

Jindal Stainless (Hisar) Limited

July 25, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities (Term Loan)	2,359.69 (reduced from 2,547)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE BBB+;Stable [Triple B Plus; Outlook: stable]
Long term Bank Facilities (Fund-based)	770	CARE A-; Stable [Single A Minus; Outlook: Stable]	Revised from CARE BBB+;Stable [Triple B Plus Outlook: stable]
Short-term Bank Facilities (Non-fund-based)	3,055	CARE A2+ [A Two Plus]	Revised from CARE A2 [A Two]
Total Facilities	6,184.69 (Rs. Six Thousand One Hundred Eighty Four crore and Sixty Nine lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of Jindal Stainless (Hisar) Limited (JSHL) factors in the improvement in the operational and financial performance of the company during FY18 (refers to the period April 1 to March 31). The company reported healthy growth in total operating income and profitability aided by improved domestic demand scenario backed by imposition of countervailing duty. Improved income and profitability resulted in healthy cash generation and improvement in debt coverage indicators. The ratings continue to derive strength from the experienced promoter group and management with established track record of operations, JSHL's established market position in the stainless steel manufacturing industry and diversified end user industries.

These rating strengths are however, partially offset by the high overall gearing of JSHL, susceptibility to volatility in raw material prices and foreign exchange fluctuation, JSHL's exposure to group companies, working capital intensive nature of business operations and cyclical nature inherent in the stainless steel industry.

Going forward, the ability of the company to achieve the envisaged revenue and profitability and improve its capital structure while managing the working capital requirements efficiently shall remain the key rating sensitivity. Also, any higher than expected debt funded capital expenditure resulting in increased leverage shall also remain key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in overall financial risk profile during FY18

JSHL reported improvement in overall financial risk profile characterized by improved gearing and debt coverage indicators during FY18 aided by improved profitability and cash accruals. The PBILDT and PAT margin of the company remained healthy at 13.26% and 4.20% in FY18. The gross cash accruals also improved to Rs.707.78 crore during FY18 as against Rs.521.32 crore during FY17. The debt coverage indicators also improved during FY18 with interest coverage of 3.16x and total debt to PBILDT of 3.07x as against 2.36x and 4.56x respectively during FY17.

Improved operational performance during FY18

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

The company has reported healthy operational performance during FY18 with capacity utilization of 87% as against 83% during FY17. The company has reported improvement in sales of stainless steel with a growth of 13% y-o-y along with improvement in average realizations which improved by ~10% in FY18. The improvement in sales was largely on account of increase in sales of 200 and 300 grades during FY18.

Experienced promoters and management with established track record of operations

Jindal Stainless (Hisar) Limited (JSHL) is a part of OP Jindal group. The company was incorporated in July, 2013 and became a wholly owned subsidiary of JSL in December, 2014. The company is promoted by Mr. Ratan Jindal, who has more than 26 years of experience in the stainless steel industry. Post implementation of the Composite scheme 57.67% stake of JSHL is owned by the promoters and promoter group companies. The company is currently managed by a board of directors including Mr. Abhyuday Jindal (Managing Director) and other professionals who have long standing experience in the industry.

Established position in the stainless steel manufacturing industry

The Hisar plant was established in 1975 and has a long track record of profitable operations. The company has a capacity of 0.8 MTPA and together with JSL, the group has a dominant market share in the Stainless Steel Industry of India with aggregate capacity of 1.6 MTPA. The group is amongst the large stainless steel producers in the world.

Diversified end user industries

JSHL is engaged in the production of three grades of stainless steel namely, 200 grade, 300 grade and 400 grade. 200 grade finds application in utensils, household goods, kitchen appliances, tubes, pipes, automobiles, etc. contributes ~45% to the top line of the company. The other two grades, viz. 300 grade, which finds application in railway coaches, high temperature applications, power plants, etc. and 400 grade, which finds application in razor blades, coins, consumer durables, etc., contribute ~40% and ~15% respectively.

Key Rating Weaknesses

Exposure to volatility in raw material prices and foreign exchange

The main raw material for JSHL (~73% of cost of sales) is stainless steel scrap. Being commodity product its prices are volatile which may adversely impact the margins. The company imports raw materials (35% of raw material requirements) and also exports finished goods (15% of the finished goods). The company has a trade deficit in terms of higher imports compared to exports. This exposes the company to foreign exchange fluctuation risk. However, the company hedges the forex exposure through forwards mitigating the risk to some extent.

High leverage though improving continuously

JSHL had reported leveraged capital structure with overall gearing of 3.09x as on March 31, 2018. The overall gearing has however improved from 5.21x as on March 31, 2017 largely on account of reduced debt levels owing to lower working capital borrowing and scheduled repayment of debt during the year. This along with improved network due to accretion of profits to reserves resulted in improved gearing levels. Going forward, since there is no debt funded capex envisaged over FY19 and FY20, with the scheduled repayment and accretion of profit to network it is expected that the overall gearing will improve further.

Exposure towards subsidiaries/group companies

JSHL has exposure to the subsidiaries/associates in the form of investments and loans & advances of Rs.1,351.63 crore as on March 31, 2018 (PY: Rs.936.63cr). Further JSHL has also extended corporate guarantee of Rs.2,691.06cr as on March 31, 2018 (PY: Rs.5,194cr) to its associate company Jindal Stainless Limited (JSL). The quantum of corporate guarantee has reduced considerably over the previous year, but continues to be significant. Going forward, any increase in exposure

towards group companies in the form of investment or loans & advances shall remain key monitorable from the credit perspective.

Cyclicality of the steel industry

The stainless steel industry is sensitive to the shifting business cycles including changes in the general economy and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several projects bunching-up and coming on stream simultaneously leading to demand supply mismatches. Furthermore, the industry faces the risks like increase in capacity of global players, entry of multinational players in India, changes in end usage pattern and fluctuation in raw material prices.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Steel Sector](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Jindal Stainless (Hisar) Limited (JSHL) was incorporated as a private limited company in the year 2013 in the name of KS Infra Tower and Landmark Private Limited. The company's name was later changed to the Jindal Stainless (Hisar) Private Limited in August, 2014 and it was subsequently converted into a public limited company in December, 2014. JSHL has been established pursuant to the Asset Monetization cum Business Reorganization Plan (AMP) being implemented by JSL. JSHL, was formerly part of Jindal Stainless Limited (JSL) (rated CARE BBB-; Stable/CARE A3, June 2018) and pursuant to the approval of composite scheme of arrangement by Hon'ble High court of Punjab & Haryana, the Hisar plant was transferred from JSL to JSHL.

The Hisar plant has an integrated stainless steel plant with a capacity of 8,00,000 tonnes per annum (TPA)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	6,926	9,422
PBILDT	972	1,250
PAT	218	396
Overall gearing (times)	5.21	3.09
Interest coverage (times)	2.36	3.16

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Sudhir Kumar

Tel: 011-45333232

Email: sudhir.kumar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	3055.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	770.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March 2027	2359.69	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	3055.00	CARE A2+	-	1)CARE A2 (14-Nov-17)	1)CARE A3 (07-Oct-16)	1)Provisional CARE A3 (18-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	770.00	CARE A-; Stable	-	1)CARE BBB+; Stable (14-Nov-17)	1)CARE BBB- (07-Oct-16)	1)Provisional CARE BBB- (18-Jan-16)
3.	Fund-based - LT-Term Loan	LT	2359.69	CARE A-; Stable	-	1)CARE BBB+; Stable (14-Nov-17)	1)CARE BBB- (07-Oct-16)	1)Provisional CARE BBB- (18-Jan-16)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com