Jindal Steel Odisha Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15,727.00	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	5,000.00	CARE AA-; Stable / CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The assignment of short-term and reaffirmation of long-term ratings assigned to bank facilities of Jindal Steel Odisha Limited (JSOL) factors in the sustained improving credit profile of the parent, Jindal Steel & Power Limited (JSPL; CARE AA; Stable/CARE A1+) and progress of the project as per its schedule; with phase I being commissioned in January 2024. While arriving at the rating of JSPL, CARE Ratings Limited (CARE Ratings), considered the consolidated financials of JSPL and its subsidiaries including JSOL. The ratings derive strength from the strong operational, financial and management linkages between the two entities and the articulation of JSPL's management to provide unconditional and continued support to JSOL. This includes a corporate guarantee extended by JSPL for JSOL's project debt for a period of up to two years of satisfactory performance post the commencement of commercial operations date (COD).

The ratings further factor in the commissioning of its pellet plant-1 in Angul, Odisha in Q2FY24 (refers to the period from April 01 to March 31), along with on-track completion record of the other major capex activities. The hot-stripped-mill (HSM) plant of 5.5 million tonne per annum (MTPA) and slab caster 1 has been commissioned in Q4FY24. The entire capex is expected to get commissioned by end of FY25, thereby increasing the crude steel capacity from 9.60 MTPA as on March 31, 2023 to 15.60 MTPA by March 31, 2025. As articulated by the management, the company has received the environmental clearance (EC) / consent to establish (CTE) for its JSOL expansion.

CARE Ratings believes the project being implemented in JSOL has high strategic importance and economic incentive for JSPL with substantial increase in its liquid steel and finished steel-making capacity of JSPL.

CARE Ratings expects JSOL to benefit considerably from JSPL's strong project execution capability, usage of various common infrastructure facilities, and other operational linkages in terms of sourcing of power; and raw materials, among others. JSPL has already developed land for setting up an integrated steel plant thereby resulting in optimal estimated project cost of nearly ₹23,200 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.

However, above rating strengths are, tempered by the risk emanating from being a project stage entity with inherent time and cost overrun and post implementation stabilization risk with respect to ramping-up of the capacity at the envisaged levels.

In addition, the ratings continue to be constrained by the inherent cyclical nature of the steel industry and susceptibility of profit margins to volatile raw material prices and fluctuating steel prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Satisfactory progress, timely completion, and economical ramping-up of operations as envisaged.
- Continued strong linkages with JSPL and improvement in the credit profile of JSPL.

Negative factors

- Significant time and cost overrun in the project.
- Slower-than-expected ramp-up of capacity, resulting in lower-than-envisaged cash flows from operating activities on a sustained basis.
- Weakening of linkages with JSPL and/or deterioration in the credit profile of JSPL.

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

Analytical approach: Standalone; however, synergies derived by being a wholly owned subsidiary of JSPL and also, location of plant in the vicinity of existing operational JSPL facility. The ratings also consider the operational and financial linkages/synergies between the parent entity and the subsidiary and accordingly, CARE Ratings has applied parent notch up framework to arrive at the ratings.

Outlook: Stable

Stable outlook considers the favourable demand scenario in the domestic market. Robust demand outlook coupled with ramping-up of capacity shall enable the company to meet healthy business risk profile over the medium to long-term period.

Detailed description of the key rating drivers:

Key strengths

Strong parentage

JSOL, promoted by JSPL, which is a part of the Naveen Jindal group, is currently among the leading integrated steel producers (ISP) in the country. The company's key business activities include iron ore and coal mining, manufacturing of pellets, sponge iron, hot metal, semi-steel products, finished steel products, and power generation, with its operations spread across Chhattisgarh (Raigarh and Raipur), Odisha (Barbil and Angul), and Jharkhand (Patratu), in India. JSPL has a total installed iron-making capacity of 10.42 MTPA, a liquid steel capacity of 9.60 MTPA, and a finished steel capacity of 6.65 MTPA as on December 31, 2023. The company also has a captive power generation capacity of 2,684 MW (includes 1,050 MW of under construction CPP) at Raigarh and Angul. Besides, it has a presence outside India with major operations in South Africa, Mozambique, and Australia through its various subsidiaries.

JSPL reported improved operational performance marked by TOI of ₹52,680 crore (PY: ₹51,226 crore) and PBILDT of ₹9,761 crore (PY: ₹15,509 crore). Saleable steel quantity improved to 7.68 MTPA in FY23 from 7.64 MTPA in FY22. Industry players earned superior profits in FY22 due to strong demand and high realisations. However, FY23 was a mixed year with volatile raw material prices, low demand in Q1 & Q2 and sequential fall in realisation in Q2 & Q3 of FY23. However, stabilisation from Q3FY23 and improved demand and increase in realisation from Q4FY23 resulted in adequate profits posted bythe company for FY23. In 9MFY24, the company reported saleable steel volume of 5.66 mtpa with PBILDT/tonne of approximately ₹13,500. Improved realisation in Q3FY24 along with benefit on raw material prices enabled the company to sustain its operating performance during the nine-month period. CARE Ratings will continue to monitor the company's ability to maintain growth in the sales volume and report the envisaged PBILDT per tonne and generate adequate accruals to support its capex while keeping its consolidated debt level under control.

