Jindal Stainless Limited

January 08, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities	2,457.49	CARE BBB+ (Under Credit watch with Developing Implications) (Triple B Plus) (Under Credit watch with Developing Implications)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable); Placed on Credit watch with Developing Implications
Short Term Bank Facilities	3,600.00	CARE A2 (Under Credit watch with Developing Implications) (A Two) (Under Credit watch with Developing Implications)	Revised from CARE A3+ (A Three Plus); Placed on Credit watch with Developing Implications
Total Bank Facilities	**6,057.49 (Rs. Six Thousand Fifty-Seven Crore and Forty-Nine Lakhs Only)**		
Non Convertible Debentures	97.68	CARE BBB+ (Under Credit watch with Developing Implications) (Triple B Plus) (Under Credit watch with Developing Implications)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable); Placed on Credit watch with Developing Implications
Total Long Term Instruments	**97.68 (Rs. Ninety-Seven Crore and Sixty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/debt instrument of Jindal Stainless Limited (JSL) factors in 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. The company's overall gearing improved to 1.65x as on September 30, 2020 from 1.94x as on March 31, 2020. 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).

The ratings continue to derive strength from the extensive experience of the promoters and the management having a considerable track record in the stainless steel industry, the dominant position of the group in Indian stainless steel with an overall market share of nearly 50 per cent and its diversified customer base with an emphasis on value-added products. These rating strengths are, however, tempered by the susceptibility of its realizations and margins to volatility in raw material prices and foreign exchange rates 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.

Furthermore, CARE has placed the ratings assigned to the bank facilities and debt instruments of Jindal Stainless Limited (JSL) on credit watch with developing implications on account of the recent announcement of merger of Jindal Stainless (Hisar) Limited (JSHL, rated CARE A- and CARE A2+; placed on credit watch with developing implications) with JSL. Going forward, CARE will monitor the developments in this regard and will take a view 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.

Rating Sensitivities

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

- Ability to report production volumes above 1 MTPA and PBILDT per tonne above Rs.15,000 on a sustained basis
- Improvement in overall gearing to below 1.2x and total debt/PBILDT below 3.0x on sustained basis

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

- Decline in production volumes below 0.75 MTPA and PBILDT per tonne below Rs.12,000

