Jindal Stainless Limited

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	5,810.00 (Enhanced from 4,499.00)	CARE AA; Stable	Revised from CARE AA-; Stable
Short-term bank facilities	8,640.00 (Enhanced from 6,251.00)	CARE A1+	Reaffirmed
Non-convertible debentures	475.00	CARE AA; Stable	Revised from CARE AA-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities/instruments of Jindal Stainless Limited (JSL) factors in the resilient operational and profitability performance of the company in different industry/economic cycles, as demonstrated by its consistently improving sales volumes and higher-than-envisaged profit before interest, lease rentals, depreciation and taxation (PBILDT) per tonne over the last two years. The revision also factors further strengthening of the financial risk profile of the company with significant deleveraging activity undertaken by the company during the past few years, leading to persistent improvement in its debt coverage metrics.

JSL has recorded steady-state improvement in its sales volumes over the last three years. Going ahead as well, with the operationalisation (commissioned in March 2023) of its additional one million tonnes per annum (mtpa) capacity at Jajpur, Odisha, CARE Ratings Limited (CARE Ratings) expects the likely continuation of increase in sales volume over the next 2 years. The revision in the ratings also factors in the expected improvement in income and profitability over the medium-term period, driven by improved sales volumes and maintenance of PBILDT/tonne above ₹20,000 per tonne.

The rating continues to derive strength from the well-established position of JSL in the stainless steel (SS) manufacturing sector, being the largest SS producer in the domestic market, having a diversified product profile (various series & grades) and presence through various manufacturing facilities across key strategic geographies. JSL's focus towards increasing its share of value-added products, along with its flexibility to shift between the domestic and exports markets, has enabled the company to withstand adverse industry cycles.

The ratings also favourably factor-in the merger of Jindal Stainless (Hisar) Limited (JSHL) into JSL in March 2023, as well as JSL acquiring the balance 74% stake in Jindal United Steel Limited (JUSL) in July 2023, thereby making JUSL a 100% wholly-owned subsidiary and integrate its downstream tolling operations under the same umbrella.

JSL has completed the acquisition of Rathi Super Steel Limited (RSSL) in November 2022 through IBC process, by which JSL has further added 0.16 mtpa of rolling capacity. Until now, JSL was majorly into flat SS products manufacturing; however, with the acquisition of RSSL, it has widened its product profile further in long SS products capable of manufacturing wire rods and re-bars. JSL has also entered into a collaboration agreement with New Yaking Pte. Ltd to acquire 49% stake in a Nickel Pig Iron smelter facility in Indonesia for a total consideration of about USD 157 million which is a move towards strengthening its major raw material security of nickel. CARE Ratings expects, with the completion of mergers & acquisitions and expansion of capacities, solvency ratios (overall gearing and net debt/PBILDT) are expected to witness moderation during FY24. However, with the generation of additional cash flows from operating activities, the solvency ratios are expected to improve post FY24 onwards. 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 and the cyclicality inherent in the SS industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Envisaged growth in JSL's sales volumes and PBILDT per tonne above ₹20,000 on a sustained basis.
- Improvement in the group's overall gearing to below 0.50x and total debt (incl. acceptances)/PBILDT below 2.0x on a sustained basis.

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

Negative factors

- Significant decline in the group's sales volumes and PBILDT per tonne below ₹17,000 on a sustained basis.
- Deterioration in the group's overall gearing beyond 1.00x and total debt (incl. acceptances)/PBILDT above 3.0x.
- Any unforeseen large debt-funded capex/ acquisition thereby deteriorating the overall capital structure of the company.

Analytical approach:

Consolidated

Earlier, CARE Ratings had considered combined approach of JSL and JSHL due to strong operational and financial linkages between the two entities with continuing cross corporate guarantees for its debt component and ICDs. However, post-merger of JSHL into JSL, CARE Ratings has now revised its approach to consolidated on account of significant operational and financial linkages of JSL with its subsidiaries. The list of entities whose financials have been considered in JSL's consolidated financials is mentioned in Annexure-6.
JSL has raised its stake in JUSL from earlier 26% to 100% in July 2023. Hence going ahead, JUSL now being a wholly-owned subsidiary of JSL, will also become a part of the consolidated financials of JSL.

