

Jindal Stainless Limited

March 27, 2019

Ratings

S.No.	Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
(i)	Long-term Bank Facilities (Term Loans)	1,516.22 (reduced from 1,628.12)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
(ii)	Long-term Bank Facilities (Working Capital Limits)	920	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
(iii)	Short-term Bank Facilities	3,925	CARE A3 [A Three]	Reaffirmed
(iv)	Long-term Bank Facilities (ECB)	510.27 (reduced from 714.94)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
	Total Facilities	6,871.49 (Rupees Six Thousand Eight Hundred Seventy One crore and Forty Nine lakh only)		
(v)	Non-Convertible Debentures	148.08 (reduced from 167.28)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of Jindal Stainless Limited (JSL) 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 continue to derive strength from the healthy operational performance of JSL, its semi integrated nature of operations and strategic location of the plant with proximity to major raw material.

The ratings, however, continue to remain 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 cyclicity inherent in the stainless steel industry.

Going forward, the ability of the company to achieve the envisaged revenue and profitability, manage its working capital cycle efficiently while reducing its debt levels shall remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management: JSL is promoted 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 who is ably supported by his son Mr. Abhyuday Jindal 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 operations 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 0.90 MTPA. The company has captive thermal power plant, captive ferro chrome facilities, rolling mill and downstream value added facilities of 0.45 MTPA.

Semi-Integrated operations with focus towards value added products: JSL is a semi-integrated stainless steel producer with presence across 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, Odisha. The company manufactures a wide range of S.S. products viz. Plates, Hot Rolled Annealed Pickled (HRAP) coils and Cold Rolled Annealed Pickled (CRAP) coils for various commercial and industrial applications.

Healthy operational performance during 9MFY19; however profitability witnessed moderation: The company has continued to report healthy operational during 9MFY18 with capacity utilization of 98.39% on an increased capacity of 0.90 MTPA after debottlenecking. The same has resulted in improved total operating income which increased to Rs.9,382 crore representing a growth of ~23% over the similar period previous year. However, the profitability remained lower during 9MFY19 on account of higher raw material cost and consumables. The PBILDT margins moderated to 9.09% during 9MFY19 as against 12.13% during similar period previous year.

Liquidity

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

The company had generated gross cash accruals of Rs. 407 crore during 9MFY19. The company is expected to have accruals of around Rs.500 crore during FY19 against which it has repayment obligation of Rs. 412 crore. The working capital utilization stood moderate at 72.86% over the trailing 12 months ended December 2018. Also the liquidity position is supported by free cash and cash equivalents of Rs.14 crore as on December 31, 2018.

Key Rating Weaknesses

Leveraged capital structure: JSL continues to have a leveraged capital structure characterized by a high overall gearing of 2.48x as on December 31, 2018. Although, the same improved marginally from 2.58x as on March 31, 2018, the same continued to remain high. 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 over the past three years and 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 exposed to foreign exchange fluctuation risk. The same is also evident from the moderations in PBILDT to 9.09% during 9MFY19 (refers to the period April 1 to December 31) as against 12.13% during similar period previous year.

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) from 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 0.90 Million Tonnes Per Annum (MTPA) as on December 31, 2018. The company's manufacturing facilities are located at Jajpur (Orissa).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	8,332	10,894
PBILDT	1,127	1,312
PAT	58	318
Overall gearing (times)	3.82	2.58
Interest coverage (times)	1.48	2.43

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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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	-	-	March 2027	1516.22	CARE BBB-; Stable
Non-fund-based-Short Term	-	-	-	3925.00	CARE A3
Fund-based - LT-Cash Credit	-	-	-	920.00	CARE BBB-; Stable
Fund-based - LT-External Commercial Borrowings	-	-	Nov 2020	510.27	CARE BBB-; Stable
Debentures-Non Convertible Debentures	-	10.55%	Mar 2022	148.08	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 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.	Debentures-Non Convertible Debentures	LT	148.08	CARE BBB-; Stable	1)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE C; Stable (11-May-17)	1)CARE C (20-Apr-16)	1)CARE C (21-Apr-15)
2.	Fund-based - LT-Term Loan	LT	1516.22	CARE BBB-; Stable	1)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)
3.	Non-fund-based-Short Term	ST	3925.00	CARE A3	1)CARE A3 (08-Jun-18)	1)CARE A4+ (15-Mar-18) 2)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)
4.	Debt-Subordinate Debt	LT	-	-	-	1)Withdrawn (15-Mar-18) 2)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)
5.	Fund-based - LT-Cash Credit	LT	920.00	CARE BBB-; Stable	1)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE D (11-May-17)	1)CARE D (20-Apr-16)	1)CARE D (21-Apr-15)
6.	Fund-based - LT-External Commercial Borrowings	LT	510.27	CARE BBB-; Stable	1)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE C; Stable (11-May-17)	1)CARE C (20-Apr-16)	1)CARE C (21-Apr-15)

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