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

- Deterioration in overall gearing beyond 1.5x 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 3.19 lakh MT in H1FY21 (FY20: 9.16 lakh MT and H1FY20: 4.55 lakh MT). The company reported total operating income of Rs.4,418cr during H1FY21 (FY20: Rs.12,320cr and H1FY20: Rs.6,237cr) with average sales realizations of Rs.1,38,495/MT (FY20: Rs.1,34,498/MT and H1FY20: Rs.1,37,077/MT). During H1FY21, PBILDT/MT increased to Rs.14,107/MT (FY20: Rs.13,100/MT and H1FY20: Rs.14,242/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 margin at envisaged levels, and hence remain a key monitorable. Further, CARE expects strong growth in operational performance in Q3FY21.
Significant deleveraging leading to improvement in capital structure: JSL's overall gearing improved as on September 30, 2020, however, stood moderate at 1.65x (March 31, 2020: 1.94x). JSL's total debt (including acceptances) reduced from Rs.5,111 crore as on March 31, 2020 to Rs.4,459 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 expected to be at ~1.40x. As on December 31, 2020, the long-term debt (excluding ICD from JSHL) stood at Rs.1,681 crore as against Rs.2,358 crore as on March 31, 2020. JSL's interest coverage ratio stood comparatively better at 1.77x during H1FY21 as compared to 2.12x in FY20. The total debt to GCA and total debt to PBILDT are expected to be better as on March 31, 2021 at ~5.00x and ~3.30x respectively since the scheduled repayments for FY21 have been made and the demand of stainless steel is expected to remain steady for H2FY21.
Impending merger of JSHL in JSL: The Board of Directors of JSHL and of JSL have approved the proposed all-equity merger of the two entities appointed date being 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 with a reduction in debt levels of 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 promoter and management: JSL is promoted by Mr. Ratan Jindal, who has more than three decades of experience in the stainless steel industry. The company 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. Further, the promoters have infused Rs.54 crore in form of equity during H1FY21.
Long track record with dominant market position in domestic stainless steel industry: Jindal Stainless, established in 1980, has a long track record of successfully operating in the stainless steel industry. The company, along with Jindal Stainless (Hisar) Limited (JSHL), has a steel melting capacity of 1.90 MTPA at group level and account 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 due to its integrated nature of operations and presence in value added products.
Exit from corporate debt restructuring to boost financial flexibility: JSL made a successful exit from corporate debt restructuring (CDR) considering consistent performance better than projection (calculated in CDR) and by redemption of optionally convertible preferential shares (OCRPS) of around Rs.558 crore and paying the recompense liability amounting to Rs.275 crore (Rs.221 crore on OCRPS and Rs.54 crore on CDR loans). The CDR exit is expected to provide both financial and operational flexibility to the company as the company can now seek diversified sources to fund its growth plans.
Diversified customer base with emphasis on value added products: JSL manufactures a wide range of stainless steel products – across plates, hot rolled annealed pickled (HRAP) coils and cold rolled annealed pickled (CRAP) coils – for various commercial and industrial applications. In terms of geographical diversity, the company has presence both in Indian and international markets, with domestic and export sales contributing 79% and 21% respectively in terms of sales volume in FY20.
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; being commodity products, their prices remain volatile. 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 course of last one year, while the prices of SS scrap and ferrochrome decreased steadily throughout FY20 which off-set the reduction in sales realizations. However, 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, 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 (around 22% of the outstanding trade payables). Nonetheless, the company earned foreign exchange gains of around Rs.23 crore during FY20 (PY: gain of around Rs.43 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 wide 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.828 crore during FY21 against which it had repayment obligations of Rs. 488 crore in FY21. The company's prepayments till January 1, 2021 have already exceeded the scheduled debt repayments for FY21 and FY22. The company had free cash balance of around Rs.13 crore as on September 30, 2020 (Rs.16 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 38% enable the company to meet any fluctuations in cash flows in any adverse market scenarios. The company had 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 Limited is one of the largest domestic stainless steel producers with steel melting capacity of 1.10 Million tonne Per Annum (MTPA) as on June 30, 2020. 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)	FY19 (A)	FY20 (A)
Total operating income	12,605	12,346
PBILDT	1,157	1,200
PAT	139	153
Overall gearing (times)	2.30	1.94
Interest coverage (times)	1.88	2.12

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	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	1440.15	CARE BBB+ (Under Credit watch with Developing Implications)
Non-fund-based-Short Term		-	-	-	3600.00	CARE A2 (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit		-	-	-	741.00	CARE BBB+ (Under Credit watch with Developing Implications)
Fund-based - LT-External Commercial Borrowings		-	-	November 2020	276.34	CARE BBB+ (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	INE220G07085	June 30, 2009	9.85% p.a.	March 2022	97.68	CARE BBB+ (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.	Debentures-Non Convertible Debentures	LT	97.68	CARE BBB+ (Under Credit watch with Developing Implications)	1)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)	1)CARE BB+; Stable (15-Mar-18) 2)CARE C; Stable (11-May-17)

2.	Fund-based - LT-Term Loan	LT	1440.15	CARE BBB+ (Under Credit watch with Developing Implications)	1)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)	1)CARE BB+; Stable (15-Mar-18) 2)CARE D (11-May-17)
3.	Non-fund-based-Short Term	ST	3600.00	CARE A2 (Under Credit watch with Developing Implications)	1)CARE A3+ (28-Aug-20)	1)CARE A3 (30-Aug-19)	1)CARE A3 (27-Mar-19) 2)CARE A3 (08-Jun-18)	1)CARE A4+ (15-Mar-18) 2)CARE D (11-May-17)
4.	Debt-Subordinate Debt	LT	-	-	-	-	-	1)Withdrawn (15-Mar-18) 2)CARE D (11-May-17)
5.	Fund-based - LT-Cash Credit	LT	741.00	CARE BBB+ (Under Credit watch with Developing Implications)	1)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)	1)CARE BB+; Stable (15-Mar-18) 2)CARE D (11-May-17)
6.	Fund-based - LT-External Commercial Borrowings	LT	276.34	CARE BBB+ (Under Credit watch with Developing Implications)	1)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)	1)CARE BB+; Stable (15-Mar-18) 2)CARE C; Stable (11-May-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 the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-External Commercial Borrowings	Simple
4.	Fund-based - LT-Term Loan	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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