Jindal Stainless (Hisar) Limited

September 15, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities (Term Loan)	2,811.46 (reduced from 2881.46)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities (Non-fund-based)	2,150 (reduced from 3,055)	**CARE A2+ [A Two Plus]**	**Reaffirmed**
Total Facilities	**4,961.46 (Rupees four thousand nine hundred sixty one 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 Jindal Stainless (Hisar) Limited (JSHL) continue to derive strength from the experience of promoters and management in stainless steel industry, long track record of operations of Hisar plant, its established market position and diversified end user industries with an emphasis on value-added products. The ratings favourably take into account JSHL's steady operational performance characterized by healthy per-tonne operating profits, which coupled with an improvement in gearing owing to reduction in debt levels, resulted in healthy cash accruals. The rating also takes cognizance of the slew of measures taken by the Government in the recent past including imposition of various duties to provide a level playing field to domestic stainless-steel manufacturers. These rating strengths are, however, partially offset by the high, albeit improving, leverage, susceptibility of the company's sales realizations and profit margins to volatility in raw material prices as well as to cheap imports and foreign exchange fluctuations and cyclicality inherent in stainless steel industry.

Rating Sensitivities

Positive Factors

- Increase in sales volumes beyond 0.70 MTPA and PBILDT per ton above Rs.16,000 on sustained basis
- Improvement in overall gearing to below 1.0x and total debt/PBILDT below 2.5x on sustained basis

Negative Factors

- Decline in sales volumes below 0.50 MTPA and PBILDT per ton below Rs.13,000
- Deterioration in overall gearing beyond 2.0x and total debt/PBILDT above 4.0x

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 part of the Ratan Jindal group which has been in the stainless-steel industry for more than two decades. The promoters and promoter group companies held 57.67% stake in the company as on June 30, 2020. 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 group's Hisar plant was established in 1975 and has a long track record of profitable operations. The plant has a capacity of 0.8 metric ton per annum (MTPA) as on June 30, 2020 and together with Jindal Stainless Ltd (JSL – rated CARE BBB; Stable/ CARE A3+), the group has a strong market share in the Indian stainless steel industry with aggregate capacity of 1.90 MTPA making it amongst the largest stainless steel producers in the world.

Steady operational performance: JSHL's operational performance has largely been steady, notwithstanding some moderation seen during FY20 (refers to the period from April 1, 2019 to March 31, 2020) in terms of lower sales volumes (a decline by 10% from FY19) which may be attributed to subdued demand from the automotive and utensil segments. However, improved sales realizations from the value-added steel segments (comprising of 300-grade and 400-grade) resulted in an improvement in PBILDT per tonne from Rs. 14,894 in FY19 to Rs. 15,945 in FY20. The PAT margin improved from 2.89% in FY19 to 3.80% in FY20 as a result of better PBILDT margin and relatively lower interest expense. The company has consistently reported healthy cash accruals, which improved from Rs.532 crore in FY19 to Rs.549 crore in FY20. The company's operations were adversely impacted during the lockdown. However, the production is gradually picking pace in line with the revival of demand for stainless steel.

Diversified end user industries and emphasis on value added products: JSHL is engaged in the production of all grades of stainless steel namely, 200-grade, 300-grade and 400-grade. The 200-grade finds application in utensils, household goods,

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

kitchen appliances, tubes, pipes, etc. the company also manufactures 300-grade, which finds application in railway coaches, high temperature applications, power plants and 400 grade, which finds application in razor blades, coins, automobiles and consumer durables. The company also makes speciality stainless steel and other value-added products which yield relatively higher returns compared to other commoditized stainless-steel products.

Key Rating Weaknesses

High, albeit improving, gearing and moderate debt metrics: The capital structure of JSHL has improved consistently over the years as a result of accretion of profits to the reserves and reduction in debt level; nonetheless, it remains moderately leveraged. The total debt (including acceptances) reduced from Rs. 3,074 cr as on March 31, 2019 to Rs. 2,874 cr. as on March 31, 2020 and the overall gearing (including LC acceptances) improved to 1.58x as on March 31, 2020 from 2.05x as on March 31, 2019. The debt coverage indicators also improved marked by total debt/PBILDT of 3.01x and total debt to GCA of 5.25x as on March 31 ,2020 (PY – 3.10x and 5.78x respectively) on the back of reduction in debts and better accruals. The PBILDT interest coverage improved from 2.86 in FY19 to 3.15 in FY20 on account of lower interest cost. Besides, there is an off-balance sheet exposure in form of corporate guarantee extended by JSHL for the loan availed by JSL to the tune of Rs.4,842 crore as on March 31, 2020 (PY: Rs.4,820 crore). However, JSL has also extended a corporate guarantee to the tune of Rs.3,378 crore as on March 31, 2020 (Rs.3,774 crore as on March 31, 2019) for debts availed by JSHL.

