Jindal Steel & Power Limited

May 15, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	18,440.62 (reduced from 22,988.75)	**CARE D [Single D]**	Reaffirmed
Short-term Bank Facilities	6846.23 (reduced from 9,649.25)	**CARE D [Single D]**	Reaffirmed
Total Facilities	**25,286.85**		
Non-Convertible Debentures Programme-I	500.00	**CARE D [Single D]**	Reaffirmed
Non-Convertible Debentures Programme-II	1,000.00	**CARE D [Single D]**	Reaffirmed
Non-Convertible Debentures Programme-III	862.00	**CARE D [Single D]**	Reaffirmed
Non-Convertible Debentures Programme-IV	100.00	**CARE D [Single D]**	Reaffirmed
Non-Convertible Debentures Programme-V	750.00	**CARE D [Single D]**	Reaffirmed
Non-Convertible Debentures Programme-VI	400.00	**CARE D [Single D]**	Assigned
Commercial Paper Programme	-	-	Withdrawn
Total	**28,898.85 (Rupees Twenty Eight Thousand Eight Hundred Ninety Eight crore and Eighty Five Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key rating drivers

The reaffirmation of ratings of bank facilities and debt instruments of Jindal Steel & Power Limited (JSPL) takes into account the irregularities in debt servicing by the company. The delays were largely attributable to stretched liquidity position owing to lower profitability due to sustained pressure on steel realizations, sizeable debt repayment obligations and delay in debt-refinancing.

The ratings take cognizance of the completion of the refinancing of project loans of Angul & Dongamahua Captive Power Plant (DCPP) under 5/25 except one bank thereby easing the repayment pressure over the medium term. The ratings also take note of the improved operational performance during Q3 & Q4FY17 and favourable industry developments including imposition of tariff barriers by Government of India (GoI) resulting in improved sales realizations for the domestic steel companies. The profitability is expected to improve going forward with the scheduled commissioning of capacities at Angul.

The ratings continue to remain constrained by the below average financial risk profile of JSPL characterised by leveraged capital structure and low debt coverage indicators. The ratings also continue to remain constrained by the cyclicality inherent in the steel industry and price & supply risks associated with coal and iron ore sourcing in the absence of commensurate captive mines. However, JSPL has integrated nature of operations backed by captive power and captive iron ore mine for part of its capacity, diversified product mix and established promoter group with diversified operations. 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.

Going forward, the company's ability to service its debt obligations in a timely manner and register improvement in its capital structure shall be the key rating sensitivities.

Further, CARE has withdrawn the rating assigned to the commercial paper of JSPL on company's request as there is no outstanding against the same.

Detailed description of the key rating drivers

Below average financial risk profile and stretched liquidity position

JSPL has a below average financial risk profile characterized by leveraged capital structure and low debt coverage indicators. JSPL has a leveraged capital structure characterized by overall gearing ratio of 2.34x as on March 31, 2016.

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

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. The commercial operations of few of these facilities (largely Angul) overlapped with the cyclical downturn in the steel industry thereby making it difficult for JSPL to make optimum use of these capacities. Lower profitability due to sustained pressure on steel realisations and sizeable debt repayments with delay in debt refinancing led to irregularities in debt servicing.
The company, however, has reported healthy sales volume in Q3 which along with cost rationalisation efforts undertaken by the company has resulted in improvement during Q3FY17. The company reported a growth of 21% and 87% in total operating income and PBILDT respectively during Q3FY17 as compared to similar quarter previous year. The improvement in cash flow has resulted in reduction in overdues to the banks. Further, during Q4FY17, the company has completed part of its refinancing of project loans of Angul & DCPP thereby easing the repayment pressure on company's cash flows over the medium term.
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 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.
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
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:
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 5.25 MTPA (Million Tonnes Per Annum), 9.0 MTPA of pellet, 6.1 MTPA of liquid steel and 6.55 MTPA of finished steel manufacturing. Currently, JSPL has iron making capacity of 2.125 MTPA through blast furnace route and 1.32 MTPA through Direct Reduced Iron (DRI) route at Raigarh and 1.8 MTPA through DRI route at Angul. The capacity is set to increase further by 3.2 MTPA with scheduled commissioning of blast furnace at Angul in Q1FY18 and by 2.5 MTPA through Basic Oxygen Furnace (BoF) in Q2FY18. The company also has power generation capacity of 1,661 MW (including captive) as on March 31, 2016, 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.
JSPL reported a healthy sales volume in Q3 and Q4FY17 taking the annual volumes to an all-time high for the company for FY17. Growth in volume coupled with the cost rationalization efforts undertaken by the company resulted in improved PBILDT to Rs.784 crore during Q3FY17 as against Rs.419 crore in Q3FY16. During 9MFY17, the company reported a PBILDT

