Jindal Steel & Power Limited

April 4, 2018

Ratings

Facilities/Instruments	Amount (Rs.crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	17,995.68 (reduced from 18,440.62)	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Short-term Bank Facilities	6824.81 (reduced from 6,846.23)	CARE A3 [A Three]	Revised from CARE D [Single D]
Long-term Bank Facilities (Priority Term Loan)	1,500.00	CARE BBB; Stable [Triple B; Outlook: Stable]	Assigned
Total Facilities	**26,320.49**		
Non-Convertible Debentures Programme-I	500.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Non-Convertible Debentures Programme-II	1,000.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Non-Convertible Debentures Programme-III	800.00 (reduced from 862.00)	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Non-Convertible Debentures Programme-IV	100.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Non-Convertible Debentures Programme-V	699.60 (reduced from 750.00)	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Non-Convertible Debentures Programme-VI	400.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Revised from CARE D [Single D]
Total	**29,820.09 (Rupees Twenty Nine Thousand Eight Hundred Twenty crore and Nine Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key rating drivers

The revision in the ratings of bank facilities and instruments of Jindal Steel & Power Limited (JSPL) takes into account improved liquidity position of the company supported by successful QIP issuance Rs.1,200 crore and infusion of Rs.188 crore though issuance of warrants during Q4FY18 (refers to the period January 1 to March 31). Earlier during 9MFY18 the company had raised resources through sales and lease back of its oxygen plants and other monetization of assets. The same had provided support to the liquidity position of the company leading to delay free track record in servicing of debt obligations. The revision in the ratings also takes into account the improvement in the operational and financial performance of the company during 9MFY18 (refers to the period April 1 to December 31) and successful commissioning of major facilities at Angul-1B resulting in increased production from Q4FY18 onwards.

The ratings continue to derive strength from the experienced promoters and management of the company and established market position of the company in the steel manufacturing industry. The ratings also derive strength from the integrated nature of operations backed by captive power and captive iron ore mine for part of its capacity and diversified product mix. Also JSPL has sizeable scale of operations with healthy operational track record, strong asset base and strategically located plants in proximity to coal and iron ore mines.

The ratings, however, continue to remain constrained by the average financial risk profile of JSPL characterised by relatively high debt levels and low debt coverage indicators. The ratings also continue to remain constrained by the significant exposure towards subsidiaries, cyclicality inherent in the steel industry and price & supply risks associated with coal and iron ore sourcing in the absence of commensurate captive mines.

Going forward, the company's ability to successfully scale up the operations from the newly commissioned facilities at Angul and achieve the envisaged revenue and profitability while reducing its debt levels and manage working capital cycle efficiently shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Improved liquidity position with fund infusion through equity issuance

JSPL had successful raised the equity through Qualified Institutional Placement offer (QIP) aggregating Rs.1,200 crore on March 27, 2018 by issuing 51,502,145 shares at a price of Rs.233 per share. Additionally the company has allotted 4,80,00,000 convertible warrants to Opelina Finance and Investments Limited, promoter group entity at a price of Rs.140.31 crore per warrant aggregating Rs.673 crore. Out of warrants issued Rs.188 crore (25%) is received in Nov 2017

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

while the balance is expected in FY20. The company has also received the sanction of priority term loan aggregating Rs.1,500 crore aiding the liquidity of the company. In October 2017, JSPL had sold and leased back its oxygen plant assets at its integrated steel plants at Raigarh and Angul for Rs.1,121 crore to SREI Equipment Finance Limited. Under the said transaction JSPL continue to operate the assets for manufacturing steel at respective plants. Out of the proceeds from this divestment JSPL has paid off its overdues to banks since then the conduct of the account is regular. This along with other monetization of assets aided the liquidity position of the company.

Commercial operation of major facilities at Angul location

JSPL has successfully commissioned 3.2 Million Tonnes (MT) blast furnace in May 2017 at Angul and 2.5 MTPA SMS capacity through Basic Oxygen Furnace (BoF) in December 2017. Along with these, the company has also commissioned rebar mill, 2 coke oven batteries and sinter plant at Angul during FY18. The production from these facilities is expected to ramp up gradually and expected to reach its full potential by end of FY19 and the impact on financials is expected to come from FY19 onwards. Implementation of Angul-1B facility has taken Angul (1A + 1B) plant's steel manufacturing capacity from existing 1.5 MTPA to 4 MTPA and is crucial on account of significant capacity added at a relatively lower investment. Going forward company's ability to market the enhance capacity and generate envisaged PBILDT shall be important from credit perspective.

Improvement in operational and financial performance during 9MFY18

JSPL has reported improved operational and financial performance during 9MFY18 owing to favourable industry developments including imposition of tariff barriers by Government of India (GoI) resulted in improved sales realizations for the domestic steel companies. The company reported improved PBILDT margins of 20.73% during FY17 as against 18.91% during FY16. The company has reported healthy operating margins over the past 5 quarters above 20%. The healthy operating margins continued during 9MFY18 with PBILDT margins of 20.85%. The company has reported steel production of 2.76 MT in 9MFY18 (a growth of ~8%) as against 2.56 MT in the similar period previous year. It also reported healthy sales volume in 9MFY18 of 2.58 MT which along with cost rationalisation efforts undertaken by the company has resulted in improvement in profitability during 9MFY18. The company reported a growth of 7.5% and 24% in total operating income and PBILDT respectively during 9MFY18 as compared to similar quarter previous year.

Established promoter group with diversified operations

JSPL, part of the O P Jindal group, was formed in April 1998 by hiving off the Raigarh and Raipur manufacturing facilities of Jindal Strips Ltd. (JSL) into a separate company. The company's key business activities include iron ore & coal mining, steel manufacturing and power generation with its operations spread across Chattisgarh (Raigarh and Raipur), Orissa (Barbil and Angul) and Jharkhand (Patratu) in India. It also has a presence outside India with major operations in Oman, South Africa, Indonesia, Mozambique and Australia through its various subsidiaries. The company's subsidiary company Jindal Power Ltd operates 3,400 MW independent power plant at Raigarh, Chhattisgarh. Its step down subsidiary Shadeed Iron & Steel Company LLC operates 2.0 MTPA gas based Hot Briquetted Iron (HBI) plant at Oman

Integrated nature of operations with healthy product mix: The company sources a part of its iron ore requirement from its captive mines at Tensa, Orissa which has estimated geological reserves 23 Million Tonnes (MT) with extraction capacity of 3.11 MTPA (extracted 2.73 MT in FY17 including sized ore and fines) while the balance requirement is met from sourcing arrangements with private mine owners at Barbil, Orissa. The company largely meets its non-coking coal requirements from coal linkage for captive power plant (CPP) while the remaining requirement is met through e-auction. JSPL manufactures value added products through its rail & universal beam mill, plate mill, medium & light section mill and bar mill. Further, the company also has wire rod mill, pelletization plant and cement plant. The higher level of operational integration and presence in the value added product segments not only optimizes the company's cost of production but also results into higher realizations leading to better profitability. Furthermore, presence of the company in the entire steel value chain provides it the flexibility to sell its products at various stages of production.

Key Rating Weaknesses

Average financial risk profile

JSPL has a average financial risk profile characterized by relatively high debt levels and low debt coverage indicators. The total debt of JSPL stood at Rs. 25,326 crore as on March 31, 2017 translating into an overall gearing ratio of 1.20x as on March 31, 2017. JSPL has undertaken sizeable debt funded capex across segments over the past 5 years including steel and power plant in Angul (Odisha), pellet plant in Barbil (Odisha) resulting in elevated debt levels. Its debt coverage indicators also stood low with interest coverage and total debt to PBILDT of 1.27x and 8.44x respectively as on March 31, 2017.

Significant exposure towards subsidiaries

JSPL through its wholly owned subsidiary, Jindal Steel and Power (Mauritius) Limited (JSPML), has made overseas investments for the Group. JSPML investments span across operating assets in South Africa, Mozambique, Australia and Oman. This includes Coking Coal mines in Australia, Anthracite coal mines in South Africa, Coking & Thermal coal mines in Mozambique and a 2 MTPA Integrated Steel plant in Oman. The total investments of JSPL in subsidiaries stood at Rs.1,485 crore as on March 31, 2017 (PY Rs.1,476.94cr). JSPL's exposure towards its subsidiaries in the form of corporate guarantee stood at Rs.5,217.98cr as on March 31, 2017 (PY: Rs.5,192.01cr).

Cyclicality inherent in the steel industry: The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Analytical approach: 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

JSPL, part of the O P Jindal group, was formed in April 1998 by hiving off the Raigarh and Raipur manufacturing facilities of Jindal Strips Ltd. (JSL) into a separate company. JSPL is amongst the leading Integrated Steel Producers (ISP) in the country. The company's key business activities include manufacturing of sponge iron, steel products and power generation with its operations spread across Chhattisgarh (Raigarh and Raipur), Orissa (Barbil and Angul) and Jharkhand (Patratu) in India. JSPL has an installed iron making capacity of 7.25 MTPA (Million Tonnes Per Annum), 9.0 MTPA of pellet, 6.1 MTPA of liquid steel and 6.55 MTPA of finished steel manufacturing. The company also has power generation capacity of 1,661 MW (including captive) as on March 31, 2017, the surplus power from which is sold on merchant basis. It also has a presence outside India with major operations in Oman, South Africa, Indonesia, Mozambique and Australia through its various subsidiaries. The operations in Oman include installed capacity of 1.5 MTPA of iron making, 2.0 MTPA of liquid steel and 1.4 MTPA of finished steel.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	14,159	14,952
PBILDT	2,678	3,097
PAT	(1,408)	(984)
Overall gearing (times)	1.16	1.20
Interest coverage (times)	0.95	1.27

