Jindal Stainless Limited

October 10, 2022

Ratings

Facilities/ Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	4,499 (Enhanced from ₹1,851 crore)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Short-term bank facilities	6,251 (Enhanced from ₹5,149 crore)	**CARE A1+ (A One Plus)**	Reaffirmed
Total bank facilities	**10,750 (₹ Ten thousand seven hundred fifty crore only)**		
Non-convertible Debenture	**475.00 (₹ Four hundred seventy-five crore only)**	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Assigned

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Jindal Stainless Limited (JSL) derive strength from the experience of the promoters and management, and the established track record and dominant market position of JSL and Jindal Stainless (Hisar) Limited (JSHL) (hereinafter referred to as the 'JSL group' or 'Group') in the stainless steel (SS) industry. The ratings also factor-in the strong operational and financial performance of the JSL group over the last couple of years supported by higher sales volumes with a greater proportion of value-added products, increase in exports, and healthy sales realisations amid a strong industry upcycle and better product mix, thereby resulting in robust operating profit and cash accruals. The ratings also favourably factor-in a consistent reduction in the combined term debt levels of the JSL group culminating in reduced finance cost, improvement in gearing and debt metrics and a stronger liquidity position. CARE Ratings Limited (CARE Ratings) also notes JSL's plan to acquire 74% stake in Jindal United Steel Limited (JUSL) at a consideration of ₹958 crore which will integrate JSL's operations and provide synergistic benefits.

CARE Ratings believes the group is expected to report moderation in the operating performance in the near term amidst normalisation in the industry upcycle globally and imposition of export duty, thereby resulting in lower realisations although strong domestic demand shall aid the sales volumes and spreads. Moreover, the ongoing brownfield expansion of 1 million tonne per annum (MTPA), acquisition of JUSL, various efficiency improvement projects in JSL and the ongoing expansion in the Special Products division in JSHL will not materially increase the leverage at the combined level due to envisaged healthy profitability and accruals.

The above rating strengths are, however, tempered by susceptibility of the group's sales realisations and profit margins to volatility in raw material prices, foreign exchange fluctuations, project execution risks and the cyclicality inherent in the SS industry.

Rating sensitivities

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

- Satisfactory progress, timely implementation, and economical ramping up of operations of the expansion projects.
- Envisaged growth in the group's sales volumes and PBILDT per tonne above ₹17,500 on a sustained basis.
- Improvement in the group's overall gearing to below 0.60x and total debt/PBILDT below 1.5x on a sustained basis.

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

- Significant decline in the group's sales volumes and PBILDT per tonne below ₹15,000 on a sustained basis.
- Deterioration in the group's overall gearing beyond 1.2x and total debt/PBILDT above 3.0x.

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

- Any unexpected large debt-funded capex/acquisition exerting pressure on leverage and liquidity.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters; established track record and dominant market position: JSHL and JSL are a part of the Ratan Jindal group, which has been in the SS industry for more than four decades. The group has a long track record of successfully operating in the SS industry and is currently managed by the board of directors, including Ratan Jindal, who is supported by his son, Abhyuday Jindal, and other professionals who have extensive 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 SS. The JSL group will have an overall steel melting capacity of 1.90 million tonne per annum (MTPA) post the merger of JSHL with JSL and will account for more than 50% of the SS flat products produced in India. The JSL group is among the largest SS producers in the world and enjoys cost-competitiveness on account of its integrated nature of operations and presence in the value-added products.

Emphasis on value-added products with the presence of sizeable exports: The group manufactures a wide range of SS products – plates, hot-rolled annealed pickled (HRAP) coils, and cold-rolled annealed pickled (CRAP) coils – for various commercial and industrial applications. The group manufactures various grades of SS, namely, 200-grade, 300-grade and 400-grade. The 200-grade finds application in utensils, kitchen appliances, tubes and pipes. The 300-grade finds application in railway coaches, high-temperature applications, power plants, while the 400-grade finds application in razor blades, coins, automobiles, and consumer durables. Furthermore, the group also makes specialty SS and other value-added products, which yield relatively higher returns compared to other commoditised SS products. Over the past two years, the group has been increasing its focus on higher-margin products, such as 300-grade, 400-grade series, and specialty SS, leading to higher profitability.