Exposure to raw material price volatility and forex fluctuation risk: The primary raw materials for the company are stainless steel (SS) scrap, nickel and ferrochrome ore; the prices of which remain volatile these being commodity products. The prices of nickel continued the trends of previous year and remained volatile in the range of $11,858- $17,540 per MT in the last one year, while the prices of SS scrap and ferrochrome declined steadily throughout FY20. Any sharp increase in the raw material prices may adversely impact the margins of the company 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. Similarly, since the company largely procures chrome ore externally from a large player, it is susceptible to upward movements in chrome prices. As a net importer, JSHL remains exposed to foreign exchange risk, which is partly mitigated by hedging on both imports and exports – the company is exposed to the extent of its unhedged exposure (around 9% of the outstanding trade payables as on March 31, 2020). Nonetheless, the company earned foreign exchange gains of around Rs.19 crore during FY20 (PY: gain of around Rs.32 crore).

Cyclicality inherent in 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, 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. However, for manufacturers like JSL and JSHL, the wide presence across the value chain and a higher share of value-added products, provide better protection against cyclicality and related fluctuations in prices of commoditized stainless steel products.

Industry growth prospects: The demand for processed steel is a derived demand from major end user industries like 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 development of new uses and steady demand from its traditional uses. From year 1999 to 2019, the demand for stainless steel has grown at a CAGR of 8.10%. While the SS consumption is likely to dip in FY21 due to covid-19 related lockdowns, the long-term growth prospects of the industry remains favorable due to significant scope in increasing per capita consumption. Furthermore, domestic SS industry enjoys a level playing field with CVD being in place from Imports from China and Vietnam and recently recommended CVD on imports from Indonesia, if implemented, would provide further a level playing field to domestic players against sharply rising imports from FTA nations.

Liquidity: Adequate

JSHL has adequate liquidity characterized by expected cash accruals of around Rs 548 crore during FY21 against which it has debt repayment obligations of Rs.130 crore in FY21. The company had free cash balance of around Rs.18.52 crore as on March 31, 2020 (PY: Rs.17.92 crore). The proposed capacity expansion of specialty steel division is estimated to have total project cost of Rs.190 crore proposed to be funded by Rs. 150 crore debt and rest by internal accruals. The average unused limits in fund-based facilities to the extent of 62% enable the company to meet any fluctuations in cash flows in any adverse market scenarios. The company has availed moratorium extended by banks on its debt obligations.

Analytical approach: Standalone, while also factoring in linkages with Jindal Stainless Limited (JSL) in the form of a common management, shared resources, presence of cross corporate guarantees for the debt availed by the two companies and extension of inter corporate deposit of Rs.900 crore in the past by JSHL to JSL. However, both JSHL and JSL have been self-sufficient in meeting their respective financial obligations. CARE believes that, in the future also, these entities would remain self-sufficient and no tangible financial support is envisaged to be provided by the two companies to each other.

Applicable Criteria
Criteria for assigning outlook and Credit Watch
Consolidation & Factoring Linkages in Ratings
Liquidity Analysis of Non-Financial Sector
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology - Manufacturing Companies
Rating Methodology- Steel Sector

About the Company
Jindal Stainless (Hisar) Limited is one of the largest domestic stainless steel producers with steel melting capacity of 0.80 Million tonne Per Annum (MTPA) as on June 30, 2020. The company's manufacturing facilities are located at Hisar (Haryana). It also has a ferro alloys manufacturing facility located at Vishakhapatnam (Andhra Pradesh) and a captive chromite mine located at Odisha. JSHL is engaged in production of standard and specialty stainless steel which are high value-added products including precision strips and defense products.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	9049	8435
PBILDT	993	957
PAT	262	320
Overall gearing (times)	2.05	1.58
Interest coverage (times)	2.86	3.15

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: N.A

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	-	-	-	2150.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	700.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	July 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	2150.00	CARE A2+	-	1)CARE A2+ (30-Aug-19)	1)CARE A2+ (25-Jul-18)	1)CARE A2 (14-Nov-17)
2.	Fund-based - LT-Cash Credit	LT	700.00	CARE A-; Stable	-	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)	1)CARE BBB+; Stable (14-Nov-17)
3.	Fund-based - LT-Term Loan	LT	2111.46	CARE A-; Stable	-	1)CARE A-; Stable (30-Aug-19)	1)CARE A-; Stable (25-Jul-18)	1)CARE BBB+; Stable (14-Nov-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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.*

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