Court validates the same. However, Ind-Ra believes that any adverse court order will deteriorate UML's liquidity severely and put further pressure on the ratings.

RATING SENSITIVITIES

Positive: A significant increase in the EBITDA margin along with the receipt of other non-operational cash flow on a timely basis resulting in ease of liquidity pressure will lead to a Stable Outlook.

Negative: Any delay in the tie-up of balance funds or delays in receipt of the proceeds from the sale of non-core assets beyond June 2017 and/or inability to improve the EBITDA margins over the next two quarters indicating further stress on cash flow will result in a rating downgrade.

COMPANY PROFILE

Founded by the Kolkata-based Jhawar family, UML commenced operations in 1960. It is an integrated steel producer and has captive iron ore mines in Jharkhand.

UML's ratings:

- Long Term Issuer Rating: Downgraded to 'IND BBB-'; / Outlook Negative from 'IND BBB'/RWN
- INR38,807.5 million term loans (increased from INR30,450 million): downgraded to 'IND BBB-'; Outlook Negative from 'IND BBB'/RWN
- INR6,000 million fund-based working capital limits (reduced from INR8,000 million): downgraded to 'IND BBB-'; Outlook Negative from 'IND BBB'/RWN
- INR1,500 million long-term non-fund-based limits: downgraded to 'IND BBB-'; Outlook Negative from 'IND BBB'/RWN
- Proposed INR4,000 million bond: 'Provisional IND BBB'/RWN; rating withdrawn as the issuer is no longer proceeding with the instrument as envisaged
- Proposed INR3,150 million long-term loan (increased from INR2,100 million): downgraded to 'Provisional IND BBB-*'; Outlook Negative from 'IND BBB'/RWN

*The above ratings are provisional and shall be confirmed upon the sanction and execution of loan documents for the above facilities by UML to the satisfaction of India Ratings.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

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Rating Outstanding

(As on 22/Dec/2016)

Long Term Issuer Rating	IND BBB- / Negative	
Bond	WD	INR 4000 m
Fund Based Working Capital Limit	IND BBB- / Negative	INR 6000 m
Non-Fund Based Working Capital Limit	IND BBB- / Negative	INR 1500 m
Term loan	IND BBB- / Negative	INR 38807.5 m
Term loan	Provisional IND BBB- / Negative	INR 3150 m
Non-Fund Based Working Capital Limit	WD	INR 1500 m

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Rohit Sadaka

Associate Director

India Ratings and Research Pvt Ltd Room No. 1201, 12th Floor Om Towers 32, Chowringhee
Road Kolkata 700 071
+91 33 40302503

Secondary Analyst

Khushbu Lakhotia

Senior Analyst

+91 33 40302508

Committee Chairperson

Sreenivasa Prasanna

Senior Director

+91 44 43401711

Media Relation

Mihir Mukherjee

Manager Corporate Communications and Investor Relations

+91 22 40356121