of Rs.1,974 crore on a total operating income of Rs.9,768 crore as against a PBILDT Rs.1,775 crore on a total operating income of Rs.9,234 crore during 9MFY16. During FY16, JSPL reported a PBILDT of Rs.2,573 crore and a net loss of Rs.1,019 crore on a total operating income of Rs.14,080 crore.
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 D
Fund-based - LT-Term Loan	-	-	FY34	14840.62	CARE D
Non-fund-based - ST-BG/LC	-	-	-	4800.00	CARE D
Fund-based - ST-Working Capital Limits	-	-	-	2046.23	CARE D
Debentures-Non Convertible Debentures	-	-	Dec 29, 2021	3612.00	CARE D
Commercial Paper	-	-	-	-	Withdrawn

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 D
INE749A07193	Oct 22, 2009	9.80%	Apr 22, 2020	150	CARE D
INE749A07219	Nov 24, 2009	9.80%	May 24, 2020	150	CARE D
INE749A07268	Dec 24, 2009	9.80%	Jun 24, 2020	150	CARE D
INE749A07284	Jan 25, 2010	9.80%	Jul 25, 2020	150	CARE D
INE749A07300	Feb 19, 2010	9.80%	Aug 19, 2020	150	CARE D
INE749A07318	Mar 26, 2010	9.80%	Sep 26, 2020	150	CARE D
INE749A07151	Aug 24, 2009	9.80%	Feb 24, 2020	100	CARE D
INE749A07169	Sept 8, 2009	9.80%	Mar 8, 2020	80	CARE D
INE749A07177	Oct 8, 2009	9.80%	Apr 8, 2020	80	CARE D
INE749A07201	Nov 9, 2009	9.80%	May 9, 2020	80	CARE D
INE749A07227	Dec 8, 2009	9.80%	Jun 8, 2020	80	CARE D
INE749A07250	Jan 8, 2010	9.80%	Jul 8, 2020	80	CARE D
INE749A07276	Dec 29, 2009	9.80%	Dec 29, 2021	62	CARE D
INE749A08126	Aug 11, 2014	10.48%	Aug 10, 2019	300	CARE D
INE749A08134	Dec 18, 2014	10.10%	Dec 18, 2018	330	CARE D
INE749A08142	Dec 18, 2014	10.10%	Dec 18, 2019	330	CARE D
INE749A08159	Dec 18, 2014	10.10%	Dec 18, 2020	340	CARE D
INE749A08167	Mar 11, 2015	9.60%	Mar 11, 2021	750	CARE D

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	100.00	CARE D	-	-	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)	1)CARE AA (10-Mar-15) 2)CARE AA (09-Oct-14)

							6)CARE AA (Under Credit Watch) (18-May-15)	
2.	Fund-based - LT-Term Loan	LT	14840.62	CARE D	-	-	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)	1)CARE AA (10-Mar-15) 2)CARE AA (09-Oct-14)
3.	Debentures-Non Convertible Debentures	LT	500.00	CARE D	-	-	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)	1)CARE AA (10-Mar-15) 2)CARE AA (09-Oct-14)
4.	Commercial Paper	ST	-	-	-	-	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)	1)CARE A1+ (10-Mar-15) 2)CARE A1+ (09-Oct-14)
5.	Fund-based - LT-Cash Credit	LT	3600.00	CARE D	-	-	1)CARE D (11-Mar-16) 2)CARE BB+	1)CARE AA (10-Mar-15) 2)CARE AA

							(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)	(09-Oct-14)
6.	Non-fund-based - ST-BG/LC	ST	4800.00	CARE D	-	-	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)	1)CARE A1+ (10-Mar-15) 2)CARE A1+ (09-Oct-14)
7.	Fund-based - ST-Working Capital Limits	ST	2046.23	CARE D	-	-	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)	1)CARE A1+ (10-Mar-15) 2)CARE A1+ (09-Oct-14)
8.	Debentures-Non Convertible Debentures	LT	1000.00	CARE D	-	-	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	1)CARE AA (10-Mar-15) 2)CARE AA (09-Oct-14)

							Credit Watch) (18-May-15)	
9.	Debentures-Non Convertible Debentures	LT	862.00	CARE D	-	-	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)	1)CARE AA (10-Mar-15) 2)CARE AA (09-Oct-14)
10.	Debentures-Non Convertible Debentures	LT	750.00	CARE D	-	-	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)	1)CARE AA (10-Mar-15)
11.	Debentures-Non Convertible Debentures	LT	400.00	CARE D	-	-	-	-

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