Strong operational performance: During FY22 (refers to the period from April 1 to March 31), the group reported a 74% y-o-y growth in the total operating income to ₹32,359 crore (FY21: ₹18,586 crore) and a net profit of ₹2,950 crore (FY21: Profit of ₹906 crore). Besides a low base effect, the improvement was aided by higher sales volume, better sales realisation, increased export sales, coupled with upward movement in the SS prices. The operating profit of the group improved from ₹16,875 per tonne in FY21 to ₹27,484 per tonne in FY22. Consequently, the Group's PBILDT margin also improved to 14.55% for FY22, as against 12.72% in FY21. The improvement witnessed by the Group during FY22 largely mirrors its 9MFY22 performance, which was already factored. During Q1FY23, the TOI of the Group grew by 33% over Q1FY22 mainly due to higher realisations. With lower sales volume coupled with some normalisation of PBILDT in Q1FY23, net profit and cash accruals moderated on y-o-y basis albeit continued to remain healthy. While the elevated levels of spreads may not sustain and witness moderation during FY23, CARE Ratings believes that the Group's normalised PBILDT per tonne shall remain higher than average of FY19-FY21 due to various measures undertaken by the Group, such as cost-efficiency driven by higher volumes, shift in product basket, improved PLF at power plant, optimal usage of induction furnace, benefits from railway siding, gradual localisation of raw material imports and the resultant benefits on logistics costs, holding costs and fluctuation on raw materials and forex. Nonetheless, the group's ability to report envisaged sales volumes and PBILDT/tonne and to generate adequate accruals to support its capex shall remain a key monitorable.

Comfortable financial risk profile: With higher capacity utilisation, better sales volumes, higher sales realisation, and the resultant generation of higher cash accruals have contributed towards term debt reduction and improvement in the financial risk profile of the group in FY22. The overall gearing (including acceptances) of the Group improved and stood comfortable, at 0.81x as on March 31, 2022, as compared with 0.93x as on December 31, 2021. Over the past 2 years ended FY22, the Group has reduced its term debt from ₹4,286 crore as on March 31, 2020 to ₹2,660 crore as on March 31, 2022 through repayment and pre-payments. The debt coverage ratios of the group marked by total debt to PBILDT ratio continued to remain healthy at 1.45x as on March 31, 2022 (annualised level of 1.49x as on December 31, 2021), owing to healthy profitability. The interest coverage ratio also remained strong at 14.52x during FY22 (9MFY22: 13.82x), backed by a decline in the interest cost coupled with healthier PBILDT. With lower sales volume coupled with some normalisation of PBILDT and increase in debt mainly towards additional debt for capex, the total debt/PBILDT increased to 2.14x in Q1FY23 (on annualised basis). Going forward, notwithstanding capex, CARE Ratings expects the group's leverage to remain comfortable on the back of the generation of healthy free cash flows.

Impending merger of JSHL with JSL: The impending merger of JSL and JSHL will create one of the largest stainless-steel entities, with a total capacity of 1.90 MTPA. Subsequent to the merger, the combined entity is expected to have more diversified operations; a wider presence both, domestically as well as globally; higher bargaining power with the suppliers; and will become one of the top 10 global stainless-steel manufacturers. Post-merger, JSL will be a single entity, with a promoter holding of approximately 57% fully diluted, while the remaining will be held by the public. The shareholders of JSHL shall be issued equity shares in the ratio of 1:1.95. Besides, CARE Ratings expects the merger to bring in more financial flexibility to the group. Moreover, it will result in a reduction in debt in JSL to the tune of ₹1,050 crore, as on March 31, 2022, being inter-corporate loans extended by JSHL to JSL and cancellation of cross guarantees and investments. The merger is subject to various approvals from statutory authorities. Post approval of shareholders and creditors of JSL and JSHL on April 23, 2022, the Honourable National Company Law Tribunal (NCLT), Chandigarh, while hearing the second motion petition on July 13, 2022, has directed to issue notice(s) to the sectoral regulator(s). The next date of hearing is on October 18, 2022. The group expects completion of merger by end of this financial year.

Liquidity: Strong

The liquidity position of the group remains strong supported by healthy cash accruals. The envisaged cash accruals for FY23 are more than adequate to cover its combined scheduled term debt repayment obligation of nearly ₹150 crore. The group had cash and cash equivalents of ₹208 crore as on March 31, 2022 and ₹280 crore as on August 31, 2022. The average fund-based working capital utilisation of the group stood moderate, at around 50% for the trailing 12-months ended August 2022. The group has planned a capex of nearly ₹3,800 crore during FY21-FY25 crore for expanding capacity by 1.0 MTPA in JSL, various efficiency improvement projects, besides special products capacity expansion in JSHL. The group is expected to avail lower than sanctioned capex LCs/debt of nearly ₹2,800 crore (nearly ₹2,400 unutilised as on July 31, 2022) for capex supported by healthy cash accruals. Moreover, JSL's proposed acquisition of JUSL's stake is expected to be funded through internal accruals.