Outlook: Stable
Stable outlook reflects the dominant market position of the rated entity in the stainless-steel industry, which coupled with favourable demand scenario in the domestic market along with ramping-up of the added capacity shall enable it to sustain healthy business and financial risk profile over the medium to long-term period.

Detailed description of the key rating drivers:

Key strengths

Strong operational and profitability performance

JSL has showcased consistent growth in sales volume in the past few years. The sales volumes of the company have increased from 1.52 million tonnes in FY20 to around 1.76 million tonnes in FY23. The plant has also recorded steady improvement in its capacity utilisation levels surpassing 90% of the rated capacity. The PBILDT/tonne for the company has also improved from around ₹13,700 per tonne in FY20 to around ₹20,216 per tonne, despite significant volatility in commodity as well as raw material prices. The company has consistently recorded improved operational performance during the last four quarters with increase in sales volumes, revenue, PBILDT and profit after tax (PAT). Going ahead as well, CARE Ratings expects the likely continuation of increase in sales volume over the next 2 years along with likely maintenance of PBILDT/tonne above ₹20,000 per tonne.

Merger of JSHL and acquisition of JUSL

JSL made a number of mergers and acquisitions in the last one year, the primary ones being merger of JSHL into JSL and another being acquisition of Jindal United Steel Limited by JSL to make it a 100% subsidiary. Both of these consolidations are of strategic importance and will add efficiency and profitability to the company.

JSHL, a listed company of the Jindal group, operating 0.8 MTPA of SS manufacturing plant at Hisar, Haryana, was merged into JSL with effect from March 2, 2023, following a composite scheme of arrangement approved by NCLT on February 02, 2023. The merger of JSL and JSHL has resulted in the merged entity having a total stainless-steel melting capacity of 1.90 MTPA, which has subsequently become 2.9 MTPA post capacity expansion in JSL's own plant, making it the largest SS manufacturers in the country one of the largest in the world. The merged entity will have more diversified operations, wider presence both domestically as well as globally and higher bargaining power with the suppliers. The merged entity has promoter holding of 57.94% fully diluted while the remaining is held by public. The merger will also bring in more financial flexibility to JSL.

JUSL is an OP Jindal Group company with 74% owned by OPJ Steel Trading Private Limited (OPJSTPL) and 26% with JSL. The company operates an HSM mill in JSL's Jajpur premises and does tolling job work for JSL. It derives more than 80% of its revenue from this. On July 20, 2023, JSL completed acquisition of balance 74% of stake in JUSL from OPJSTPL and made JUSL its 100% subsidiary for sales consideration of ₹958 crore. This acquisition consolidates all the critical facilities of stainless-steel manufacturing under one umbrella and is expected to result in improved synergies between both the companies and a preferred governance structure. JUSL is in the process of expanding its HSM capacity from 1.6 MTPA to 3.2 MTPA in line with the expanded steel melting capacity of 2.9 MTPA of JSL at the cost of around ₹450 crore, and the same is expected to be commissioned by March 2024.

Improvement in sales volumes from expanded capacities

JSL has expanded its capacity at Jajpur plant from 1.1 MTPA to 2.1 MTPA, which was commissioned in March 2023. The new capacity, with the Hisar plant capacity of 0.8 MTPA, makes total combined stainless-steel melting capacity of JSL at 2.9 MTPA, the highest in India and one of the highest in the world. The expanded Jajpur capacity is expected to start giving output from Q3FY24 and will add to sales volume of the company. Expecting EBITDA/tonne to remain at current levels of ₹20,000, these will directly add to the profitability of the company. To accommodate the increased capacity, tolling capacity at JUSL's plant is also under process of expansion from 1.6 MTPA to 3.2 MTPA, which is expected to be commissioned by Q4FY24.

