Jindal Stainless Limited (Revised)

July 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities (1)	-	-	Revised to CARE A (Single A) from CARE BBB+ (Under Credit watch with Developing Implications) (Triple B Plus) (Under Credit watch with Developing Implications) and Withdrawn
Long Term Bank Facilities (2)	-	-	Withdrawn
Short Term Bank Facilities (3)	-	-	Revised to CARE A1 (A One) from CARE A2 (Under Credit watch with Developing Implications) (A Two) (Under Credit watch with Developing Implications) and Withdrawn
Total Bank Facilities	**0.00 (Rs. Only)**		
Non-convertible Debentures (4)	**-**	-	Withdrawn
Total Long-Term Instruments	**0.00 (Rs. Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has withdrawn the long-term rating(s) assigned to the bank instruments (4) and bank facilities (2) of Jindal Stainless Limited (JSL) with immediate effect, as the company has repaid the long-term instruments/facilities rated by CARE and there is no amount outstanding under the facility as on date.

CARE has revised the ratings assigned to the bank facilities of JSL from CARE BBB+ (Under Credit watch with Developing Implications)/ CARE A2 (Under Credit watch with Developing Implications) to CARE A (Under Credit watch with Developing Implications)/ CARE A2 (Under Credit watch with Developing Implications) and has simultaneously withdrawn the ratings with immediate effect. The above action has been taken at the request of JSL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The revision in the ratings assigned to bank facilities of JSL factor in higher-than-envisaged sales realizations on the back of industry upcycle coupled with shift towards value-added products. The ratings also factor in a pick-up in overall sales volumes and improved margins during H2FY21 (refers to the period from October 1 to March 31), resulting in healthy profitability, which in turn has facilitated a faster-than-expected deleveraging of financial risk profile and improvement in liquidity position of the company. CARE believes that, in the foreseeable future, the company shall continue to report healthy sales volumes and spreads in the absence of any immediate signs of abatement of industry upcycle, especially with its increased focus on value-added grades. With stable cash accruals, the company is expected to continue to deleverage its balance sheet in the absence of any major capex plans. The ratings continue to derive strength from the extensive experience of the promoters and the management of operating in the stainless-steel industry through several cycles, the leadership position of the group in Indian stainless steel *industry and its diversified customer base, with sizable exports presence, combined 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 the stainless-steel industry.*

Furthermore, the ratings continued to remain on credit watch with developing implications consequent to announcement of proposed merger of Jindal Stainless (Hisar) Limited (JSHL) with JSL. 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.

Detailed description of the key rating drivers

Key Rating Strengths

Higher realizations and pick up in sales volume: JSL's blended sales realization significantly improved to Rs. 1.42 lakh per MT in FY21 (PY: Rs. 1.32 lakh per MT) on the back of strong demand buoyed from different industries and better product mix with higher contribution from the 300 series. The increase in commodity prices such as nickel also contributed to the increased price of finished goods. However, JSL reported 5% y-o-y decline in total operating income from Rs. 12,346 crore in FY20 (refers to the period from April 1 to March 31) to Rs. 11,721 crore in FY21 on account of a subdued demand during Q1FY21 (refers to the period from April 1 to June 30) due to the impact of Covid-19 in the first half of the year. However, a strong recovery in demand after the Covid-19 first wave waned off and a better product mix led to an improvement in operating profit margin from 9.72% in FY20 to 12.27% in FY21. The PBILDT per tonne significantly increased to Rs. 17,432 per tonne (PY: Rs. 13,103 per tonne). Besides, the PAT margin of JSL improved significantly from 1.24% in FY20 to 3.65% in FY21 on account of reduced interest expense, which was in line with the reduction in total debt. Going forward, CARE expects the company to maintain healthy PBILDT per tonne aided by the strong demand for its products, a better product mix and an improved capability to manage fluctuation in raw material pricing with increasing share of localized sourcing as against 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. 4,440 as on March 31, 2021 (Rs. 5,187 as on March 31, 2020). The continuous reduction in debt and accretion of profits to net worth has led to improved overall gearing of 1.42x as on March 31, 2021 (1.94x as on March 31, 2020). 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. 1,403 crore as on June 20, 2021 (from Rs. 1,530 crore as on March 31, 2021). Furthermore, the company has envisaged capex expenditure of Rs. 2,500 crore for the expansion of its current capacity over a period of the next 3 years which is likely to be funded largely through internal accruals of the company. The interest coverage ratio and total debt-to-PBILDT of the company improved to 3.10x and 3.09x in FY21 (PY: 2.12x and 4.23x respectively) on account of higher operating profit and reduced interest expense, which was in line with the reduction of overall 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 with sizable exports presence: JSL manufactures a wide range of stainless-steel products – plates, hot rolled annealed pickled (HRAP) coils and cold rolled annealed pickled (CRAP) coils – for various commercial and industrial applications. During FY21, the company increased its focus on higher margin products such as 300-grade series leading to higher profitability. In terms of geographical diversity, the company has a presence both in Indian and international markets, with exports contributing to 19% of total operating income in FY21.

