

Jindal Steel & Power Limited

August 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	16,160.59 (reduced from 17,319.60)	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	7.561.87 (enhanced from 6,182.18)	CARE A3 [A Three]	Reaffirmed
Long-term bank Facilities (Priority term loan) @	1,447.19 (reduced from 1,500)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Total Facilities	25,169.65		
Non-Convertible Debentures Programme-I	500.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Programme-III	710.00 (reduced from 800.00)	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Programme-IV	100.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Programme-V	37.20	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Non-Convertible Debentures Programme-VI	400.00	CARE BBB-;Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Total	26,916.85 (Rupees Twenty Six Thousand Nine Hundred Sixteen crore and Eighty Five Lakhs only)		

Details of instruments/facilities in Annexure-1

@ Priority term loan has following features:

1. Priority over the cash flow of the company for interest and principal payment of priority loan.
2. Priority in security in case of liquidation.

Detailed Rationale& Key Rating Drivers

The ratings assigned to bank facilities/debt instruments of Jindal Steel & Power Limited (JSPL) continue to derive strength from experienced promoters with long track record, sizeable and growing scale of operations with ongoing ramp-up of manufacturing facility at Angul which is expected to support volumetric growth in FY20 (refers to period: April 1 to March 31) and integrated nature of operations with healthy product mix. However, the ratings are constrained by JSPL's high indebtedness marked by modest debt coverage metrics and reliance of overseas subsidiaries on JSPL to service their debt obligation. The ratings also factor in cyclical nature of steel industry and susceptibility of profit margins to volatility in raw materials and steel prices. The liquidity position remains adequate at the standalone level. CARE has also taken cognizance of management's stated intent to reduce debt at consolidated level through various measures including monetization of assets in overseas subsidiaries to ease out relatively stretched liquidity position at the consolidated level. Going forward, the company's ability to successfully ramp up of operations at Angul and report envisaged sales volumes and margins and reduce its debt level and strengthen the liquidity position will remain key rating sensitivities.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoters with long track record: JSPL, part of the Naveen 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 and therefore it has a long track record of operations. Promoters of JSPL have demonstrated their support in form of equity infusion through QIP in FY18 of Rs 1200 crore followed by issuing share warrants to promoters of Rs 693 crore in FY18 and FY20. CARE

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

takes note of recent media reports related to allocation of Urtan North coal block wherein charges have been framed against promoter of JSPL. The further developments on this aspect shall remain a key monitorable.

Geographically diversified operations: 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 presence outside India with major operations in Oman, South Africa, Mozambique and Australia through its various subsidiaries.

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 17-18 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 meets part of its non-coking coal requirements from coal linkage while the remaining requirement is met through e-auction/imports of coal and coking coal. 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.

Improving operational performance: JSPL is one of the leading steel producers in India with domestic installed capacity of 8.60 MT of liquid steel as on March 31, 2019. During FY19, the company sold 5.12 MT of steel with total operating income of Rs 27905 crore (PY: Rs 17859 crore). PBILDT per ton improved from Rs 11360 in FY18 to Rs 11711 in FY19 backed by successful ramp-up of operations at Angul plant and increasing cost effectiveness besides better realizations. However, on consolidated level, JSPL reported moderation in PBILDT margin to 21.16% in FY19 (PY: 23.88%) due to increase in cost of raw material. During Q1FY20 (refers to period: April 1 to June 30), PBILDT margin stood at 21.85% (PY: 23.54%) and JSPL reported GCA of Rs 1064 crore (PY: Rs 1303 crore). PBILDT per ton on standalone basis during Q1FY20 stood at Rs 11,244 crore.

Key Rating Weakness

Leveraged financial risk profile: Overall gearing improved and stood moderate at 1.48x as on March 31, 2019 (PY: 1.64x). Total debt to adjusted GCA (adjusted for exceptional items) also improved and but stood high at 10.14x as on March 31, 2019 (PY: 16.37x) on account of high debt levels which stood at Rs 45,064 crore (including non-fund based) as on March 31, 2019. Notably, the consolidated total debt to PBILDT improved to 4.98x during FY19 due to increase in PBILDT (PY: 6.62x). JSPL has undertaken sizeable debt funded capex across segments over the past 5 years including steel and power plant in Angul (Odisha), IPP expansion at Tamnar, pellet plant in Barbil (Odisha), steel plant in Oman etc. resulting in elevated debt levels. Interest coverage ratio during FY19 stood adequate at 1.92x on account of steady PBILDT margin (PY: 1.65).