Significant decline in consolidated debt leading to improvement in the financial risk profile of the company

Total debt (excluding acceptances) has witnessed a steady decline from ₹10,889 crore in FY15 to ₹3,958 crore in FY23. The total debt including acceptances, amounted to ₹7,860 crore in FY23. At the combined/consolidated level as well, the company has witnessed steady improvement in its solvency ratios. Consolidated overall gearing for the company has improved to 0.71x as on March 31, 2023 from 0.82x as on March 31, 2022. CARE Ratings also takes a note of the improvement in the gearing levels despite undertaking significant capex activity during the past few years.

Experienced promoters; established track record and dominant market position

The group has a long track record of over five decades in the stainless-steel industry. After merger of JSHL into JSL in March 2023, the company's steel melting capacity of 1.10 MTPA increased to 1.90 MTPA. Furthermore, after completion of expansion of JSL's own capacity at Jajpur plant by 1 MTPA, the company's new capacity is now 2.9 MTPA which makes it the largest stainless-steel manufacturer in India and among the top ten stainless steel producers in the world. Post-merger the company accounts for more than 50% of the stainless-steel flat products produced in India. The company enjoys cost competitiveness on account of its integrated nature of operations and presence in value-added products.

Backward integration of nickel supply through NPI facility in Indonesia

In March 2023, JSL entered into a collaboration agreement with New Yaking Pte Ltd for a 49% stake in their Nickel Pig Iron (NPI) smelter facility in Indonesia for a consideration of US$157 million. JSL will collaborate with the company in constructing and operating the facility. The facility is planned to be commissioned within 2 years, with an annual production capacity of up to 200,000 MT of NPI with average 14% Ni Content. Nickel supply and price is constantly subject to market, logistical and geopolitical constraints and affects raw material costs in stainless steel manufacturing. This step ensures seamless supply of nickel, supporting raw material security and maintaining the margin consistency for JSL's operations given high global prices of nickel and India's deficiency in nickel deposits.

Entry into new products through acquisition of Rathi Super Steel and merger of Jindal Lifestyle Mobility Division

JSL has successfully completed the acquisition of Rathi Super Steel Ltd through the National Company Law Tribunal proceedings in November 2022 for a consideration of ₹201 crore. The company is in the business of manufacturing long products such as wire rods and rebars which would further diversify JSLs presence with entry into stainless steel long products segment.

Mobility division of the group company, JSL Lifestyle Limited (now Jindal Lifestyle Limited), was demerged from the company and merged into JSL in March 2023. This division operates the Automotive, Rail and Transport (ART) segment and manufactures products for Indian Railways and Metro Rail, such as retention tanks, grab poles and grab rails, SS Benches, railings, claddings, side walls, trough floors, wire ways, etc. This also adds a new vertical to JSL's product portfolio.

Key weaknesses

Exposure to raw material price volatility and forex fluctuation risks

The primary raw materials for the company 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 company is in the process of neutralising the nickel price volatility by constructing a Nickel Pig Iron facility in Indonesia under a 49% JV that will provide 14% Ni content output and will secure nickel supply for JSL. CARE Ratings notes that as a net importer, the group remains exposed to the foreign exchange risk, which is partly mitigated by hedging on both, imports and exports; and the group is exposed to the extent of its unhedged exposure.

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, 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.

Liquidity: Strong

The liquidity position of the company (including JUSL) remains strong supported by healthy cash accruals. The envisaged cash accruals for FY24 and FY25, respectively, are more than adequate to cover its scheduled repayment obligation of nearly ₹376 crore and ₹859 crore, respectively. The company had cash and cash equivalents of ₹521 crore as on March 31, 2023. The average working capital utilisation (fund and non-fund-based combined) of JSL stood moderate at 53% for the 12 months ending March 2023. The group has planned a capex of nearly ₹3,200 crore during FY24 for various acquisitions and JUSL expansion, large portion of which has already been incurred by Q1FY24 (acquisitions mostly through internal acquisitions and capacity expansion through debt).

