

Jindal Stainless (Hisar) Limited

November 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Term Loan)	2,547.00 (reduced from 2,600.00)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB- [Triple B Minus]
Long-term Bank Facilities (Fund-based)	770.00	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Revised from CARE BBB- [Triple B Minus]
Short-term Bank Facilities (Non-fund-based)	3,055.00 (reduced from 3,180.00)	CARE A2 [A Two]	Revised from CARE A3 [A Three]
Total Facilities	6,372.00 (Rs. Six Thousand Three Hundred and Seventy Two Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Jindal Stainless (Hisar) Limited (JSHL) takes into account the improvement in the financial risk profile marked by the growth in total operating income and improved profitability and debt coverage indicators during FY17 (refers to the period April 1 to March 31). The ratings revision also factors continued healthy capacity utilization levels and reduction in JSHL's exposure to group companies. The lower repayments and healthy cash accruals have improved the debt coverage metrics of JSHL. The rating also takes cognizance of the favorable industry environment supported by the Government of India's recent move to impose countervailing duty on stainless steel imports from China.

The ratings continue to derive strength from the experienced promoter group and management with established track record of operations, JSHL's established market position as one of the largest manufacturer in the stainless steel industry and diversified end user industries. These rating strengths are however, partially offset by the leveraged capital structure susceptibility to volatility in raw material prices and foreign exchange, 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 envisaged revenue & profitability and efficient management of working capital shall be the key rating sensitivities. Also any additional exposure to the group companies impacting the credit profile of JSHL will be key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance during FY17 and Q1FY18

During FY17, the company has witnessed improvement in its financial risk profile marked by growth in operating income and improvement in profitability & debt coverage indicators. The operating income of the company witnessed growth of ~8% to Rs. 6,926.41 crore in FY17 (PY: Rs. 6399.63 crore). The growth was largely driven by higher volume sales coupled with better sales realization. The company has registered volume sales of 656,880 tonnes during FY17 increased from 622,682 tonnes in FY16. The PBILDT margin of the company increased to 14.04% in FY17 from 12.92% in

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

FY16 attributable to lower raw material cost and focus of the company on high margin products such as cold rolled annealed & pickled products. The PAT margin of the company increased to 3.12% in FY17 from 0.37% in FY16 largely because of lower finance cost. The interest coverage ratio of the company improved from 1.76x in FY16 to 2.36X in FY17 largely on account of higher operational profitability coupled with lower finance cost. Further in Q1FY18, the company achieved total operating income (TOI) of Rs. 2438.27 crore.

Healthy operational performance

The operational performance of the company has continued to remain healthy with capacity utilization of steel melting segment above 80% in last four years. The company has focussed on the value added products and the capacity of cold rolled products remained fully utilized.

Experienced promoters and management with established track record of operations

JSHL is a part of OP Jindal group. 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 AMP, 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. Ashok Kumar Gupta, Mrs. Deepika Jindal, Mr. Girish Sharma and Mr. Kanwaljit Singh, who have long standing experience in the industry. JSHL is one of the largest domestic stainless steel (S.S.) producers with a current steel melting capacity of 0.8 Million Tonnes Per Annum (MTPA), with manufacturing facility located at Hisar (Haryana). It also has a ferro alloys manufacturing facility located at Vishakhapatnam (Vizag, Andhra Pradesh).

Established position in the stainless steel manufacturing industry

JSHL along with JSL has dominant market share in the stainless steel Industry of India with installed capacity of 1.6 million tons. The company is presently exporting about 20% of its production to various countries. It produces standard and specialty stainless steel in each of the 200, 300 and 400 series grades for kitchen-ware, commercial, industrial and home applications. The company has reputed clientele including government/PSU clients like Indian railways, NTPC, BHEL etc. and private players including Gillette.

Diversified end user industries

JSHL is engaged in the production of three grades of stainless steel namely, 200 series, 300 series and 400 series. 200 series finds application in utensils, household goods, kitchen appliances, tubes, pipes, automobiles, etc. contributes ~52% to the top line of the company. The other two grades, viz. 300 series, which finds application in railway coaches, high temperature applications, power plants, etc. and 400 series, which finds application in razor blades, coins, consumer durables, etc., contribute ~29% and ~19% respectively. Thus said diversification in terms of multiple end user industries provides mitigation against any fluctuation in the income of the company due to subdued demand scenario from one or more end user industries.

Key Rating Weaknesses

Exposure to volatility in raw material prices and foreign exchange

The main raw materials for JSHL (~72% of cost of sales) are stainless steel scrap and nickel. Being commodity products their prices are volatile which may adversely impact the margins. The company imports raw materials (45% of raw material requirements) and also exports finished goods (18% 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.

Leveraged capital structure however moderate debt coverage indicators

The company has leveraged capital structure marked by high overall gearing owing to term loan raised to pay Jindal Stainless Limited against the consideration for transfer of assets under Asset Monetization cum Business Reorganisation Plan. Additionally, the company has outstanding working capital borrowings i.e. cash credit to the extent of Rs. ~437 crore as on March 31, 2017. The overall gearing stood at 5.53x as on March 31, 2017. Despite the high gearing levels, the healthy cash accruals have led to improved debt coverage indicators which stood at interest coverage of 2.36x and total debt to GCA of 8.34x during FY17. The moderate debt coverage indicators were because of healthy cash accruals generated by the company.

Working capital intensive nature of business operations

The operations of the company are working capital intensive marked by the long inventory holding period and collection period. The gross operating cycle of the company stood at 137 days for FY17 which depicts the high working capital intensity of business operations. The working capital requirements were met through bank borrowings as well as credit period provided by creditors. The average working capital utilization of sanctioned limits of the company stood at 72% for the trailing six months ending September, 2017. However, improving cash accruals have reduced the company's reliance on bank borrowings for working capital requirements as marked by the lower average utilization of working capital limits over the quarter ending September 2017.

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 originally 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 present name 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 Jindal Stainless Limited (JSL). JSHL, was formerly part of Jindal Stainless Limited (JSL) (rated CARE D/ CARE C; Stable/CARE D, April 2017) 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 company is primarily engaged into sales of HR coils and CR coils of stainless steel. The exports form ~20% of total sales of the company. The major export destinations include Latin America, Europe, Middle East, etc.

JSL has implemented an AMP entailing transfer of identified business undertakings through a composite scheme of arrangement. The objective of the said scheme was to unlock shareholder value in JSL, reduction of debt along with improvement in debt serviceability, increase in profitability and to ensure its long term stability.

As per the AMP, Vizag undertaking (High Carbon Ferro Chrome manufacturing division with installed capacity of 40,000 MTPA) of JSL was demerged in to JSHL. Further Hisar undertaking of JSL (with integrated 0.8 MTPA SS capacity) was slump sold to JSHL. The transaction value of demerger & slump sale was Rs.3,395 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6399.63	6926.41
PBILDT	826.91	972.34
PAT	23.94	215.76
Overall gearing (times)	3.82	5.53
Interest coverage (times)	1.76	2.36

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information:NA

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.

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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 BBB+; Stable
Fund-based - LT-Term Loan	-	-	March, 2027	2547.00	CARE BBB+; 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 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 A3 (07-Oct-16)	1)Provisional CARE A3 (18-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	770.00	CARE BBB+; Stable	-	1)CARE BBB- (07-Oct-16)	1)Provisional CARE BBB- (18-Jan-16)
3.	Fund-based - LT-Term Loan	LT	2547.00	CARE BBB+; Stable	-	1)CARE BBB- (07-Oct-16)	1)Provisional CARE BBB- (18-Jan-16)

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