Jindal Stainless (Hisar) Limited

March 25, 2022

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	**100.00 (Rs. One hundred crore only)**	**CARE A1+ (A One Plus)**	Assigned

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments of Jindal Stainless (Hisar) Limited (JSHL) derive strength from the experience of the promoters and management, and the established track record and dominant market position of JSHL and Jindal Stainless Limited (JSL) (hereinafter referred to as "JSL group" or "Group") in the stainless-steel industry. The ratings also factor-in the significant improvement in the operational and financial performance of the JSL group during the current fiscal year 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 during 9MFY22 (refers to the period from April 1 to December 31). The ratings also favourably factor-in a consistent reduction in combined term debt levels of the JSL group culminating in reduced finance cost, improvement in gearing and debt metrics and a stronger liquidity position. Going forward, the group is expected to sustain its healthy operating performance and maintain a comfortable leverage profile on the back of continually high stainless-steel prices and the expectation of continued healthy volumes in the near term.

CARE Ratings believes that the ongoing brownfield expansion of 1 million tonne per annum (MTPA) in JSL and the ongoing expansion in the Special Products division in JSHL will not materially increase the leverage ratio at the combined level, as the fresh drawdown of the project-related debts shall be largely offset by debt repayments on the back of 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, and the cyclicality inherent in the stainless-steel 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 Rs.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:

- Decline in the group's sales volumes below 1.70 MTPA and PBILDT per tonne below Rs.15,000.
- Deterioration in the group's overall gearing beyond 1.2x and total debt/PBILDT above 3.0x.
- Any unplanned substantial capex/large acquisition beyond envisaged levels.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters; established track record and dominant market position

JSHL and JSL are part of the Ratan Jindal group, which has been in the stainless-steel industry for more than four decades. The group has a long track record of successfully operating in the stainless-steel industry and 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. The JSL group will have an overall steel melting capacity of 1.90 MTPA post the merger of JSHL with JSL, and will account for more than 50% of the stainless-steel flat products produced in India. The JSL group is among the largest stainless-steel producers in the world and enjoys cost-competitiveness on account of its integrated nature of operations and presence in value-added products.

Emphasis on value-added products with the presence of sizeable exports

The group manufactures a wide range of stainless-steel 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 stainless-steel, 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 stainless steel and other value-added products which yield relatively higher returns compared to other commoditised stainless-steel 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 stainless steel, leading to higher profitability.

Strong operational performance

During 9MFY22, the group reported a 76% y-o-y growth in the operating income to Rs.23,814 crore (9MFY21: Rs.13,545 crore) and a net profit of Rs.1,914 crore (9MFY21: Profit of Rs.415 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 steel prices and spreads. The operating profit of the group improved from Rs.15,326 per tonne in FY20 (refers to the period April 1 to March 31) to

[1] *Complete definitions of the ratings assigned are available at* *www.careedge.in* and in other CARE publications.

Rs.19,263 per tonne in FY21 which has further improved to Rs.27,465 per tonne in 9MFY22. Consequently, the group's PBILDT margin also improved to 14.59% for 9MFY22, as against 13.09% in FY21. While the elevated levels of spreads may not sustain and witness moderation beyond FY22, 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 sustain growth in the sales volumes and report envisaged PBILDT/tonne and to generate adequate accruals to support its capex shall remain a key monitorable.

Sizeable deleveraging
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 in 9MFY22. The overall gearing (including acceptances) of the group improved and stood comfortable, at 0.93x as on December 31, 2021, as compared with 1.09x as on March 31, 2021 (1.62x as on March 31, 2020). With repayments and pre-payments, the group has been able to reduce its term debt on a combined level by Rs.1,669 crore over the last seven quarters, from Rs.4,286 crore as on March 31, 2020 to Rs.2,617 crore as on December 31, 2021. The debt coverage ratios of the group have also improved, marked by total debt to annualised PBILDT ratio of 1.49x as on December 31, 2021 (2.41x as on March 31, 2021), owing to healthy profitability during 9MFY22. The interest coverage ratio also jumped to 13.82x during 9MFY22 (9MFY21: 3.10, FY21: 4.01x), backed by a decline in the interest cost coupled with healthier PBILDT. Going forward, notwithstanding the capex, CARE Ratings expects the group's leverage to remain at healthy levels on the back of the generation of healthy free cash flows.

Impending merger of JSHL with JSL
The 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 57.12% 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 Rs.1,050 crore, as on March 31, 2021, being inter-corporate deposits extended by JSHL to JSL and cancellation of cross guarantees and investments. The merger is subject to various approvals from statutory authorities; the group has received approval from the stock exchanges/SEBI in March 2021 and the first motion application file was filed with NCLT on March 17, 2021. Moreover, the National Company Law Tribunal (NCLT), Chandigarh, while hearing the first motion petition on February 25, 2022, pronounced the detailed order for convening the meetings of the shareholders and creditors of JSHL for approving the scheme of the merger between both the companies.

