Jindal Stainless (Hisar) Limited

July 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,869.33 (Reduced from 2,811.46)	CARE A+ (CWD) (Single A Plus) (Under Credit watch with Developing Implications)	Revised from CARE A- (Single A Minus); Continues to be on Credit watch with Developing Implications
Short Term Bank Facilities	2,150.00	CARE A1+ (CWD) (A One Plus) (Under Credit watch with Developing Implications)	Revised from CARE A2+ (A Two Plus); Continues to be on Credit watch with Developing Implications
Total Bank Facilities	**4,019.33 (Rs. Four Thousand Nineteen Crore and Thirty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Jindal Stainless (Hisar) Limited (JSHL) factors in higher-than-envisaged sales realizations and margins on the back of industry upcycle coupled with a persisting shift towards value-added products. Besides, a pick-up in overall sales volumes during H2FY21 (refers to the period from October 1 to March 31) at higher margins resulted in healthy profitability and faster than expected deleveraging of financial risk profile and improvement in liquidity position. CARE believes that, going forward, the company shall continue to report healthy sales volumes and spreads in the absence of any immediate signs of abatement of the industry upcycle, especially with the company garnering greater value from speciality grades. With the management demonstrating its focus on debt reduction, the company is expected to continue to deleverage its balance sheet as there are no major capex plans ahead. The ratings continue to derive strength from the experience of promoters and management in the stainless-steel industry, the long track record of operations of Hisar plant and its established and market leadership position in India with an emphasis on value-added products. The ratings, however, continue to remain constrained by susceptibility of the company's sales realizations and profit margins to volatility in raw material prices, foreign exchange fluctuations and the cyclicality inherent in stainless steel industry.

The ratings continue to remain on credit watch with developing implications consequent to the announcement of the proposed merger of JSHL with Jindal Stainless Limited (JSL). Going forward, CARE will monitor the developments in this regard and will take a view on the ratings once the regulatory formalities and merger process are completed. However, merger once completed is expected to result in an improvement in business and financial profile at group level supported by the industry-leading large scale of operations and better financial flexibility and liquidity position.

Rating Sensitivities

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

- Increase in sales volumes beyond 0.7 million tonnes per annum (MTPA) and PBILDT per tonne above Rs.17,000 on a sustained basis
- Improvement in overall gearing to below 0.8x and total debt/PBILDT below 2.0x on a sustained basis

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

- Decline in sales volumes below 0.50 MTPA and PBILDT per tonne below Rs.13,000
- Deterioration in overall gearing beyond 1.25x and total debt/PBILDT above 3.0x

Detailed description of the key rating drivers

Key Rating Strengths

Higher realizations and pick up in sales volumes: JSHL's blended sales realizations significantly improved to Rs. 1.45 lakh per MT in FY21 (PY: Rs. 1.35 lakh per MT) on the back of an increase in stainless steel prices and a better product mix with higher contribution from 300 series, 400 series and specialized products division (SPD). The company's focus on the sale of higher margin products and speciality steel led to improvement in operating profit margin from 11.35% in FY20 to 12.89% in FY21 despite the impact of covid-19 in H1FY21. The PBILDT per tonne significantly increased to Rs. 18,990 per tonne in FY21 (PY: RS. 15,945 per tonne). Furthermore, the PAT margin of JSHL improved from 3.80% in FY20 to 5.63% in FY21 on account of reduced interest expense owing to the reduction in the total debt. Going forward, CARE expects the company to maintain healthy PBILDT per tonne aided by a strong demand, better product-mix and the company's better ability to manage fluctuation in raw material pricing with increasing share of localized sourcing as against the imports.

Sizeable deleveraging: With higher capacity utilizations, better sales realization and consequent generation of healthy cash accruals, the company has been able to reduce its total debt (including acceptances) to Rs. 2,487 crore as on March 31, 2021 (PY: Rs. 2,885 crore). The continuous reduction in debt and accretion of profits to net worth has led to improved overall gearing of 1.09x as on March 31, 2021 (PY: 1.58x). While the current upcycle has been the most opportune time to deleverage the company's balance sheet, the management has remained focussed to bring down outstanding term loans to Rs. 1,101 crore as on June 20, 2021 (from Rs. 1,250 crore as on March 31, 2021 and Rs.1,929.03 crore as on March 31, 2020). Besides, the company has not envisaged any substantial debt-funded capex in the medium term except for capacity enhancement in SPD which would entail maximum incremental debt of Rs.94 crore only. The interest coverage ratio and the total debt-to-PBILDT ratio of the company improved to 4.65x and 2.27x as on March 31, 2021 (PY: 3.15x and 3.01x respectively) on account of its higher operating profit and reduced interest expense in line with the reduction in debt. Going forward, CARE expects the company's deleveraging to continue on the back of generation of healthy free cash flows.

