JINDAL STEEL ODISHA LIMITED

January 10, 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	15,727.00 (Reduced from 15,728.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total bank facilities	**15,727.00 (₹ Fifteen thousand seven hundred twenty-seven crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Jindal Steel Odisha Limited (JSOL) derives strengths from the company's strong parentage viz. Jindal Steel & Power Limited (JSPL, rated CARE AA-; Stable/ CARE A1+) with strong operational, financial and management linkages between the two entities, JSPL management's articulation of unconditional and continued support to be provided to JSOL including a corporate guarantee extended by JSPL for JSOL's project debt for a period of up to 2 years of satisfactory performance post the date of commencement of commercial operations (COD). CARE believes that project being implemented in JSOL has high strategic importance and economic incentive for JSPL with consolidated liquid steel capacity getting expanded considerably from 9.6 million tonnes per annum (MTPA) to 15.6 MTPA by FY25, while finished steel capacity will get enhanced from 6.5 MTPA to 14.5 MTPA. CARE expects JSOL to benefit considerably from JSPL's strong project execution capability and usage of various common infrastructure facilities, utilities and already developed land for setting up an integrated steel plant thereby resulting in optimal estimated project cost of nearly ₹22,500 crore. The rating also factors in the implementation of the various facilities under the project being taken up in a staggered manner and JSOL's stated strategy to tie-up with well-established technological partners and suppliers for supply of critical equipment. The above rating strengths are, however, tempered by the initial stage of project execution with inherent time and cost overrun risk in such large steel projects, post implementation and ramping up risks, susceptibility of profit margins to volatility in raw material prices and the cyclical nature of the steel industry. Further, CARE has noted that the environmental clearance (EC) / consent to establish (CTE) for the pellet plant of 5 MTPA and hot strip mill plant of 3.1 MTPA which were earlier received by JSPL were transferred from JSPL to JSOL and both the capacities will become operational by FY23 and H1FY24, respectively. CARE also notes that though there has been a delay in EC/CTE for the remaining part of the project, the company has not revised the overall COD of the project which remains April-2025, as the remaining clearances are expected to be received in FY23.

Rating sensitivities

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

- Satisfactory progress, timely completion and economical ramping up of operations
- Substantial reduction in project debt post COD
- Continued strong linkages with JSPL and improvement in the credit profile of JSPL

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

- Significant time and cost overrun in the project
- Slow ramping up post-implementation and resultantly lower than envisaged revenues and accruals
- Weakening of linkages with JSPL and deterioration in the credit profile of JSPL

Detailed description of the key rating drivers

Key rating strengths

Strong parentage: JSOL is promoted by JSPL, which is a part of the Naveen Jindal group, and was constituted in April-1998 by hiving-off the Raigarh and Raipur manufacturing facilities of Jindal Strips Limited (JSL) into a separate company and, therefore, has a long track record of operations. Mr Naveen Jindal (Chairman) holds an experience of around 30 years in the steel and power business. Mr Jindal is supported by Mr Bimlendra Jha, Managing Director. Further, the top management of the company is supported by a team of highly qualified professionals. JSPL reported improved operational performance marked by PBILDT/tonne of ₹19,520 per tonne in FY22 (PY: ₹19,085) (refers to the period from April 1 to March 31) owing to strong sales realisations. However, the same moderated to ₹11,988 per tonne in H1FY23, compared to ₹24,521 achieved in H1FY22, owing to the normalisation in the industry upcycle globally and the imposition of export duty by the Government of India (GoI),

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

resulting in lower realisations. The overall gearing of JSPL stood comfortable at 0.48x, as on September 30, 2022 (0.50x as on March 31, 2022). JSPL is expected to provide continued operational, management and financial support to JSOL including a corporate guarantee up to 2 years of satisfactory performance post-COD as per the covenants to be stipulated for the project debt.

High economic incentive and strategic importance of JSOL: JSPL has embarked upon capacity expansion through setting up a newly incorporated wholly owned subsidiary- JSOL. The capacities being set up in JSOL (6 MTPA liquid steel and 8 MTPA finished steel) are equally large as compared to existing total capacity of JSPL (9.6 MTPA liquid steel and 6.5 MTPA finished steel) and both the entities are expected to have significant operational linkages in terms of sourcing of power, raw materials and semi-finished products besides expected synergies in procurement of raw materials and marketing of finished products. CARE believes that JSOL is merely an extension of JSPL's core steel business operations and it is expected that former shall continue to be a wholly owned subsidiary of JSPL. Nonetheless, continuity of JSPL's timely support to JSOL in project execution phase and thereafter shall be critical from the credit perspective and hence it will remain a key monitorable.

Staggered implementation of project facilities: The implementation schedule of the project has been developed based on the quantum of work, expected delivery and time required for installation of various plants and equipment, and with the objective of optimizing the overall project construction and commissioning time frame. The project is planned to be implemented in a modular manner wherein a part of the pellet capacity (6 MTPA) will become operational in FY23 and slab caster and hot strip mill (3.5 MTPA) will be installed by H1FY24. The remaining portion of pellet capacity, coke oven, blast furnace and SMS is planned to get installed by April 1, 2024, while DRI, EAF and thin slab casting facility is planned to get commissioned by April 1, 2025 which is the planned COD of the complete project. The company has incurred a total cost of approximately ~₹7,116 crore till November 30, 2022 by way of equity infusion from JSPL and Capex LC issued on behalf of JSPL. SBI has underwritten the entire project debt of ₹15,727 crore (with minimum hold portion of ₹5,000 crore) to JSOL and 8 other banks have participated in the project financing as a part of the down selling by SBI. Further, timely clearances and debt disbursement at envisaged terms shall remain key monitorable.