Reliance of subsidiaries on JSPL: 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 overseas subsidiaries of JSPL in Mauritius and Australia are dependent on parent entity for funds to service their debt obligation. However, CARE takes note of management's intent to deleverage their balance sheet by divesting foreign assets at a fair value. Going forward, the timely monetization of assets and resultant debt reduction shall remain crucial from credit perspective and therefore it shall remain a key monitorable.

Cyclical nature of 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. 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.

Susceptibility of profit margins to volatility in raw material prices: The key raw materials viz iron ore and coking coal prices had shown a volatile trend over the years. Although part of iron ore requirement is met from captive mines (20%-30%), the coking coal requirement is met through imports and domestic market impacting the profitability of JSPL. The volatility in prices of raw materials is bound to impact the profitability of steel players in India. However, with extraction of coking coal from Mozambique, JSPL plans to be able to meet partial coal requirement from its subsidiary.

Liquidity position: JSPL has adequate liquidity position on a standalone basis marked by gross cash accruals of Rs.3,136 crore during FY19 as against gross loan repayments of Rs.2,105 crore during FY20. Besides cash accruals, the liquidity position is supported by equity infusion of Rs.505 crore during Q1FY20 and undrawn lines albeit high utilization of fund based limits which stood at 92% for trailing 12 months ended May 2019. However, the company has substantial debt repayments at the consolidated level and it is imperative for the company to divest/monetize some of the assets to each out the stretched liquidity on consolidated basis.

Prospects: Finished steel production is likely to grow by 3%-4% during the year FY20 on a y-o-y basis. This is because no major capacity is expected to come up from large steel players while the small steel players are estimated to increase their output at a rate similar to last year. The steel demand is expected to accelerate after the completion of monsoon season as construction activities will see a pickup in pace. India's steel consumption is expected to grow by 5%-6% on the back of government's expenditure towards infrastructure and construction. An uptick in construction activities post monsoon season will result in higher steel demand which, in turn, is expected to bring some relief to long steel products' prices on m-o-m basis.

Analytical approach: CARE has adopted consolidated approach on account of operational and financial linkages among the entities. The list of entities whose financials have been combined is mentioned in Annexure -4

Applicable criteria:

[Criteria on assigning Outlook and credit watch](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios - Non-Financial Sector](#)
[Rating Methodology-Manufacturing Companies](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Steel Industry](#)
[Rating Methodology-Factoring linkages in ratings](#)

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 capacity of 8.6 MTPA of liquid steel, 9.0 MTPA of pellet, and 6.55 MTPA of finished steel manufacturing. The company also has power generation capacity of 1,634 MW (including captive) as on March 31, 2019, 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 1.8 MTPA of iron making, 2.4 MTPA of liquid steel and 1.4 MTPA of rebar.

Brief Financials (Consolidated) (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	28,045	39,523
PBILDT	6,697	8,365
PAT	-1,624	-2,412
Overall gearing (times)	1.64	1.48
Interest coverage (times)	1.65	1.92

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

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

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	-	-	-	2600.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	5800.00	CARE A3
Fund-based - ST-Working Capital Limits	-	-	-	1761.87	CARE A3
Fund-based - LT-Term Loan	-	-	FY36	13560.59	CARE BBB-; Stable
Fund-based - LT-Term Loan (Priority loans)	-	-	March, 2028	1447.19	CARE BBB; Stable
Debentures-Non Convertible Debentures	-	-	December 29, 2021	1747.20	CARE BBB-; Stable

Name of the Instrument with ISIN No.(NCD)	Date of Issuance	Coupon Rate	Maturity Date	Outstanding (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	50	CARE BBB-; Stable
INE749A07169	Sept 8, 2009	9.80%	Mar 8, 2020	40	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	37.20	CARE BBB-; Stable
INE749A08126	Aug 11, 2014	10.48%	Aug 10, 2019	300	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	100.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
2.	Fund-based - LT-Term Loan	LT	13560.59	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
3.	Debentures-Non Convertible Debentures	LT	500.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (15-May-17)	-
5.	Fund-based - LT-Cash Credit	LT	2600.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
6.	Non-fund-based - ST-BG/LC	ST	5800.00	CARE A3	-	1)CARE A3 (08-Feb-19) 2)CARE A3 (04-Apr-18)	1)CARE D (15-May-17)	-
7.	Fund-based - ST-Working Capital Limits	ST	1761.87	CARE A3	-	1)CARE A3 (08-Feb-19) 2)CARE A3 (04-Apr-18)	1)CARE D (15-May-17)	-
8.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
9.	Debentures-Non Convertible Debentures	LT	710.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-