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Cash Credit	-	-	-	3600.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	FY34	14395.68	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	4800.00	CARE A3
Fund-based - ST-Working Capital Limits	-	-	-	2024.81	CARE A3
Debentures-Non Convertible Debentures	-	-	Dec 29, 2021	3499.60	CARE BBB-; Stable
Fund-based - LT-Term Loan (Priority Loan)	-	-	March 2028	1500.00	CARE BBB; Stable

Name of the Instrument with ISIN No.(NCD)	Date of Issuance	Coupon Rate	Maturity Date	Issue Size (Rs.crore)	Rating assigned along with Rating Outlook
INE749A07185	Oct 12, 2009	9.80%	Apr 12, 2020	100	CARE BBB-; Stable
INE749A07193	Oct 22, 2009	9.80%	Apr 22, 2020	150	CARE BBB-; Stable
INE749A07219	Nov 24, 2009	9.80%	May 24, 2020	150	CARE BBB-; Stable
INE749A07268	Dec 24, 2009	9.80%	Jun 24, 2020	150	CARE BBB-; Stable
INE749A07284	Jan 25, 2010	9.80%	Jul 25, 2020	150	CARE BBB-; Stable
INE749A07300	Feb 19, 2010	9.80%	Aug 19, 2020	150	CARE BBB-; Stable
INE749A07318	Mar 26, 2010	9.80%	Sep 26, 2020	150	CARE BBB-; Stable
INE749A07151	Aug 24, 2009	9.80%	Feb 24, 2020	100	CARE BBB-; Stable
INE749A07169	Sept 8, 2009	9.80%	Mar 8, 2020	80	CARE BBB-; Stable
INE749A07177	Oct 8, 2009	9.80%	Apr 8, 2020	80	CARE BBB-; Stable
INE749A07201	Nov 9, 2009	9.80%	May 9, 2020	80	CARE BBB-; Stable
INE749A07227	Dec 8, 2009	9.80%	Jun 8, 2020	80	CARE BBB-; Stable
INE749A07250	Jan 8, 2010	9.80%	Jul 8, 2020	80	CARE BBB-; Stable
INE749A07276	Dec 29, 2009	9.80%	Dec 29, 2021	49.60	CARE BBB-; Stable
INE749A08126	Aug 11, 2014	10.48%	Aug 10, 2019	300	CARE BBB-; Stable
INE749A08134	Dec 18, 2014	10.10%	Dec 18, 2018	330	CARE BBB-; Stable
INE749A08142	Dec 18, 2014	10.10%	Dec 18, 2019	330	CARE BBB-; Stable
INE749A08159	Dec 18, 2014	10.10%	Dec 18, 2020	340	CARE BBB-; Stable
INE749A08167	Mar 11, 2015	9.60%	Mar 11, 2021	650	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	100.00	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15)

								6)CARE AA (Under Credit Watch) (18-May-15)
2.	Fund-based - LT-Term Loan	LT	14395.68	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15) 6)CARE AA (Under Credit Watch) (18-May-15)
3.	Debentures-Non Convertible Debentures	LT	500.00	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15) 6)CARE AA (Under Credit Watch) (18-May-15)
4.	Commercial Paper	ST	-	-	-	1)Withdrawn (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE A4+ (25-Feb-16) 3)CARE A3+ (27-Jan-16) 4)CARE A2+ (17-Dec-15) 5)CARE A1 (22-Sep-15) 6)CARE A1+ (Under Credit

								Watch) (18-May-15)
5.	Fund-based - LT-Cash Credit	LT	3600.00	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15) 6)CARE AA (Under Credit Watch) (18-May-15)
6.	Non-fund-based - ST-BG/LC	ST	4800.00	CARE A3	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE A4+ (25-Feb-16) 3)CARE A3+ (27-Jan-16) 4)CARE A2+ (17-Dec-15) 5)CARE A1 (22-Sep-15) 6)CARE A1+ (Under Credit Watch) (18-May-15)
7.	Fund-based - ST-Working Capital Limits	ST	2024.81	CARE A3	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE A4+ (25-Feb-16) 3)CARE A3+ (27-Jan-16) 4)CARE A2+ (17-Dec-15) 5)CARE A1 (22-Sep-15) 6)CARE A1+ (Under Credit Watch) (18-May-15)
8.	Debentures-Non Convertible Debentures	LT	1000.00	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16)

								2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15) 6)CARE AA (Under Credit Watch) (18-May-15)
9.	Debentures-Non Convertible Debentures	LT	800.00	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15) 6)CARE AA (Under Credit Watch) (18-May-15)
10.	Debentures-Non Convertible Debentures	LT	699.60	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	1)CARE D (11-Mar-16) 2)CARE BB+ (25-Feb-16) 3)CARE BBB+ (27-Jan-16) 4)CARE A (17-Dec-15) 5)CARE A+ (22-Sep-15) 6)CARE AA (Under Credit Watch) (18-May-15)
11.	Debentures-Non Convertible Debentures	LT	400.00	CARE BBB-; Stable	-	1)CARE D (15-May-17)	-	-
12.	Fund-based - LT-Term Loan	LT	1500.00	CARE BBB; Stable	-	-	-	-

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