Key Rating Weaknesses
Exposure to raw material price volatility and forex fluctuation risks
The primary raw materials for the group are stainless-steel (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 stainless-steel 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 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 in JSL
JSL has embarked on a considerable increase in its manufacturing capacity from 1.1 MTPA to 2.1 MTPA, which is being undertaken through a brownfield expansion in Jajpur at a total estimated cost of Rs.2,100 crore, proposed to be funded through debt/capex LCs of Rs.1,613 crore and the rest through internal accruals. Besides, JSHL is expanding its precision stripes and blades steel capacity in SPD at a total capex of Rs.450 crore, being funded through debt of Rs.150 crore and the remaining through 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.

Cyclicality inherent in the 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, 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 provide 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. Stainless steel 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. The long-term growth prospects of the industry remain favourable due to significant scope in increasing per capita consumption. Furthermore, revocation of the anti-dumping duty (ADD) and countervailing duty (CVD) on certain steel products while reducing customs duty uniformly on semis, flat, and long products of non-alloy, alloy, and stainless steels from 10-12.5% levels earlier, along with the reduction in import duty to nil on steel scrap, is expected to support end-user industries that are hit hard by the sharp rise in steel prices. This may result in an increase in imports from these countries to India, 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.

Liquidity: Strong
The liquidity position of the group has improved and remains strong, supported by reducing term debt levels and healthy cash accruals. The projected cash accruals for FY22 are more than adequate to cover its combined scheduled repayment obligation of Rs.77 crore. The group had cash and cash equivalents of Rs.89 crore as on December 31, 2021. The group has planned a capex of Rs.2,600 crore for expanding capacity by 1.0 MTPA in JSL, besides special products capacity expansion in JSHL, which is expected to be funded with capex LCs/debt of around Rs.1,800 crore and the rest through accruals. The average fund-based working capital utilisation of the group stood moderate, at around 50-55% for the trailing 12-months ended December 2021.

Analytical Approach: 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 Rs.1,050 crore, the interest payments on which are being accrued only. 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, and currently, the next stage of approval is pending at the NCLT Chandigarh.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies
Factoring Linkages Parent Sub JV Group
Rating Methodology-Steel Companies
Liquidity Analysis of Non-Financial Sector Entities

About the Group
JSL and JSHL are associate concerns, part of the Ratan Jindal Group, and are among the leading integrated stainless-steel producers in the country with a combined steel melting capacity of 1.90 million tonne per annum (MTPA), as on December 31, 2021. 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 stainless steel which are high value-added products including precision strips and defence products**.**

(Rs. Crore)

Brief Financials (Combined)	FY20 (UA)	FY21 (UA)	9MFY22 (UA)
Total operating income (TOI)	19,172	18,661	23,814
PBILDT	2,068	2,443	3,474
PAT (Continuing operation)	474	905	1,924
Overall Gearing (times)	1.62	1.09	0.93
PBIDLT Interest coverage (times)	2.65	4.01	13.82

UA: Un Audited, FY20 and FY21 audited financials of JSL and JSHL are combined line-by-line basis

(Rs. Crore)

Brief Financials of JSHL (Standalone)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income (TOI)	8,435	8,492	9,831
PBILDT	958	1,095	1,487
PAT (Continuing operation)	320	478	918
Overall Gearing (times)	1.59	1.09	0.83
PBIDLT Interest coverage (times)	3.15	4.65	18.20

A: Audited; UA: Un Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history (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: Please refer Annexure-4

Annexure-1: Details of Instrument

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)		-	-	7-364 days	100.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	2117.62	CARE A1+	1)CARE A1+ (03-Jan-22) 2)CARE A1+ (CWD) (01-Jul-21)	1)CARE A2+ (CWD) (08-Jan-21) 2)CARE A2+ (15-Sep-20)	1)CARE A2+ (30-Aug-19)	1)CARE A2+ (25-Jul-18)
2	Fund-based - LT-Cash Credit	LT	567.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Jan-22) 2)CARE A+ (CWD) (01-Jul-21)	1)CARE A- (CWD) (08-Jan-21) 2)CARE A-; Stable (15-Sep-20)	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)
3	Fund-based - LT-Term Loan	LT	1324.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Jan-22) 2)CARE A+ (CWD) (01-Jul-21)	1)CARE A- (CWD) (08-Jan-21) 2)CARE A-; Stable (15-Sep-20)	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)
4	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	NA
I	
Ii	
B. Non financial covenants	NA
I	
Ii	

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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