Jindal Stainless (Hisar) Limited

January 08, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	2,811.46	CARE A- (Under Credit watch with Developing Implications) (Single A Minus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	2,150.00	CARE A2+ (Under Credit watch with Developing Implications) (A Two Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**4,961.46 (Rs. Four Thousand Nine Hundred Sixty-One Crore and Forty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Jindal Stainless (Hisar) Limited (JSHL) on credit watch with developing implications on account of the recent announcement of merger of JSHL with Jindal Stainless Limited (JSL, rated CARE BBB+; Under credit watch with developing implications/CARE A2). 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

The ratings assigned to the bank facilities of Jindal Stainless (Hisar) Limited (JSHL) continue to derive strength from the experience of promoters and management in stainless steel industry, long track record of operations of Hisar plant, its established market position and diversified end user industries with an emphasis on value-added products. The ratings also take cognizance of better than envisaged recovery in expected operational performance during 9MFY21 (refers to the period April 01 to December 31) and reduction in total debt due to prepayment of term loans, thereby resulting in improvement in the debt coverage metrics of the company. Going forward, the growing sales volumes and higher realizations supported by steady demand, existence of duties on imports from China and other countries and the recent imposition of interim countervailing duties on imports of stainless steel from Indonesia are expected to result in better profitability and accruals during H2FY21 (Refers to the period: October 01 to March 31). These rating strengths are, however, partially offset by the susceptibility of the company's sales realizations and profit margins to volatility in raw material prices, foreign exchange fluctuations and cyclicality inherent in stainless steel industry. Besides, the persistence of the countervailing duties on Indonesian imports for an extended period shall remain a key monitorable.

Rating Sensitivities

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

- Increase in sales volumes beyond 0.70 MTPA and PBILDT per MT above Rs.16,000 on sustained basis
- Improvement in overall gearing to below 1.0x and total debt/PBILDT below 2.5x on sustained basis

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

- Decline in production volumes below 0.50 MTPA and PBILDT per tonne below Rs.13,000
- Deterioration in overall gearing beyond 2.0x and total debt/PBILDT above 4.0x

Detailed description of the key rating drivers

Key Rating Strengths

Better than envisaged recovery in operational performance: After a subdued operational performance in Q1FY21 (refers to the period of April 1 to June 30) due to covid-19 led disruptions, the company has witnessed substantial increase in sales volumes in Q2FY21 leading to a total sales volume of 2.03 lakh MT in H1FY21 (FY20: 6.01 lakh MT and H1FY20: 2.95 lakh MT). The company reported total operating income of Rs.2,891cr during H1FY21 (FY20: Rs.8,435cr and H1FY20: Rs.4,118cr) with

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

average sales realizations of Rs.1,42,414/MT (FY20: Rs.1,40,349/MT and H1FY20: Rs.1,39,593/MT). Further, CARE expects strong growth in sales and production till December 2020.During H1FY21, PBILDT/MT increased to Rs.16,497/MT (FY20: Rs.15,936/MT and H1FY20: Rs.17,937/MT) in the backdrop of improved realizations and better than expected recovery in demand post lockdown. With the imposition of interim countervailing duties (CVD) on stainless steel imports from Indonesia from October 9, 2020, the realizations and PBILDT/MT have improved further. Going forward the imposition of final CVD is likely to benefit the company's profitability in terms of sustaining its sales growth and PBILDT/MT at envisaged level, and hence remain a key monitorable.

Significant deleveraging of financial risk profile: JSHL's overall gearing improved as on September 30, 2020, however, stood moderate at 1.51x (March 31, 2020: 1.59x). JSHL's total debt (including acceptances) reduced from Rs.2,833 crore as on March 31, 2020 to Rs.2,874 crore as on September 30, 2020. Further, the company has made substantial prepayments of long term debt aggregating to the scheduled repayments of FY21 and FY22 due to which the expected overall gearing as on March 31, 2021 stands at 1.21x. As on December 31, 2020, the long term debt stood at Rs.1,672 crore as against Rs.1,929 crore as on March 31, 2020. The total debt to GCA and total debt to PBILDT are expected to be better as on March 31, 2021 at 3.86x and 2.76x respectively (5.25x and 3.01x respectively as on March 31, 2020) since the scheduled repayments for FY21 have already been made and the demand is expected to remain steady for H2FY21.

