

# Cloud over JSW Steel's acquisition

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JSW Steel's plans to acquire the coal company owned by Teck Resources, a Canada-based company, at a total valuation of \$8 billion have stalled as diplomatic relations between the two countries have deteriorated in the past few days.

The group firm was in talks with European and Japanese banks to raise funds for the acquisition, but the diplomatic standoff has come as a dampener, according to bankers close to the transaction.

"This event has certainly delayed, if not cancelled, the entire transaction," the banker said.

JSW Steel declined to comment on the transaction.

In August of this year, JSW Group Chairman Sajjan Jindal told the media that JSW Steel was looking to pick up a 40 per cent stake in the metallurgical coal unit of Teck Resources.

JSW Steel was to invest up to \$2 billion of its own money while seeking other partners to invest the rest. The transaction would have required a host of clearances from the Canadian and Indian governments, and any uncertainty is not favoured by investors, the banker said.

"No one knows when this standoff will end and what its implications will be. So everyone is currently pens-down on this deal," the source said.

Jindal said the Canadian company was producing a higher quality of raw material than what is available in India, which would be a very strategic fit for JSW Steel. However, since then, relations between India and Canada have deteriorated, and JSW is now rethinking its plans, the banker said.

JSW Steel was keen to acquire the company because the coal it produced was of very high quality compared to the coal available in India.

JSW Steel plans to increase its capacity to 50 million tonnes per annum by 2030 and wants to secure its raw material supplies. The company is also looking at alternative high-quality coal-producing mines in Australia.

Switzerland's Glencore plc is the other bidder for the entire coal company, with an offer of up to \$8.2 billion.

In February of this year, Teck Resources announced plans to reorganise its business into two separate publicly listed companies called Teck Metals Corp and Elk Valley Resources. Teck Resources

has housed its coking coal unit, used for steel making, under Elk Valley Resources and has invited bids for the unit.

JSW Group has built its empire by acquiring several steel assets in India, including Ispat Steel's unit in Maharashtra and Bhushan Power & Steel. The group is also in the race to acquire a majority stake in MG Motor India so that it can enter the electric vehicle segment in India.

Analysts at CreditSights had said the transaction would spur a moderate worsening in JSW's pro forma gross and net leverage to 3.65x and 3.35x, respectively, and had warned that this would breach Moody's and Fitch's downgrade rating triggers of 3.5x gross leverage.

Analysts had said they did not foresee any downgrade risk at this point as they expect the rating agencies to provide a longer runway for the cost savings to take effect for JSW Steel before any rating action.

"However, we acknowledge that this large acquisition (if successful) could hint at rising capital expenditure tendencies and induce some negative environmental, social, and governance investor sentiment," it said in a report in late August.