Key rating weaknesses

Exposure to raw material price volatility and forex fluctuation risks: The primary raw materials for the group are SS scrap, nickel and ferrochrome ore, the prices of which remain volatile considering these are commodity products. The prices of nickel have continued to remain volatile and any sharp increase in the raw material prices may adversely impact the margins of the group 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 SS mills in different geographies. The group 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, the group remains exposed to the foreign exchange risk, which is partly mitigated by hedging on both, imports and exports; the group is exposed to the extent of its unhedged exposure.

Large expansion and acquisition: JSL has embarked on a considerable increase in its manufacturing capacity from 1.1 MTPA to 2.1 MTPA which is being undertaken along with other efficiency improvement projects, through a brownfield expansion in Jajpur at a total estimated cost of ₹3,350 crore (against previously envisaged capex of nearly ₹2,150 crore by CARE Ratings).

Besides, JSHL is expanding its precision stripes and blades steel capacity in SPD at a total capex of ₹450 crore. The total planned capex of the group aggregating to nearly ₹3,800 crore is expected to be funded through term loan of nearly ₹2,800 crore and balanced through internal accruals. The group has incurred capex of nearly ₹1,400 crore till July 31, 2022, funded through term loans of nearly ₹400 crore and balance through internal accruals. All these expansions expose the group to project execution and capacity ramping up related risks, although deleveraging and expectations of healthy accruals to support project funding requirements lend comfort. Nonetheless, the timely completion of these expansions within estimated costs and the ramping up of volumes at envisaged realisations and margins shall remain critical from the credit perspective.
JSL currently has 26% stake in JUSL and has plans to acquire remaining 74% stake at consideration of ₹958 crore by Q1FY24. JUSL had acquired the Hot Strip Mill (HSM) plant of JSL with a capacity of 1.60 MTPA under the asset monetisation-cum-business reorganisation Plan (AMP) implemented by JSL. JUSL also has a cold rolling mill (CRM) with capacity of 0.2 MTPA for SS applications. JUSL currently converts SS slabs of JSL in hot-rolled (HR) coils and HR coils into cold-rolled (CR) coils on a job work basis in the same location. JUSL is also expanding its HSM capacity to 3.6 MTPA, at a cost of nearly ₹400 crore. Acquisition of JUSL's remaining stake is expected to integrate JSL's operations and reduce related party transactions. During FY22, JUSL had generated PBILDT of ₹590 crore. Furthermore, despite having an extended maturity spanning across 25 years, JUSL repaid majority (around 90%) of its scheduled debt obligation till March 2028, which is expected to support the liquidity and cash flows of the group. The group has also plan for forward integration through inorganic route. These acquisitions are expected to be largely funded through internal accruals thereby shall resulting in lower free cash flow in the medium term.

Cyclicality inherent in the SS industry: The SS 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, the 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 especially in the 200-grade series has led to a decline in capacity utilisation 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 provides better protection against the cyclicality and related fluctuations in prices of commoditised stainless-steel products.

Industry growth prospects

The demand for processed steel is a derived demand from major end-user industries like pharmaceuticals, automobile railways and transportation (ART), architectural building and construction (ABC), and consumer goods, besides traditional uses in kitchenware. SS is one of the fastest-growing metals among all ferrous and non-ferrous categories due to demand from the development of new uses and steady demand from its traditional uses. Reduction in customs duty, revocation of the anti-dumping duty (ADD) and countervailing duty (CVD) on certain steel products and imposition of the 15% duty on certain steel exports may result in an increase in imports and decline in exports, and resultantly, may have an impact on volumes and realisations of domestic players. However, the group is incrementally less susceptible to import threat as it has moved towards higher value-added segments while reducing the share of commoditised products in its product basket. Furthermore, the long-term growth prospects of the industry remain favourable due to significant scope in increasing per capita consumption.

Environment, Social and Governance (ESG)

The Group is in compliance with all the norms set by the competent authorities and undertakes regular inspections including certification for the maintenance of the environment. It is certified with ISO 14001:2015 (environmental management systems) and ISO 45001:2018 (occupational health and safety management systems). JSL is the signatory to the UN Global Compact (UNGC) network and Global Compact Network India (GCNI) and abides by their principles. The Group has a three-tier committee system to ensure safety at workplace. Its board of directors consist of at least 50% independent directors. There are separate Code of Conducts for Board Members and senior management personnel. Various policies, including whistle blower policy, are in place in line with the requirement.