Emphasis on value added products: JSHL is engaged in the production of all grades of stainless steel namely, 200-grade, 300-grade and 400-grade. The 200-grade finds application in utensils, kitchen appliances, tubes and pipes. The company also manufactures 300-grade, which finds application in railway coaches, high temperature applications, power plants and 400 grade, which finds application in razor blades, coins, automobiles and consumer durables. Furthermore, the company makes specialty stainless steel and other value-added products which yield relatively higher returns compared to other commoditized stainless-steel products. Over the past two years, the company has been increasing its focus on higher margin products such as 300-grade, 400-grade series and specialty stainless steel leading to higher profitability subsequent to which it is under process for capacity expansion of speciality steel division.

Impending merger of JSHL in JSL: The merger of JSL and JSHL will create one of the largest stainless-steel entity with a total capacity of 1.90 MTPA. Subsequent to the merger, the combined entity is expected to have more diversified operations, wider presence both domestically as well as globally, higher bargaining power with the suppliers and will become one of the top ten global stainless-steel manufacturers. Post-merger JSL will be a single entity with promoter holding of 57.12% fully diluted while the remaining will be held by public. Shareholders of JSHL shall be issued equity shares in the ratio of 1:1.95. Besides, CARE expects the merger is expected to bring in more financial flexibility to the group. Moreover, it will result in reduction in debt in JSL to the tune of Rs.1,050 crore as on March 31, 2021 being inter corporate deposits extended by JSHL to JSL and cancellation of cross guarantees and investments. The merger is subject to various approvals from statutory authorities and is expected to be completed by H2FY22 (refers to the period from October 1 to March 31). The company has received approval from stock exchange/SEBI in March, 2021 and first motion application file was filed with NCLT on March 17, 2021. Going forward, CARE will continue to monitor the developments in this regard and will take a review on the ratings once the merger formalities are completed and exact implications of the merger on the credit risk profile of the company are clear.

Experienced promoters and management with established track record of operations: JSHL is part of the Ratan Jindal group which has been in the stainless-steel industry for more than four decades. The promoters and promoter group companies held 57.67% stake in the company as on March 31, 2021. The company is currently managed by a board of directors including Mr. Abhyuday Jindal (Managing Director) and other professionals who have long standing experience in the industry. The group's Hisar plant was established in 1975 and has a long track record of profitable operations.

Key Rating Weaknesses

Exposure to raw material price volatility and forex fluctuation risk: The primary raw materials for the company are stainless steel (SS) scrap, nickel and ferrochrome ore, the prices of which remain volatile these being commodity products. The prices of nickel have continued to remain volatile, varying from $12,720 per MT to $17,580 per MT in the last one year. Any sharp increase in the raw material prices may adversely impact the margins of the company due to the time lag between procurement and passing on the same to the customers. SS scrap prices are determined by global demand supply dynamics, and discounts on nickel negotiated between scrap suppliers and stainless-steel mills in different geographies. The company is able to mitigate the raw material price volatility to some extent by increasing the proportion of value-added products in the product mix. As a net importer, JSHL remains exposed to foreign exchange risk, which is partly mitigated by hedging on both imports and exports – the company is exposed to the extent of its unhedged exposure. Nonetheless, the company earned foreign exchange gains of around Rs.40 crores during FY21 (PY: Rs.19 crore (gain)).

Cyclicality inherent in stainless steel industry: The stainless-steel industry moves closely with the business cycles including growth in the economy and seasonal changes in the demand-supply situations in the end-user segments. Apart from the domestic market, demand supply situations in global markets, especially in large commodity-producing and consuming countries such as China, has a significant bearing on the seaborne trade of stainless steel and volumes and margins of global industry players. Susceptibility to competition from imports and smaller domestic players specially in 200 grade series has led to decline in capacity utilization in the segment. However, for manufacturers like JSL and JSHL, the pervasive presence across the value chain and a higher share of value-added products, provide better protection against cyclicality and related fluctuations in prices of commoditized stainless-steel products.

Industry growth prospects: The demand for processed steel is a derived demand from major end user industries like pharmaceutical, automobile railways and transportation (ART), architectural building and construction (ABC) and consumer goods besides traditional uses in kitchenware. Stainless steel is one of the fastest growing metals among all ferrous and non-ferrous categories due to demand from development of new uses and steady demand from its traditional uses. The long-term growth prospects of the industry remain favourable due to significant scope in increasing per capita consumption. Furthermore, revocation of the anti-dumping duty (ADD) and countervailing duty (CVD) on certain steel products while reducing customs duty uniformly on semis, flat, and long products of non-alloy, alloy, and stainless steels from 10%-12.5% levels earlier along with reduction in import duty to nil on steel scrap is expected to support end user industries hit hard by sharp rise in steel prices. This may result in increase in imports from these countries to India and resultantly may have impact on volumes and realizations of domestic players. However, there has not been immediate surge in imports as of now as global prices are ruling higher. Moreover, the group is incrementally less susceptible to import threat as it has moved towards higher value-added segments while reducing the share of commoditized products in its product basket.

Liquidity: Adequate

JSHL has adequate liquidity marked by healthy cash accruals of Rs. 722 crore during FY21 (PY: Rs. 549 crore). The company further expects gross cash accruals of Rs. 928 crore against minuscule repayment obligations aggregating to Rs. 30 crore in FY22 (originally Rs.288cr which got reduced due to prepayments). The company has total capex of Rs. 151 crore in the current year for which will be funded through internal accruals of the company although it has undrawn capex debt of Rs94cr for SPD. The company generated healthy cash flows from operation of Rs. 1,275 crore in FY21 (PY: Rs. 692 crore) and working capital cycle remained well managed at 29 days as on March 31, 2021 (PY: 29 days). Healthy cash flow from operations and low working capital cycle reduces the fund based working capital requirement as a result of which the average working capital utilization of the company stood at ~37% for the trailing 12 months ended April, 2021.

Analytical approach:

Standalone along with factoring linkages with Jindal Stainless Limited (JSL) in the form of common promoters, shared resources, presence of cross corporate guarantees for the debt availed by the two companies and extension of inter-corporate deposit of Rs.1,050 crore in the past by JSHL to JSL as on March 31, 2021. JSHL and JSL are listed entities and have been self-sufficient in meeting their respective financial obligations.

Applicable Criteria

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

About the Company

Jindal Stainless (Hisar) Limited is one of the largest domestic stainless-steel producers with steel melting capacity of 0.80 MTPA as on March 31, 2021. The company's manufacturing facilities are located at Hisar (Haryana). It also has a ferro alloys manufacturing facility located at Vishakhapatnam (Andhra Pradesh) and a captive chromite mine located at Odisha. JSHL is engaged in production of standard and specialty stainless steel which are high value-added products including precision strips and defence products.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	8435.47	8492.13
PBILDT	957.73	1095.01
PAT	320.33	477.76
Overall gearing (times)	1.58	1.09
Interest coverage (times)	3.15	4.65

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	2150.00	CARE A1+ (CWD)
Fund-based - LT-Cash Credit	-	-	-	700.00	CARE A+ (CWD)
Fund-based - LT-Term Loan	-	-	July, 2027	1169.33	CARE A+ (CWD)

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.	Non-fund-based - ST-BG/LC	ST	2150.00	CARE A1+ (CWD)	-	1)CARE A2+ (CWD) (08-Jan-21) 2)CARE A2+ (15-Sep-20)	1)CARE A2+ (30-Aug-19)	1)CARE A2+ (25-Jul-18)
2.	Fund-based - LT-Cash Credit	LT	700.00	CARE A+ (CWD)	-	1)CARE A- (CWD) (08-Jan-21) 2)CARE A-; Stable (15-Sep-20)	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)
3.	Fund-based - LT-Term Loan	LT	1169.33	CARE A+ (CWD)	-	1)CARE A- (CWD) (08-Jan-21) 2)CARE A-; Stable (15-Sep-20)	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Ajay Dhaka
Contact no. - +91-11-45333218
Email ID- ajay.dhaka@careratings.com

Business Development Contact
Ms. Swati Agrawal
Contact no. - +91-11-4533 3200
Email ID- swati.agrawal@careratings.com

About CARE Ratings:
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