10.	Debentures-Non Convertible Debentures	LT	37.20	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
11.	Fund-based/Non-fund-based-LT/ST	-	-	-	-	-	-	-
12.	Debentures-Non Convertible Debentures	LT	400.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (08-Feb-19) 2)CARE BBB-; Stable (04-Apr-18)	1)CARE D (15-May-17)	-
13.	Fund-based - LT-Term Loan	LT	1447.19	CARE BBB; Stable	-	1)CARE BBB; Stable (08-Feb-19) 2)CARE BBB; Stable (04-Apr-18)	-	-

Annexure-3: NA**Annexure-4: List of entities whose financials have been combined**

Subsidiaries
Jindal Power Limited
Attunli Hydro Electric Power Company Limited
Etaln Hydro Electric Power Company Limited
Kamala Hydro Electric Power Company Limited
Jindal Power Transmission Limited
Jindal Hydro Power Limited
Jindal Power Distribution Limited
Ambitious Power Trading Company Limited
Uttam Infralogix Limited
Panther Transfreight Limited
Kineta Power Limited
Jindal Realty Limited
Jagran Developers Private Limited
Jindal Angul Power Limited
JB Fabinfra Limited
Trishakti Real Estate Infrastructure and Developers Limited
Raigarh Pathalgaon Expressway Limited
Everbest Power Limited
Jindal Power Ventures (Mauritius) Limited
Jindal Power Senegal SAU
Jindal (BVI) Limited

Jindal Energy (Bahamas) Limited
Jindal (Barbados) Energy Corp
Jindal (Barbados) Mining corp
Jindal (Barbados) Holdings corp
Jindal Transafrica (Barbados) Corp
Meepong Energy (Mauritius) Pty Limited
Meepong Resources (Mauritius) Pty Limited
Jindal Energy (Botswana) (Proprietary) Limited
Jindal Resources (Botswana) (Proprietary) Limited
Meepong Energy (Proprietary) Limited
Meepong Resources (Proprietary) Limited
Meepong Service (Proprietary) Limited
Meepong Water (Proprietary) Limited
Trans Africa Rail (Proprietary) Limited
Wollongong Coal Limited
Wongawilli Coal Pty Limited
OCEANIC COAL RESOURCES NL
Southbulli Holdings Pty Limited
Enviro Waste Gas Services Pty Limited
PT. Jindal Overseas Limited
PT. BHI Mining Indonesia
PT. Maruwai Bara Abadi
PT. Sumber Surya Gemilang
Jindal Botswana Proprietary Limited
JSPL Mozambique Minerals, Limitada
Jindal Africa Investments (Pty) Limited
Jindal Mining SA (Pty) Limited
Osho Madagascar Sarl
Jindal Madagascar Sarl
Eastern Solid Fuels (Pty) Limited
Jindal Energy SA (Pty) Limited
Bon-Terra Mining (Pty) Limited
Sad-Elec (Pty) Limited
Peerboom Coal (Pty) Limited
Jindal Shadeed Iron & Steel LLC
Koleka Resources (Pty) Limited
Jindal Africa consulting (Pty) Limited
Jindal Steel and Power (Mauritius) Limited
Vision Overseas Limited
Jubilant Overseas Limited
Skyhigh Overseas Limited

Harmony Overseas Limited
Jindal Steel Bolivia Sa
Gas to Liquids International S.A.
Jindal Mining & Exploration Limited
Jindal Investment Holdings Limited
Jindal Investimentos Lda
Belde Empreendimentos Mineiros LDA
Shadeed Iron & Steel Limited
Jindal Steel & Power (Australia) Pty Limited
Jindal Steel & Minerals Zimbabwe Limited
Jindal Tanzania Limited
Jindal Mining Namibia (Pty) Limited
BLUE CASTLE VENTURE LIMITED
Brake Trading (Pty) Limited
Fire Flash Investments (Pty) Limited
Jindal Kzn Processing (Pty) Limited
Landmark Mineral Resources (Pty) Limited
Cameroon Mining Action Sa
Jindal Steel Dmcc
Sungu Sungu (Pty) Limited
Legend Iron Limited
Jindal Africa SA
Jindal Steel & Power (BC) Limited
Trans Asia Mining Pte. Limited
Jindal Mauritania SARL (Liquidated during the quarter)
Joint Ventures
Jindal Synfuels Limited
Urtan North Mining Company Limited
Shresht Mining And Metals Private Limited
Associates
Goedehoop coal (Pty) Ltd.
Thuthukani Coal(pty) Ltd.

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:

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Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades