JINDAL STEEL ODISHA LIMITED

December 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Long Term Bank Facilities	15,728.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**15,728.00 (Rs. Fifteen Thousand Seven Hundred Twenty-Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating 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 expected to extended by JSPL for JSOL's proposed 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 proposed to be 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 Rs.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 nascent 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.

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 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 credit profile of JSPL

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage: JSOL is promoted by Jindal Steel and Power Limited (JSPL) (rated CARE AA-; Stable/ CARE A1+). JSPL, part of the Naveen Jindal group, 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 V.R. Sharma, 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 Rs.19,085 per tonne in FY21 (refers to the period from April 1 to March 31) which further improved to Rs.24,520 per tonne in H1FY22 (refers to the period from April 1 to September 30). The overall gearing (including acceptances) of the company improved and stood comfortable at 0.60x as on September 30, 2021 as compared with 1.13 as on March 31, 2021 (1.35x as on March 31, 2020). The company 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 proposed 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

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

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 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 optimizing the overall project construction and commissioning time frame. The project is planned to be implemented in a modular manner wherein a part of pellet capacity, slab caster and hot strip mill will be installed first by FY23. 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 Rs. 1,800 crore till November 24, 2021 by way of equity infusion from JSPL and Capex LC issuances. Project debt is in process of getting tied up and timely sanctions 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 Steel Mill (HSL), Metso Outotec, USA for pellet plant, Daniele, Italy for slab caster, and CISDI Engineering Co., China for the blast furnace.

Key Rating Weaknesses

Inherent time overrun and cost overrun risk: The total project cost is expected to be ~Rs. 22,468 crore. The debt-equity proportion of the project in the base case is expected to be 70:30 (Rs.15,728 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 nascent 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 applied for the environmental clearance and consent to establish and the same is under process for approval. Moreover, 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: Steady vaccination ramp-up and easing of COVID-related restrictions are likely to help in broadening the recovery, and external demand conditions remain supportive. After remaining subdued in H1FY22, construction and infrastructure activities are expected to recover strongly in H2FY22 as a seasonally strong demand period sets in. This bodes well for steel players JSPL with two-thirds of its product portfolio catering largely to India's Construction & Infrastructure sector. Declining iron ore prices could aid margins for the company going forward with part of this key raw material sourced from third parties at this juncture. The domestic steel industry, however, continues to grapple with the sharp rise in the coking coal prices. Premium Hard Coking coal has risen by 180% so far in FY22 and currently trading close to USD 350/t levels. However, the resumption of Russel Vale mine in Australia will provide some relief to JSPL from rising coking coal costs and the first shipment has already been reached to JSPL India in December 2021.

Liquidity: Adequate

JSOL's liquidity is expected to remain supported by equity commitment and fund infusions from JSPL and drawdown of project in the project execution phase. Till November 24, 2021, JSPL has infused about Rs. 550 crore of equity in JSOL through its internal accruals. 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 and 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 to 15.6 Million Tonne from 9.6 Million Tonne as on September 30, 2021. 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 projects is expected to be ~Rs. 22,468 crores. The debt-equity proportion of the project in base case is expected to be 70:30. The project is being undertaken in a separately incorporated subsidiary of JSPL (Jindal Steel Odisha Limited-JSOL). Jindal Steel Odisha Limited (JSOL) is a Special Purpose Vehicle (SPV) and a wholly owned subsidiary of Jindal Steel & Power Limited (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. The company already has the land at Angul plant, Odisha which is currently under the name of JSPL and will be 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 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: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Proposed Term Loan		-	-	-	15728.00	CARE A+; Stable

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	Fund-based - LT-Proposed Term Loan	LT	15728.00	CARE A+; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable as rated debt is proposed

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT- Proposed Term Loan	Simple

Annexure 5: Bank Lender Details for this Company: NA as the rated debt is proposed

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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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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