Jindal Stainless Limited

March 15, 2018

Ratings

S.No.	Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
(i)	Long-term Bank Facilities (Term Loans)	1,811.98 (reduced from 3,224)	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE D [Single D]
(ii)	Long-term Bank Facilities (Working Capital Limits)	920	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE D [Single D]
(iii)	Long-term Bank Facilities (Subordinate Debt)	-	-	Withdrawn
(iv)	Short-term Bank Facilities	3,190	CARE A4+ [A Four Plus]	Revised from CARE D [Single D]
(v)	Long-term Bank Facilities (ECB)	971.52 (reduced from 1,050)	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE C [Single C]
	Total Facilities	**6,893.50 (Rupees Six Thousand Eight Hundred Ninety Three crore and Fifty lakh only)**		
(vi)	Non-Convertible Debentures	208.08 (reduced from 219.00)	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE D [Single D]

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of bank facilities and instruments of Jindal Stainless Limited (JSL) takes into account the delay free track record in servicing of debt obligations by the company. The revision in ratings also factors in the improvement in the operational and financial performance of the company during FY17 (refers to the period April 1 to March 31) and 9MFY18 (refers to the period April 1 to December 31). The ratings continue to derive strength from the experienced promoters and management of the company and established market position of the company in the stainless steel manufacturing industry. The ratings also derive strength from the semi integrated nature of operations and strategic location of the plant with proximity to major raw material.

The ratings are, however, constrained by JSL's leveraged capital structure and its exposure to raw material price volatility and forex fluctuation risk. The ratings also remain constrained by the cyclicality inherent in the steel industry.

Going forward, the ability of the company to improve its capital structure and achieve envisaged revenue and profitability shall remain key rating sensitivities.

CARE has withdrawn the rating assigned to facility (iii) viz long term bank facilities (subordinate loans) of the company with immediate effect as the company has repaid the aforementioned term loans in full and there is no amount outstanding under the said loan as on date.

Detailed description of the key rating drivers
Key Rating Strengths

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

Improvement in Operational and Financial Performance during FY17 and 9MFY18

The company has reported improvement in operational performance during FY17 with capacity utilization of 90.37% during FY17 as against 75.48% during FY16. It has further improved to 99% in 9MFY18. The same has resulted in improved total operating income which increased to Rs.8,332 crore in FY17. The company also reported healthy improvement in PBILDT levels which improved to 13.53% in FY17 from 8.33% in FY16. The key factors contributing towards the improved performance of JSL include operationalization of private railway siding, job work contract for Ferro Chrome Plant with Tata, partial substitution of propane gas with furnace oil/coke oven gas, and gradual built-up in demand of SS and improved fixed cost absorption due to higher volumes.

Experienced promoters and management: JSL is managed by Mr. Ratan Jindal, who has more than three decades of experience in the stainless steel industry. Under his leadership, JSL has implemented the integrated stainless steel facility in Odisha. The company is currently managed by a board of directors including Mr. Ratan Jindal, Mr. Subrata Bhattacharya and Mr. Suman Jyoti Khaitan and other professionals who have long standing experience in the industry.

Long track record with strong market position in domestic stainless steel industry: JSL has a long track record of successfully operating in the stainless steel industry. The company has manufacturing facilities located at Duburi (Orissa). JSL is one of India's largest domestic S.S. producer with a steel melting capacity of 0.80 MTPA. The company has captive thermal power plant, captive ferro chrome facilities, rolling mill and downstream value added facilities.

Semi-Integrated operations with focus towards value added products: JSL is a semi-integrated stainless steel producer with presence along the value chain, with ferro alloys manufacturing facility at Orissa, 250 MW captive power plant at Odhisa and SS plant with melting, casting, HR & CR facilities at Dubri, Odhisa. The company receives chrome ore from Tata for processing which is also purchased by JSL for production of SS. The company manufactures a wide range of S.S. products viz. HR strips/plates, CR strips, special steel and coin blanks for various commercial and industrial applications

Key Rating Weaknesses

Leveraged capital structure and below average debt coverage indicators: JSL has a leveraged capital structure and below average debt coverage indicators. JSL's capital structure is characterized by a high overall gearing of 3.82x as on March 31, 2017. The leveraged capital structure is primarily attributable to large debt funded projects implemented by the company in the past coupled with its high working capital borrowings.

Exposure to raw material price volatility and forex fluctuation risk: The main raw materials for JSL are stainless steel scrap, nickel and chrome ore. Being commodity products their prices are volatile. The prices of nickel have shown significant volatility and were in the range of $7,700 - $19,730 per Metric Ton over the past three years. Any sharp variation in the raw material prices including nickel may adversely impact the margins of the company. Furthermore, the company imports significant proportion of its raw material while a significant portion of sales is made to the domestic market, making the company a net importer.

Cyclicality inherent in 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. 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.

Analytical Approach Followed – Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company

JSL was originally incorporated in 1970 as Jindal Strips Ltd and promoted by the Late Shri O.P. Jindal. During 2002, Jindal Stainless Ltd was formed after a demerger of the Jindal Strips Ltd and is currently headed by Late Shri O.P. Jindal's son, Mr. Ratan Jindal. JSL has implemented an Asset Monetization Plan (AMP) which entailed 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.

JSL is the largest domestic stainless steel (S.S.) producer with steel melting capacity of 0.80 Million Tonnes Per Annum (MTPA). The company's manufacturing facilities are located at Jajpur (Orissa).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6,518	8,332
PBILDT	543	1,127
PAT	(559)	58
Overall gearing (times)	7.09	3.82
Interest coverage (times)	0.54	1.48

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.*

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

About CARE Ratings:

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Disclaimer

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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
Fund-based - LT-Term Loan	-	-	Mar 2027	1811.98	CARE BB+; Stable
Non-fund-based-Short Term	-	-	-	3190.00	CARE A4+
Fund-based - LT-Cash Credit	-	-	-	920.00	CARE BB+; Stable
Fund-based - LT-External Commercial Borrowings	-	-	Nov 2020	971.52	CARE BB+; Stable
Debt-Subordinate Debt	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	-	10.55%	Mar 2022	208.08	CARE BB+; 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	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	208.08	CARE BB+; Stable	1)CARE D; Stable (11-May-17)	1)CARE C (20-Apr-16)	1)CARE C (21-Apr-15)	1)CARE C (04-Jun-14)
2.	Fund-based - LT-Term Loan	LT	1811.98	CARE BB+; Stable	1)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)	1)CARE D (04-Jun-14)
3.	Non-fund-based-Short Term	ST	3190.00	CARE A4+	1)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)	1)CARE D (04-Jun-14)
4.	Debt-Subordinate Debt	LT	-	-	1)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)	1)CARE D (04-Jun-14)
5.	Fund-based - LT-Cash Credit	LT	920.00	CARE BB+; Stable	1)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)	1)CARE D (04-Jun-14)
6.	Fund-based - LT-External Commercial Borrowings	LT	971.52	CARE BB+; Stable	1)CARE C; Stable (11-May-17)	1)CARE C (20-Apr-16)	1)CARE C (21-Apr-15)	1)CARE C (04-Jun-14)

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CIN - L67190MH1993PLC071691