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. The 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 due to cancellation of inter corporate deposits extended by JSHL to JSL and cancellation of cross guarantees and investments. The merger is subject to 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, established track record and dominant market position: JSL, established in 1980, is promoted by Mr. Ratan Jindal, who has more than three decades of experience in the stainless-steel industry. The company has had a long track record of successfully operating in the stainless-steel industry and is currently managed by the board of directors including Mr. Ratan Jindal who is supported by his son Mr. Abhyuday Jindal and other professionals who have long-standing experience in the industry. Its management team has played a key role in establishing its position as one of the country's largest and most diverse suppliers of stainless steel. The company, along with JSHL, will have an overall steel melting capacity of 1.90 MTPA at group level post-merger and accounts for more than 50% of the total stainless steel produced in India. JSL along with JSHL is amongst the largest stainless-steel producers in the world and enjoys cost competitiveness on account of its integrated nature of operations and presence in value-added products.

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 continued the trends of previous year and remained volatile in the range of $12,720- $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. As a net importer, JSL 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. 99 crores during FY21 (PY: Rs. 8 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. 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

JSL has adequate liquidity marked by healthy cash accruals of Rs. 1074 crore during FY21 (PY: Rs. 653 crore). The company is expected to generate gross cash accruals of Rs. 1,400 crore against minuscule repayment obligations aggregating to Rs. 34 crore in FY22 (original scheduled repayment of Rs. 314 crore which got reduced due to prepayments). The company has total capex of Rs. 959 crore in the current year out of which Rs. 800 crore is towards the expansion of existing capacity which will be funded largely through internal accruals of the company. The company generated healthy cash flows from operation of Rs. 1,203 crore in FY21 (PY: Rs. 692 crore) and working capital cycle remained well managed at 25 days as on March 31, 2021 (PY: 19 days). Healthy CFO 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 low at ~45% for the trailing 12 months ended May, 2021.

Analytical approach:

Standalone along with factoring linkages with Jindal Stainless (Hisar) Limited (JSHL) 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
Policy on Withdrawal of ratings

About the Company

Jindal Stainless Limited is one of the largest domestic stainless-steel producers with steel melting capacity of 1.10 Million tonne Per Annum (MTPA) as on March 31, 2021. The company's manufacturing facilities are located at Jajpur (Odisha). It has captive thermal power plant (264 MW), captive ferro chrome facilities (0.25 MTPA), stainless steel melting, rolling mill (CR with 0.45 MTPA) and downstream value-added facilities (for various commercial and industrial applications). The company manufactures stainless steel slabs and hot rolled/cold rolled coils and sheets.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	12345.53	11721.44
PBILDT	1200.24	1438.15
PAT	152.88	427.92
Overall gearing (times)	1.94	1.42
Interest coverage (times)	2.12	3.10

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	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		-	-	March, 2027	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-External Commercial Borrowings		-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE220G07085	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

	Name of the	Current Ratings	Rating history

Sr. No.	Instrument/Bank Facilities	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.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A2 (CWD) (08-Jan-21) 2)CARE A3+ (28-Aug-20)	1)CARE A3 (30-Aug-19)	1)CARE A3 (27-Mar-19) 2)CARE A3 (08-Jun-18)
4.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)

5.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)
6.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	-

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.	Debentures-Non Convertible Debentures	Simple
4.	Fund-based - LT-External Commercial Borrowings	Simple
5.	Non-fund-based-Short Term	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.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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