Jindal Stainless Limited

August 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities (Term Loans)	1,454.14 (reduced from 1,516.22)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Long-term Bank Facilities (Working Capital Limits)	920	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	3925	CARE A3 [A Three]	Reaffirmed
Long-term Bank Facilities (ECB)	505.73 (reduced from 510.27)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Total Facilities	**6804.87 (Rupees six thousand eight hundred four crore and eighty seven lakh only)**		
Non-Convertible Debentures	128.28 reduced from 148.08	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to debt instruments/bank facilities of Jindal Stainless Limited (JSL) continue to derive strength from well-established & experienced promoters and group's strong market position in the stainless steel industry with focus on value added products. The ratings also continue to derive strength from its semi-integrated nature of operations, strategic location of the plant with proximity to major raw material sources and steady operational performance of the company.
The ratings, however, continue to remain constrained by JSL's leveraged capital structure, significant off-balance sheet exposure in form of cross guarantees for the debt availed by associate companies, its exposure to raw material price volatility and forex fluctuation risk and the cyclicality inherent in the stainless steel industry. CARE has also taken cognizance of entire liability of recompense amount being provided for by the company towards CDR exit subject to approval by all the lenders.

Going forward, the ability of the company to sustain profitability through the cycles in the stainless steel industry and reduce the debt levels shall remain key rating sensitivities.

Detailed description of the key rating drivers

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 stainless steel producer with a steel melting capacity of 0.95 MTPA as on June 30, 2019. The company has captive thermal power plant, captive ferro chrome facilities, rolling mill and downstream 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 Odisha, 264 MW captive power plant at Odhisa and stainless steel plant with melting, casting, and CR facilities at Dubri, Odisha. The company manufactures a wide range of stainless steel products viz. Plates, Hot Rolled Annealed Pickled (HRAP) coils and Cold Rolled Annealed Pickled (CRAP) coils for various commercial and industrial applications.

Steady operational performance however profitability witnessed moderation

The operating income of the company improved by 15.70% during FY19 (refers to the period from April 1 to March 31) on the back of healthy volume growth. However, the profitability moderated owing to higher raw material cost and company's

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

inability to fully pass on the cost burden due to the normally associated time lag. The lower steel realization viz a viz. production costs also adversely impacted the PBILDT per ton during FY19. The company during Q1FY20 (refers to the period from April 1 to June 30) reported an operating income of Rs.3076 crore (Rs.3144 crore during Q1FY19) and PAT of Rs.67 crore (Rs.91 crore during Q1FY19).

Key Rating Weaknesses

Leveraged capital structure

The financial risk profile of the company is characterized by improving, albeit leveraged capital structure. The overall gearing of the company continues to be high at 2.29x as on March 31, 2019 (as compared with 2.56x as on March 31, 2018). 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. Besides, there is an off-balance sheet exposure in form of corporate guarantee extended for the loan availed by the associate company Jindal Stainless (Hisar) Ltd (rated CARE A-/Stable/CARE A2+) to the tune of Rs.3774.86 crore as on March 31, 2019 (Rs.4,569.84 as on March 31, 2018). The current ratio of the company also continues to remain below unity owing to high current maturities of long term debt.

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. During FY19, high nickel prices and graphite electrodes have impacted the company's profitability and it continues to remain exposed to volatile prices due to a time lag between cost of procurement and sales realizations. The company being a net importer remains exposed to forex fluctuation as well which is mitigated by hedging both the legs of import and export transactions.

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. The demand for processed steel is a derived demand and its prospects are closely linked to the demand emanating from the stainless steel industry. The demand of stainless steel is driven by government spending on infrastructure development, growth in the real estate sector and demand from other stainless steel consuming sectors such as automobiles, consumer durables etc.

Liquidity

The company has adequate liquidity supported by stable gross cash accruals of Rs. 555 crore during FY19 and Rs.208 crore during Q1FY20 (refers to the period from April 1 to June 30). The total repayments due in FY20 are Rs.492 crore which are supported by stable cash accruals. The cash and bank balances are negligible to the tune of Rs.5.89 crore as on March 31, 2019. However, this has been supported through faster rotation of cash through improved credit cycle with customers (resulting in faster collection) and low inventory holding period. The average working capital utilization during the 12-month period ending May 2019 stood at around 70% as a result of improving operating cycle.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
CARE's Methodology for factoring linkages in ratings
Financial ratios – Non-Financial Sector
Rating Methodology- Steel 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 0.95 Million Tonnes Per Annum (MTPA) as on June 30, 2019. The company's manufacturing facilities are located at Jajpur (Orissa).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	10,894	12,605
PBILDT	1,312	1,157
PAT	318	139
Overall gearing (times)	2.56	2.30
Interest coverage (times)	2.43	1.88

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

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	1454.14	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	-	-	November 2020	505.73	CARE BBB-; Stable
Debentures-Non Convertible Debentures	June 30, 2009	9.85% p.a.	March 2022	128.28	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	128.28	CARE BBB-; Stable	-	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)	1)CARE C (20-Apr-16)
2.	Fund-based - LT-Term Loan	LT	1454.14	CARE BBB-; Stable	-	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)	1)CARE D (20-Apr-16)
3.	Non-fund-based-Short Term	ST	3925.00	CARE A3	-	1)CARE A3 (27-Mar-19) 2)CARE A3 (08-Jun-18)	1)CARE A4+ (15-Mar-18) 2)CARE D (11-May-17)	1)CARE D (20-Apr-16)
4.	Debt-Subordinate Debt	LT	-	-	-	-	1)Withdrawn (15-Mar-18) 2)CARE D	1)CARE D (20-Apr-16)

							(11-May-17)	
5.	Fund-based - LT-Cash Credit	LT	920.00	CARE BBB-; Stable	-	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)	1)CARE D (20-Apr-16)
6.	Fund-based - LT-External Commercial Borrowings	LT	505.73	CARE BBB-; Stable	-	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)	1)CARE C (20-Apr-16)

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

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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