Jindal Stainless Limited

June 08, 2018

Ratings

S.No.	Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
(i)	Long-term Bank Facilities (Term Loans)	1,628.12 (reduced from 1,811.98)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Revised from CARE BB+ [Double B Plus]
(ii)	Long-term Bank Facilities (Working Capital Limits)	920	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Revised from CARE BB+ [Double B Plus]
(iii)	Short-term Bank Facilities	3,925 (enhanced from 3,190)	CARE A3 [A Three]	Revised from CARE A4+ [A Four Plus]
(iv)	Long-term Bank Facilities (ECB)	714.94 (reduced from 971.52)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Revised from CARE BB+ [Double B Plus]
	Total Facilities	**7,188.06 (Rupees Seven Thousand One Hundred Eighty Eight crore and Six lakh only)**		
(v)	Non-Convertible Debentures	167.28 (reduced from 208.08)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Revised from CARE BB+ [Double B Plus]

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 improvement in the operational and financial performance of the company during Q4FY18 (refers to the period January 1 to March 31). The company has reported healthy volumes sales aided by improved domestic demand scenario backed by imposition of countervailing duty. Further, during FY18 (refers to the period April 1 to March 31), the company reported healthy gross cash accruals of Rs.787 crore (PY Rs.397 crore). Better profitability coupled with infusion of funds by promoters resulted in improvement in networth which along with efficient working capital management led to improved overall gearing levels. 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, 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 cyclicality 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.

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

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational and financial performance during Q4FY18 and FY18

The company has reported improvement in operational and financial performance during Q4FY18 with capacity utilization of 99.86% during Q4FY18 as against 90.95% in similar period previous year. The same has resulted in improved total operating income and PBILDT which increased to Rs.3,183 crore and Rs.399 crore respectively in Q4FY18 representing a growth of ~37% and ~22% respectively over the similar period previous year. During full year FY18 also the company reported healthy growth in income and profitability with TOI of Rs.10,803 crore and PBILDT of Rs.1,299 crore representing a growth of ~30% and ~18% respectively over FY17. The company reported healthy gross cash accruals of Rs.787 crore during FY18 which was significantly higher than Rs.397 crore reported in FY17. Healthy cash accruals coupled with equity infusion of Rs.50 crore resulted in significant increase in long term funds. During Q4FY18, the company reported improved realizations post imposition of Countervailing Duty (CVD). Ministry of Finance, GoI through notification dated September 7, 2017 levied 18.95% CVD on imports of Stainless Steel flat products from China for the next five years.

Improved gearing levels: The company has converted Funded Interest Term Loan (FITL; held by lenders) aggregating Rs.236.85 crore into equity. This along with infusion of Rs. 50 crore and healthy profitability during FY18 has resulted in significant improvement in networth (improved from Rs.1,721 crore in FY17 to Rs.2,332 crore in FY18). Improved networth along with lower working capital borrowings due to efficient working capital management resulted in overall gearing to improve from 3.82x as on March 31, 2017 to 2.59x as on March 31, 2018 (Audited).

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 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 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 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.

Key Rating Weaknesses

Leveraged capital structure: JSL has a leveraged capital structure characterized by a high overall gearing of 2.59x as on March 31, 2018. Although, the same improved from 3.82x as on March 31, 2017, the same continued to remain leveraged. 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.

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)	FY17 (A)	FY18 (A)*
Total operating income	8,332	10,803
PBILDT	1,127	1,299
PAT	58	318
Overall gearing (times)	3.82	2.59
Interest coverage (times)	1.48	2.40

*A: Audited; *Abridged financials*

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	1628.12	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	714.94	CARE BBB-; Stable
Debentures-Non Convertible Debentures	-	10.55%	Mar 2022	167.28	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	167.28	CARE BBB-; Stable	-	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	1628.12	CARE BBB-; Stable	-	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 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 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	714.94	CARE BBB-; Stable	-	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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