Environment, social, and governance (ESG) risks

Factors	Steps taken by company
Environmental	1. Committed to net zero carbon emissions by 2050. Electric Arc Furnace based low carbon emission manufacturing process as compared to Blast Furnace route 2.Incremental power obtained through renewable resources 3.Majority recycled material utilised, including steel scrap and water
Social	1. Implemented safety measures to achieve "accident free steel" 2.Learning and development programs like "Parivartan" and "Arohan" initiated
Governance	1. Well-defined policies in place to ensure transparent operations 2.Best practices of the industry incorporated 3. More than 4.5 lakhs beneficiaries through the company's intensive CSR programs

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

JSL is a part of the Ratan Jindal Group, and is the leading integrated SS producers in the country with steel melting capacity of 2.90 MTPA, as on June 30, 2023. The manufacturing facilities are located at Jajpur (Odisha) and Hisar (Haryana). The company 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.

Brief Financials (₹ crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	32,993	35,768	10,227
PBILDT	5,090	3,586	1236
PAT	3,109	2,084	738
Overall gearing (times)	0.82	0.71	NA
Interest coverage (times)	14.81	11.05	12.41

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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
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
Fund-based - LT-Term loan		-	-	30/09/2032	4660.00	CARE AA; Stable
Fund-based - LT-Working capital limits		-	-	-	1150.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	8640.00	CARE A1+

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 2023-2024	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
1	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BBB+ (CW with Developing Implications) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)
2	Fund-based - LT-Term loan	LT	-	-	-	-	1)CARE A (CW with Developing Implications) (01-Jul-21) 2)Withdrawn (01-Jul-21)	1)CARE BBB+ (CW with Developing Implications) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (01-Jul-21) 2)CARE A1 (CW with Developing Implications) (01-Jul-21)	1)CARE A2 (CW with Developing Implications) (08-Jan-21) 2)CARE A3+ (28-Aug-20)
4	Fund-based - LT-Cash credit	LT	-	-	-	-	1)CARE A (CW with Developing Implications) (01-Jul-21) 2)Withdrawn (01-Jul-21)	1)CARE BBB+ (CW with Developing Implications) (08-Jan-21) 2)CARE BBB; Stable (28-Aug-20)
5	Fund-based - LT-External commercial borrowings	LT	-	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BBB+ (CW with Developing Implications) (08-Jan-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
								2)CARE BBB; Stable (28-Aug-20)
6	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (24-Jun-21)	-
7	Fund-based - LT-Term loan	LT	4660.00	CARE AA; Stable	-	1)CARE AA-; Stable (10-Oct-22)	1)CARE AA-; Stable (25-Mar-22)	-
8	Fund-based - LT-Working capital limits	LT	1150.00	CARE AA; Stable	-	1)CARE AA-; Stable (10-Oct-22)	1)CARE AA-; Stable (25-Mar-22)	-
9	Non-fund-based - ST-BG/LC	ST	8640.00	CARE A1+	-	1)CARE A1+ (10-Oct-22)	1)CARE A1+ (25-Mar-22)	-
10	Debentures-Non-convertible debentures	LT	475.00	CARE AA; Stable	-	1)CARE AA-; Stable (10-Oct-22)	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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: Lender details

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

Annexure-6: List of entities whose financials have been consolidated (as on March 31, 2023)

Sr. No.	Subsidiaries and Associates	Percentage Stake
	Subsidiaries	
1	PT. Jindal Stainless Indonesia	99.99
2	Jindal Stainless FZE	100.00
3	JSL Group Holding Pte. Limited	100.00
4	Iberjindal, S.L.	65.00
5	Jindal Stainless Park Limited	100.00
6	Rathi Super Steel Limited	100.00
7	Jindal Stainless Steelway Limited	100.00
8	Jindal Lifestyle Limited	73.37
9	JSL Logistic Limited	100.00
10	Green Delhi BQS Limited	100.00
11	Jindal Strategic Systems Limited	100.00
12	JSS Steelitalia Limited	100.00
13	JSL Ferrous Limited (upto May 06, 2022)	-
14	Jindal United Steel Limited	26
15	Jindal Coke Limited	26

Note on the 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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