Impending merger of JSHL in JSL: The board of directors of JSHL and JSL has approved the proposed all-equity merger of the two entities which will be effective from April 1, 2020. Post-merger JSL will be a single entity with promoter holding of 57% while the remaining will be held by public. Shareholders of JSHL shall be issued equity shares in the ratio of 1:1.95. 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.900 crore due to cancellation of inter corporate deposits extended by JSHL to JSL. The merger is subject to approvals from statutory authorities and is expected to be completed by H2FY22. 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: Jindal Stainless (Hisar) Limited (JSHL) is part of the Ratan Jindal group which has been in the stainless-steel industry for more than two decades. The promoters and promoter group companies held 57.67% stake in the company as on June 30, 2020. 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. The plant has a capacity of 0.8 metric ton per annum (MTPA) as on June 30, 2020 and together with Jindal Stainless Ltd (JSL – rated CARE BBB; Stable/ CARE A3+), the group has a strong market share in the Indian stainless steel industry with aggregate capacity of 1.90 MTPA making it amongst the largest stainless steel producers in the world.

Diversified end user industries and 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, pipes, etc. 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. The company also makes speciality stainless steel and other value-added products which yield relatively higher returns compared to other commoditized stainless-steel 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 $11,858- $17,540 per MT in the last one year, while the prices of SS scrap and ferrochrome declined steadily throughout FY20. 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. Similarly, since the company largely procures chrome ore externally from a large player, it is susceptible to upward movements in chrome prices. 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 (around 9% of the outstanding trade payables as on March 31, 2020). Nonetheless, the company earned foreign exchange gains of around Rs.19 crore during FY20 (PY: gain of around Rs.32 crore).

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 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. From year 1999 to 2019, the demand for stainless steel has grown at a CAGR of 8.10%. While the SS consumption is likely to dip in FY21 due to covid-19 related lockdowns, the long-term growth prospects of the industry remains favorable due to significant scope in increasing per capita consumption. Furthermore, domestic SS industry enjoys a level playing field with CVD being in place from Imports from China and Vietnam and recently imposed interim CVD on imports from Indonesia is further expected to provide a level playing field to domestic players against sharply rising imports from FTA nations.

Liquidity: Adequate

JSL has adequate liquidity characterized by expected cash accruals of around Rs.665 crore during FY21 against which it had repayment obligations of Rs. 140 crore in FY21. The repayments scheduled for FY21 have already been paid while scheduled repayments of FY22 have been partially paid. The company had free cash balance of around Rs.1 crore as on September 30, 2020 (Rs.7 cr as on March 31, 2020). Its capex requirements for maintenance/sustenance are modular and expected to be funded using internal accruals. The average unused limits in fund-based facilities to the extent of 60% enable the company to meet any fluctuations in cash flows in any adverse market scenarios. The company has availed moratorium extended by banks on both term debt and working capital limits.

Analytical approach: Standalone after factoring in linkages with Jindal Stainless (Hisar) Limited in the form of a common management, shared resources, cross-corporate guarantee extended by JSHL and JSL for their respective bank facilities and presence of inter corporate deposit of Rs.900 crore extended by JSHL to JSL which has flexible payment terms on interest and principal.

Applicable Criteria

Criteria on assigning Outlook and credit watch
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Rating Methodology-Steel Industry
Rating Methodology: Notching by factoring linkages in Ratings

About the Company

Jindal Stainless (Hisar) Limited is one of the largest domestic stainless steel producers with steel melting capacity of 0.80 Million tonne Per Annum (MTPA) as on June 30, 2020. 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 defense products.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	9049	8435
PBILDT	993	957
PAT	262	320
Overall gearing (times)	2.05	1.58
Interest coverage (times)	2.86	3.15

A: Audited

Status of non-cooperation with previous CRA: Nil

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 A2+ (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	700.00	CARE A- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	March 2027	2111.46	CARE A- (Under Credit watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	2150.00	CARE A2+ (Under Credit watch with Developing Implications)	1)CARE A2+ (15-Sep-20)	1)CARE A2+ (30-Aug-19)	1)CARE A2+ (25-Jul-18)	1)CARE A2 (14-Nov-17)
2.	Fund-based - LT-Cash Credit	LT	700.00	CARE A- (Under Credit watch with Developing Implications)	1)CARE A-; Stable (15-Sep-20)	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)	1)CARE BBB+; Stable (14-Nov-17)
3.	Fund-based - LT-Term Loan	LT	2111.46	CARE A- (Under Credit watch with Developing Implications)	1)CARE A-; Stable (15-Sep-20)	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)	1)CARE BBB+; Stable (14-Nov-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: None

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

Sr No	Name of instrument	Complexity level
1	Fund Based – LT-Term Loan	Simple
2	Fund-based-LT-Cash credit	Simple
3	Non-fund-based-Short-term 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.*

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