Tie-up with reputed and established suppliers: JSOL is implementing the project under a multi-contract strategy for different process units/packages. For each component of plant facilities, the company is entering into multiple split contracts with technology partners for design, supply, erection, commissioning and servicing. The company will monitor the construction and interface among various plant facilities through an in-house project management team, leveraging the vast experience of the project management team of JSPL in implementing and operating the integrated steel plants in India. In-house steel structure division will help in supplying all fabricated steel structures required for the project as and when required. JSOL has tied up with reputed technology partners such as SMS Group, Germany for Hot Strip Mill (HSM), Metso Outotec, USA for pellet plant, Daniele, Italy for slab caster, and CISDI Engineering Co., China for the blast furnace

<u>Key rating weaknesses</u>

Inherent time overrun and cost overrun risk: The total project cost is expected to be ~₹22,468 crore. The debt equity proportion of the project in the base case is expected to be 70:30 (₹15,727 debt and remaining through equity from JSPL). The project is being executed in a staggered manner and shall be fully completed by April 1, 2025. As the project is at the initial stage of implementation, the company is exposed to the risk of time overrun and cost overrun customary to such large sized steel projects. However, the company has a built-in contingency of 5% of the estimated project model to take care of any cost overrun. The company has received the EC/CTE for the pellet plant of 5 MTPA and HSM of 3.1 MTPA which was transferred from JSPL to JSOL. Further, the company has applied for the pending environmental clearance and consent to establish and the same is under process for approval. JSPL's strong project execution capability with track record of completing various power and steel projects on time lends comfort.

Susceptibility of profit margins to volatility in raw material prices: Post COD, the company will partially be dependent on third-party suppliers for both the key raw materials, viz., iron ore and coking coal. The coking coal requirement will largely be met through imports whereas iron ore will be procured from mines in Odisha including captive mines of JSPL. These raw materials have shown a volatile trend in prices over the years. The volatility in prices of raw materials is bound to impact the profitability of steel players including JSOL. The company's basic steelmaking process involves a mix of DRI and blast furnace capacities which provide some flexibility during times of high coking coal prices. Additionally, the company has secured itself for its sinter requirements for the blast furnace which will be met by JSPL.

Cyclical nature of steel industry: The steel industry is sensitive to business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Furthermore, the producers of steel products are essentially price-takers in the market, which directly exposes their cash flows and profitability to the volatility of the steel industry. However, greater process integration, access to raw material inputs and a higher share of value-added products serve to de-risk steelmakers from the inherent cyclicality.

Industry prospects: The domestic steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a y-o-y basis in FY22. Steel exports remained robust for the third straight year and increased by 25.1% during FY22, after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry, an uptrend in global steel prices, and higher demand from European nations led to increased shipments from India. In the current fiscal too, domestic steel consumption is expected to witness a high single-digit growth (growth of 11.4% in the April-October period), backed by various measures such as the increase in government capex by 36% y-o-y to ₹7.5 lakh crore in the Union Budget 2022-23; infrastructure push towards seven growth engines – roads, railways, airports, ports, mass transport, waterways, and logistic infra; the Pradhan Mantri Awas Yojana (PMAY) scheme; and the Jal Jeevan Mission. Apart from these, a revival in economic activities will also support domestic steel consumption and will aid steel production in India. However, there has been a moderation in steel prices both, globally and domestically, which is likely to result in the normalisation of high spreads witnessed over the past couple of years.

Liquidity: Adequate

JSOL's liquidity is expected to remain supported by equity commitment and fund infusions from JSPL and expected debt drawdown in the project execution phase. Till November 30, 2022, JSPL has infused about ₹3,716 crore of equity in JSOL. Being a wholly owned subsidiary of JSPL, the company is expected to enjoy considerable financial flexibility and better access to debt market. Post completion, the company is expected to generate healthy cash accruals with projected average DSCR remaining comfortable beyond 2 times.

Analytical approach

Standalone after factoring in parent notching as JSOL is a wholly owned subsidiary of JSPL and there are strong operational, management and financial linkages between them.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Project stage companies
Steel

About the company

Jindal Steel & Power Limited (JSPL, rated CARE AA-; Stable/ CARE A1+) has initiated capacity expansion capex in Angul. As per the project plan by FY25 the total liquid steel manufacturing capacity of the company will expand by 6 million tonne per annum (MTPA) to 15.6 MTPA. Further, the pellet capacity will be increased from 9 MTPA as on March 31, 2021, to 21 MTPA by FY24. The total cost for the project is expected to be ~₹22,500 crore. The debt-equity proportion of the project is expected to be 70:30. The project is being undertaken in a separately incorporated subsidiary of JSPL (Jindal Steel Odisha Limited-JSOL). JSOL is a wholly owned subsidiary of JSPL. JSOL is contemplating the installation of an Integrated Steel Plant (ISP) at Angul, Odisha. The company has applied for the environmental clearance and consent to establish and the same is under process for approval. JSPL already has the land at Angul plant, Odisha, which has now been transferred to JSOL.

Brief Financials: Not Applicable as the project is under the implementation phase

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

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

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	-	-	March 2039	15727.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	15727.00	CARE A+; Stable	-	1)CARE A+; Stable (31-Dec-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities: Not Applicable

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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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About us:
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