CARE Ratings expects JSPL to provide continued operational, management and financial support to JSOL including a corporate guarantee up to two years 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 (6.0 MTPA liquid steel and 5.5 MTPA finished steel) are equally large as compared to the existing total capacity of JSPL (9.6 MTPA liquid steel and 6.65 MTPA finished steel). 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. 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 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 optimising the overall project construction and commissioning time frame. The project is planned to be implemented in a phased manner. Pellet plant-1 in Angul has been commissioned in Q2FY24 and hot-stripped-mill (HSM) plant of 5.5 MTPA was commissioned in Q4FY24, and the additional 6 MTPA pellet plant-2 along with BF/BOF/coke oven, CRM including other auxiliary facilities are expected to be commissioned in FY25.

The company has incurred a total cost of approximately around ₹13,500 crore till February 29, 2024 by way of equity infusion from JSPL, and term loan/capex LC outstanding. SBI has underwritten the entire project debt of ₹15,727 crore (with minimum hold portion of ₹5,000 crore) to JSOL and 10 other banks have participated in the project financing as a part of the down selling by SBI. CARE Ratings will continue to monitor the timely clearances and debt disbursement at envisaged terms.

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 the SMS group, Germany for Hot Strip Mill (HSM), Metso Outotec, USA for Pellet Plants, Daniele, Italy for Slab Caster, and CISDI Engineering Co., China for the Blast Furnace. All fabricated steel structures will be procured in-house. JSPL's experienced team will assist in project management.

Key weaknesses

Inherent time overrun and cost overrun risk

The total project cost is expected to be around ₹23,200 crore. The debt equity proportion of the project in the base case is expected to be 68:32 (₹15,727 crore 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 near completion, the company is exposed to the risk of time overrun and cost overrun customary to such large-sized steel projects which has been moderated to an extent. However, the company has a built-in contingency of 5% of the estimated projectmodel to take care of any cost overrun.
The total estimated project cost has increased from around ₹22,500 crore to current cost of around ₹23,200, which is around 3% increase due to the change in scope of project and addition of cold rolled coils (CRC) mills in the project and the increased cost will be funded by the equity of JSPL. The company has received environmental clearance for the JSOL expansion; hence, no time overrun is expected from an approval standpoint.
CARE Ratings notes that 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, 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. 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.

Liquidity: Adequate

JSOL's liquidity is expected to remain adequate supported by equity commitment and fund infusions from JSPL and expected debt drawdown in the project execution phase. Till February 29, 2024, JSPL has infused about ₹6,400 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 the debt market. Post completion, the company is expected to generate healthy cash accruals. JSOL had a cash & liquid investment balance of ₹86 crore as on February 29, 2024.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Project stage companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]
[Iron & Steel]
[Factoring Linkages Parent Sub JV Group]

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & mining	Ferrous metals	Iron & steel

JSPL (rated 'CARE AA; Stable/ CARE A1+') has initiated capacity expansion capex in Angul. As per the project plan, the total liquid steel manufacturing capacity of the company will expand by 6.0 MTPA to 15.6 MTPA by FY25. The pellet capacity will be increased from 9 MTPA as on March 31, 2023, to 21.6 MTPA by FY25. The total cost for the project is expected to be around ₹23,200 crore. The debt-equity proportion of the project is expected to be 68:32. 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 received the environmental clearance and consent to establish for the entire project. JSPL already has the land at Angul plant, Odisha, which has now been transferred/subleased to JSOL.

Brief Financials (JSOL):

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	NM	NM	NM
PBILDT	NM	NM	NM
PAT	NM	NM	NM
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

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

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for last three years: Please refer to 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: Please refer to Annexure-4
Lender details: Please refer to 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
Fund-based - LT-Term Loan		-	-	March 2039	15727.00	CARE AA-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	4590.00	CARE AA-; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	100.00	CARE AA-; Stable / CARE A1+
Non-fund-based-LT/ST		-	-	-	310.00	CARE AA-; Stable / 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	Fund-based - LT-Term Loan	LT	15727.00	CARE AA-; Stable	1)CARE AA-; Stable (02-Nov-23)	1)CARE A+; Stable (10-Jan-23)	1)CARE A+; Stable (31-Dec-21)	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	4590.00	CARE AA-; Stable / CARE A1+				
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	100.00	CARE AA-; Stable / CARE A1+				
4	Non-fund-based-LT/ST	LT/ST	310.00	CARE AA-; Stable / CARE A1+				

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	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

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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