Analytical approach: Combined

CARE Ratings has combined the business and financial risk profiles of JSHL and JSL due to the strong operational and financial linkages between them with continuing cross corporate guarantees for each other's debts and ICDs extended by JSHL to JSL of ₹1,050 crore. JSL and JSHL are associate concerns with a common promoter and have strong management linkages. Moreover, all of the group's major future capacity expansions shall strategically happen in JSL. Furthermore, there is an impending merger of JSHL (merging entity) with JSL (resulting entity), which has been approved by stock exchanges, shareholders and creditors, and currently, the next stage of approval is pending at the Honourable NCLT Chandigarh.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Financial ratios – non-financial sector
Criteria for short-term instruments
Factoring Linkages Parent Sub JV Group
Rating Methodology - Manufacturing Companies
Rating Methodology-Steel Companies
Liquidity analysis of non-financial sector entities

About the group

JSL and JSHL are associate concerns, a part of the Ratan Jindal Group, and are among the leading integrated SS producers in the country with a combined steel melting capacity of 1.90 MTPA, as on June 30, 2022. The manufacturing facilities are located at Jajpur (Odisha) and Hisar (Haryana). The group also has a captive thermal power plant, captive ferrochrome facilities, captive chromite mine, stainless steel melting, rolling mill and downstream value-added facilities. It manufactures stainless steel slabs and hot-rolled/cold-rolled coils and sheets, and is also engaged in the production of specialty SS, which are high value-added products, including precision strips and defence products.

(₹ crore)

Brief Financials (Combined)	FY21 (UA)	FY22 (UA)	Q1FY23 (UA)
Total operating income (TOI)	18,586	32,359	8,369
PBILDT	2,365	4,709	816
PAT	906	2,950	481
Overall Gearing (times)	1.09	0.81	NA
PBIDLT Interest coverage (times)	3.88	14.52	10.74

UA: Un Audited; NA: Not available; Financials have been classified as per CARE Ratings' standards; FY21 and FY22 audited financials of JSL and JSHL are combined on line-by-line basis adjusting inter-company transactions.

(₹ crore)

Brief Financials of JSL (Standalone)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income (TOI)	11,676	20,512	5,353
PBILDT	1,393	2,784	540
PAT	428	1,674	287
Overall Gearing (times)	1.44	1.06	NA
PBIDLT Interest coverage (times)	3.00	8.79	8.01

A: Audited; UA: Un Audited; NA: Not available; Financials have been classified as per CARE Ratings' standards

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 instruments/facilities: 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 (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	-	-	-	30-09-2031	3750.00	CARE AA-; Stable
Fund-based - LT-Working capital limits	-	-	-	-	749.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	6251.00	CARE A1+
Debentures-Non-convertible debentures	INE220G07119	24-02-2022	7.73	24-05-2025	375.00	CARE AA-; Stable
Debentures-Non-convertible debentures	INE220G08034	28-09-2022	8.62	28-09-2026	100.00 *	CARE AA-; Stable

* ₹1 crore is not issued yet

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	3750.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Mar-22)	-	-
2	Fund-based - LT-Working capital limits	LT	749.00	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Mar-22)	-	-
3	Non-fund-based - ST-BG/LC	ST	6251.00	CARE A1+	-	1)CARE A1+ (25-Mar-22)	-	-
4	Debentures-Non-convertible debentures	LT	475.00	CARE AA-; Stable	-	-	-	-
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)
6	Fund-based - LT-Term loan	LT	-	-	-	1)CARE A (CWD) (01-Jul-21) 2)Withdrawn (01-Jul-21)	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)
7	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (01-Jul-21) 2)CARE A1 (CWD) (01-Jul-21)	1)CARE A2 (CWD) (08-Jan-21) 2)CARE A3+ (28-Aug-20)	1)CARE A3 (30-Aug-19)
8	Fund-based - LT-Cash credit	LT	-	-	-	1)Withdrawn (01-Jul-21) 2)CARE A (CWD) (01-Jul-21)	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)	1)CARE BBB-; Stable (30-Aug-19)
9	Fund-based - LT-External commercial borrowings	LT	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BBB+ (CWD) (08-Jan-21) 2)CARE BBB;	1)CARE BBB-; Stable (30-Aug-19)

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
							Stable (28-Aug-20)	
10	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (24-Jun-21)	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments:

For NCD Issuance - INE220G07119 and INE220G08034

Financial covenants and non-financial covenants

- JSL to maintain followings:

Covenant	Threshold
Long-term net debt/ Equity	< 1.50x
DSCR	> 1.20x
Long-term net debt/ PBILDT	< 2.75x
Total net debt/ PBILDT	< 4.50x

- In the event of a credit rating falls to or below "A", at any point of time, the debenture trustee shall have the right to call an event of default and accelerate the redemption of debentures together with other outstanding debenture obligations within a period of sixty/ninety days from the date of its occurrence.

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-Term Loan	Simple
3.	Fund-based - LT-Working Capital Limits	Simple
4.	Non-fund-based - ST-BG/LC	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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