Jindal Stainless (Hisar) Limited

August 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities (Term Loan)	2111.46 (reduced from 2,359.69)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Long term Bank Facilities (Fund-based)	770	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities (Non-fund-based)	3,055	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	**5,936.46 (Rupees five thousand nine hundred thirty six crore and forty six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of of Jindal Stainless (Hisar) Limited (JSHL) continue to derive strength from the experienced promoter group and management with long track record of operations, JSHL's established market position in the stainless steel industry and diversified end user industries. The ratings favourably take into account healthy cash accruals, comfortable debt coverage indicators and improvement in JSHL's operating cycle. The operations of the company have further been aided by government's support through imposition of duties against cheap imports to safeguard the interests of domestic steel producers. The ratings take cognizance of moderation in operational performance of the company marked by lower volumes as well as profitability margins during FY19 (refers to the period from April 1 to March 31) and Q1FY20 (refers to the period from April 1 to June 30) amid higher raw material prices.

These rating strengths are however, partially offset by the high albeit improving leverage, sizable exposure towards group companies, susceptibility to volatility in raw material prices and foreign exchange fluctuation, and cyclicality inherent in the stainless steel industry.

Going forward, the ability of the company to sustain healthy volumes and profitability margins through the cycles in the stainless steel industry and register reduction in group exposures and standalone debt levels shall remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management with established track record of operations

Jindal Stainless (Hisar) Limited (JSHL) is a part of Rattan Jindal group. Post implementation of the Composite scheme, 57.67% stake of JSHL is owned by the promoters and promoter group companies as on June 30, 2019. 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. The Hisar plant was established in 1975 and has a long track record of profitable operations. The plant has a capacity of 0.8 MTPA as on June 30, 2019 and together with JSL, the group has a dominant market share in the Indian Stainless Steel Industry with aggregate capacity of 1.7 MTPA making it amongst the largest stainless steel producers in the world.

Healthy cash accrual albeit moderation in operational performance

The operational performance of the JSHL has continued to remain healthy, reflecting capacity utilization above 85% over the past three years. Although the production witnessed a decline by 3% on y-o-y basis in FY19, the realization has improved by around 11% on the back of higher contribution from specialty products (which includes razor blades, precision strips and other surgical products). The operating income of the company witnessed a decline of around 4% on y-o-y basis on the back of 10% decline in sales volume. However, the company, on the back of adequate cash accruals, scheduled debt repayment (and prepayment of Rs.97 crore) and lower working capital utilization, reported finance cost lower by 12% in FY19. During Q1FY20 (refers to the period from April 1 to June 30), the company reported an operating income of Rs.2,172 crore (Rs.2158 crore during Q1FY19) and a PAT of Rs.84 crore (Rs.79 crore during Q1FY19).

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

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. The other two grades, viz. 300 grade, which finds application in railway coaches, high temperature applications, power plants and 400 grade, which finds application in razor blades, coins, consumer durables, etc.

Key Rating Weaknesses

High albeit improving gearing and moderate debt metrics

The company's leverage, although high, has been consistently improving over the past three years. The overall gearing (including LC acceptances) as on March 31, 2019 improved to 2.05x as compared with 3.09x as on March 31, 2018 on the back of reduced debt levels as a result of stable cash accruals and lower working capital borrowing, scheduled repayment (and prepayment) of debt. Further, the net-worth of the company has also strengthened over the years due to accretion of profits to reserves. Despite the high gearing levels, the debt coverage indicators remained moderate during FY19 with interest coverage of 2.86x (PY – 3.16x) and high total debt to GCA of 5.78x (PY – 5.42).

Sizable exposure towards subsidiaries/group companies

JSHL has exposure to the subsidiaries/associates in the form of investments and loans & advances which stood at Rs.1,351.63 crore as on March 31, 2019 (unchanged from last year). Further JSHL has also extended corporate guarantee of around Rs.4,820 crore as on March 31, 2019 (PY: Rs.5,452 crore) to lenders of its associate company Jindal Stainless Limited (JSL, rated CARE BBB-; Stable/ CARE A3). Going forward, any increase in exposure towards group companies in the form of investment or loans & advances shall remain a key monitorable from the credit perspective.

Exposure to volatility in raw material prices during FY19 and foreign exchange

The main raw material for JSHL (~73% of cost of sales) is stainless steel scrap and nickel. Being commodity product its prices are volatile which may adversely impact the profitability of the company. The company imports raw materials (21% of raw material requirements) and also exports finished goods (15% of the finished goods). The company is a net importer and remains exposed to foreign exchange fluctuation risk. However, the company hedges the forex exposure (both import and export legs separately) through forwards mitigating the risk to some extent.

Cyclicality of the stainless 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. The demand for processed steel is a derived demand and its prospects are closely linked to the demand emanating from the stainless steel industry. The demand of stainless steel is driven by government spending on infrastructure development, growth in the real estate sector and demand from other stainless steel consuming sectors such as automobiles, railways, consumer durables etc.

Liquidity

The company has adequate liquidity supported by healthy gross cash accruals of Rs. 532 crore during FY19 and Rs.151 crore during Q1FY20 (refers to the period from April 1 to June 30) as against a low debt repayment obligation of Rs.182 crore during FY20. The free cash and bank balances stood at Rs.17.92 crore as on March 31, 2019. The cash flow from operations was supported through faster rotation of cash due to improved credit cycle with customers (resulting in faster collection) and low inventory holding period. The average working capital utilization during the 12-month period ending May 2019 stood low at around 56% as a result of improving operating cycle and healthy cash accruals.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
CARE's Methodology for factoring linkages in ratings
Financial ratios – Non-Financial Sector
Rating Methodology- Steel 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, 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 on a slump sales basis with a total consideration of Rs.2,809 crore. The Hisar plant has an integrated stainless steel plant with a capacity of 8,00,000 tonnes per annum (TPA).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	9422	9049
PBILDT	1250	993
PAT	396	262
Overall gearing (times)	3.09	2.05
Interest coverage (times)	3.16	2.86

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

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	2111.46	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	3055.00	CARE A2+	-	1)CARE A2+ (25-Jul-18)	1)CARE A2 (14-Nov-17)	1)CARE A3 (07-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	770.00	CARE A-; Stable	-	1)CARE A-; Stable (25-Jul-18)	1)CARE BBB+; Stable (14-Nov-17)	1)CARE BBB- (07-Oct-16)
3.	Fund-based - LT-Term Loan	LT	2111.46	CARE A-; Stable	-	1)CARE A-; Stable (25-Jul-18)	1)CARE BBB+; Stable (14-Nov-17)	1)CARE BBB- (07-Oct-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: None

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. Ajay Dhaka
Contact No: 011-45333218
Email ID- ajay.dhaka@careratings.com

Business Development Contact
Name: Ms. Swati Agrawal
Contact no. : 011-45333200
Email ID: swati.agrawal@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.

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