Jindal Stainless Limited

August 28, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities (Term loans)	1,440.15 (reduced from 1,454.14)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B minus; Outlook: Stable)**
Long term Bank Facilities (Fund Based)	741.00 (reduced from 920.00)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B minus; Outlook: Stable)**
Short term Bank Facilities (Non-Fund Based)	3600.00 (reduced from 3925.00)	**CARE A3+ (A three plus)**	**Revised from CARE A3 (A three)**
Long term Bank Facilities (ECBs)	276.34 (reduced from 505.73)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B minus; Outlook: Stable)**
Total Facilities	6,057.49 (Rupees six thousand fifty seven crore and forty nine lakh only)		
Non-Convertible Debentures (NCD)	97.68 (reduced from 128.28)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B minus; Outlook: Stable)**
Total	(Rupees ninety seven crore and sixty eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the debt facilities and instruments of Jindal Stainless Limited (JSL) factors in the steady growth in company's sales volumes and stable operating performance through the period FY18 to FY20 (FY refers to the period from April 1 to March 31), characterised by improving asset turnover and healthy per-tonne operating profits, which coupled with an improvement in gearing owing to reduction in debt levels, resulted in healthy cash accruals. The revision in the ratings also takes into consideration the company's successful exit from corporate debt restructuring (CDR) effective March 2019 which is likely to provide it better operational and financial flexibility. The ratings continue to derive strength from the extensive experience of the promoters and the management having a considerable track record in the stainless steel industry, the dominant position of the group in Indian stainless steel with an overall market share of nearly 50 per cent and its diversified customer base with an emphasis on value-added products. These rating strengths are, however, tempered by the leveraged, albeit improving, capital structure, susceptibility of its realisations and margins to volatility in raw material prices as well as cheap imports and foreign exchange rates and cyclicality inherent in stainless steel industry.

Rating Sensitivities

Positive Factors

- Ability to report production volumes above 1 MTPA and PBILDT per tonne above Rs.13,500 on sustained basis
- Improvement in overall gearing to below 1.5x and total debt/PBILDT below 3.0x on sustained basis

Negative Factors

- Decline in production volumes below 0.75 MTPA and PBILDT per tonne below Rs.10,000
- Deterioration in overall gearing beyond 2.5x and total debt/PBILDT above 5.0x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and management

JSL is promoted by Mr. Ratan Jindal, who has more than three decades of experience in the stainless steel industry. The company is currently managed by the board of directors including Mr. Ratan Jindal who is supported by his son Mr.

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

Abhyuday Jindal and other professionals who have long standing experience in the industry. Its management team has played a key role in establishing its position as one of the country's largest and most diverse suppliers of stainless steel.

Long track record with a dominant market position in domestic stainless steel industry
Jindal Stainless, established in 1980, has a long track record of successfully operating in the stainless steel industry. The company, along with Jindal Stainless (Hisar) Limited (JSHL), has a steel melting capacity of 1.90 MTPA at group level and account for more than 50% of the total stainless steel produced in India. It is amongst the largest stainless steel producers in the world and enjoys cost competitiveness due to its integrated nature of operations and presence in value added products.

Steady growth trend and stable operating performance over the past three years
JSL's operating and marketing performance has been steady for the past three years. The sales volume continued to increase, and the company was able to reach 9.16 lakh metric tonnes (MT) in FY20. However, the total operating income moderated marginally from Rs.12,585 crore in FY19 to Rs.12,320 crore in FY20 because of lower sales realisations amidst cheap imports from countries with free trade agreements. JSL's steel melting capacity increased to 1.1 million tonnes per annum during FY20 through debottlenecking and process balancing with minimal capital expenditure. The company's PBILDT per tonne moderated marginally and stood at Rs. 13,100/MT in FY20, on account of lower sales realizations which was offset partially by the decrease in raw material cost. During Q1FY21, the production and sales have been adversely impacted primarily on account of the nationwide lockdown subsequent to the Covid-19 pandemic. However, subsequent to unlocking in phased manner, the company has ramped up its volumes and it expects to revert to normal production levels soon.

Exit from corporate debt restructuring to boost financial flexibility
JSL made a successful exit from corporate debt restructuring (CDR) considering consistent performance better than projection (calculated in CDR) and by redemption of optionally convertible preferential shares (OCRPS) of around Rs.558 crore and paying the recompense liability amounting to Rs.275 crore (Rs.221 crore on OCRPS and Rs.54 crore on CDR loans). The CDR exit is expected to provide both financial and operational flexibility to the company as the company can now seek diversified sources to fund its growth plans.

Diversified customer base with emphasis on value added products
The company manufactures a wide range of stainless steel products – across plates, hot rolled annealed pickled (HRAP) coils and cold rolled annealed pickled (CRAP) coils – for various commercial and industrial applications. In terms of geographical diversity, the company has presence both in Indian and international markets, with domestic and export sales contributing 79% and 21% respectively in terms of sales volume in FY20.

Key Rating Weaknesses
Leveraged, albeit improving, capital structure
JSL's total debt (including acceptances) reduced from Rs.5,617 crore as on March 31, 2019 to Rs.5,111 crore as on March 31, 2020; it has decreased significantly from Rs.6,567 crore as on March 31, 2017. However, the overall gearing (including LC acceptances) – while having improved to 1.94x as on March 31, 2020 from 2.29x as on March 31, 2019 – continues to remain high.

With the improvement in gearing, the company's debt coverage indicators also improved to total debt/PBILDT of 4.25x and total debt-to-GCA of 7.81x as on March 31 ,2020 (4.86x and 10.12x, respectively, as on March 31, 2019). The interest coverage improved to 2.12x in FY20 (PY: 1.88x) on account of lower interest cost on the back of decrease in working capital utilizations during FY20. Besides, there is an off-balance sheet exposure in form of cross corporate guarantee extended for the loan availed by Jindal Stainless (Hisar) Ltd (rated CARE A-/Stable/CARE A2+) to the tune of Rs.3,378 crore as on March 31, 2020 (Rs.3,774 crore as on March 31, 2019) against which JSL has received corporate guarantee of Rs.4842 crore as on March 31, 2020 (PY: Rs.4820 crore). The current ratio of the company continues to remain below unity mainly owing to high current maturities of long-term debt which is expected to improve in next financial year.

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; being commodity products, their prices remain volatile. 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 course of last one year, while the prices of SS scrap and ferrochrome decreased steadily throughout FY20 which off-set the reduction in sales realizations. However, 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, JSL 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 22% of the outstanding trade payables). Nonetheless, the company earned foreign exchange gains of around Rs.23 crore during FY20 (PY: gain of around Rs.43 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 favourable 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
JSL has adequate liquidity characterized by expected cash accruals of around Rs 640 crore during FY21 against which it has repayment obligations of Rs. 488 crore in FY21. The company had free cash balance of around Rs.16 crore as on March 31, 2020 (PY: Rs.6 crore). Its capex requirements for maintenance/sustenance are modular and expected to be funded using internal accruals. The average unused limits in fund-based facilities to the extent of 30% enable the company to meet any fluctuations in cash flows in any adverse market scenarios. The company has availed moratorium extended by banks on both term debt and working capital limits. During the months of April and May, the company was able to make collections of around Rs.783 crore.

Analytical approach: Standalone after factoring in linkages with Jindal Stainless (Hisar) Limited in the form of a common management, shared resources, cross-corporate guarantee extended by JSHL and JSL for their respective bank facilities and presence of inter corporate deposit of Rs.900 crore extended by JSHL to JSL which has flexible payment terms on interest and principal.

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 Limited is one of the largest domestic stainless steel producers with steel melting capacity of 1.10 Million tonne Per Annum (MTPA) as on June 30, 2020. The company's manufacturing facilities are located at Jajpur (Odisha). It has captive thermal power plant (264 MW), captive ferro chrome facilities (0.25 MTPA), stainless steel melting, rolling mill (CR

with 0.45 MTPA) and downstream value-added facilities (for various commercial and industrial applications). The company manufactures stainless steel slabs and hot rolled/cold rolled coils and sheets.

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	12,605	12,346
PBILDT	1,157	1,200
PAT	139	153
Overall gearing (times)	2.30	1.94
Interest coverage (times)	1.88	2.12

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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	1440.15	CARE BBB; Stable
Fund-based-LT-Cash credit					741.00	CARE BBB; Stable
Fund-based-LT-External commercial borrowings				November 2020	276.34	CARE BBB; Stable
Non-fund-based-Short-term					3600.00	CARE A3+
Debentures-Non-convertible debentures	INE220G07085	June 30, 2009	9.35% p.a.	March 2022	97.68	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 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.	Debentures-Non Convertible Debentures	LT	97.68	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE C; Stable (11-May-17)
2.	Fund-based - LT-Term Loan	LT	1440.15	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE D (11-May-17)
3.	Non-fund-based-Short Term	ST	3600.00	CARE A3+	-	1)CARE A3 (30-Aug-19)	1)CARE A3 (27-Mar-19) 2)CARE A3 (08-Jun-18)	1)CARE A4+ (15-Mar-18) 2)CARE D (11-May-17)
4.	Debt-Subordinate Debt	LT	-	-	-	-	-	1)Withdrawn (15-Mar-18) 2)CARE D (11-May-17)
5.	Fund-based - LT-Cash Credit	LT	741.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE D (11-May-17)
6.	Fund-based - LT-External Commercial Borrowings	LT	276.34	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Aug-19)	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (08-Jun-18)	1)CARE BB+; Stable (15-Mar-18) 2)CARE C; Stable (11-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: None

Annexure 4: Complexity levels for various instruments rated for this company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non-Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-External Commercial Borrowings	Simple
4.	Fund-based - LT-Term Loan	Simple
5.	Non-fund-based-Short Term	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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