February 19, 2021

Jamshedpur Continuous Annealing & Processing Co. Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	175.0	175.0	[ICRA]A1+ reaffirmed
Total	**175.0**	**175.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation considers an improvement in the operational and the financial performances of Jamshedpur Continuous Annealing & Processing Co. Pvt. Ltd. (referred to as JCAPCPL or the company) in the current year, driven by higher volumes of sales to the automotive segment. Despite a slowdown in the automotive sector, along with complete shutdown of operations in April and May 2020 due to the lockdown, the company has been able to maintain its volumes by increasing its market share with leading domestic automobile OEMs. As per the company, its market share has increased to ~25% in the current year from 23% in FY2020 and ~21% in FY2019. Higher volumes of automotive sales resulted in higher operating margin of ~15.5% in 9M FY2021 compared to ~10.5% in FY2020 and ~12.3% in FY2019. Consequently, debt coverage indicators have also improved with the interest cover increasing to ~2.7 times and Total Debt to OPBDITA reducing to ~4.2 times in FY2021 (annualised) compared to an interest cover of 1.8 times and Total Debt/OPBITDA of 6.4 times in FY2020. Share of sales to the automotive market has been increasing rapidly for JCAPCPL, contributing ~83% to the company's total sales in FY2020 from ~34% in FY2017. These automotive sales have further increased to ~92% of total sales in 9M FY2021, which are expected to sustain, going forward, supporting the financial performance of the company. The rating continues to take support from the strong parentage of the company, a joint venture (JV) between Nippon Steel Corporation (NSC) and Tata Steel Downstream Products Limited (TSDPL), which in-turn is a 100% subsidiary of Tata Steel Limited (TSL), and the strategic importance of the company to both TSL and NSC, as indicated by regular financial support in the form of equity infusion, totalling Rs. 558 crore since the start of the company's commercial operations. The company has used such capital infusion to fund losses in the past as well as prepay debt. Additionally, the company has substantial operational and managerial linkages with TSL. The established presence of TSL in the domestic automotive steel market, coupled with NSC's technical capabilities has helped the company maintain high capacity utilisation levels. ICRA further notes that the pricing arrangement with the OEMs and raw material suppliers limit the company's exposure to fluctuations in input steel prices.

The rating, however, also factors in the high gearing, notwithstanding timely equity infusion, of the company on account of loss-making operations in the past. While the equity infusion from promoters have been used to fund losses and prepay some of the debt, the total debt quantum remains high, which continues to weigh on the debt coverage indicators of the company. While JCAPCPL has substantial repayment obligations over the near to medium term, a healthy trend in sales to automotive OEMs is expected to keep the company's cash flows adequate compared to its debt service obligations. Also, low utilisation of working capital facilities from the bank at present as well as timely support from the promoters, if required, are likely to ensure adequate liquidity for the company. In addition, ICRA takes comfort from the substantial financial flexibility that JCAPCPL enjoys given its strong parentage and established relationships with banks.

Key rating drivers and their description

Credit strengths

Demonstrated ability to maintain volumes even during slowdown in the industry – The company started commercial production in September 2014. In the first couple of years, automotive orders for the company were low due to the time taken for approval of components by various OEMs, leading to a low capacity utilisation and revenues. While the process of component approval is time consuming, the parentage of TSL and NSC helped the company get approvals at a faster rate. Consequently, the company has been able to garner a market of share of ~23% in FY2020 in the domestic market. ICRA notes that JCAPCPL's volumes largely depend on the demand from the automotive sector, particularly the passenger vehicle (PV) segment. The domestic PV segment has witnessed a slowdown in demand since FY2019. The domestic PV segment declined by ~18% in FY2020 and further by ~20% in FY2021 (April to November). Despite a slowdown in the industry and complete shutdown of operations for ~2 months due to the lockdown, the company has been able to maintain its volumes. In FY2020, when the industry declined by ~18%, JCAPCPL's volumes declined marginally by ~2%. In the current year also, JCAPCPL maintained its volumes with only a ~4% decline in 9M FY2021 compared to the same period last year by increasing its market share with leading domestic automobile OEMs.

Strong parentage and strategic importance to both parents; significant managerial and operational linkages with TSL – JCAPCPL was incorporated as a 51:49 JV of TSL and NSC. In 2021, TSL's 51% shareholding was transferred to TSDPL, a 100% subsidiary of TSL as a part of the overall restructuring of the Tata Steel Group. Notwithstanding this, the company has substantial operational and managerial linkages with TSL. JCAPCPL's manufacturing facility, located within the premises of TSL's Jamshedpur plant, is capable of producing high strength steel of up to 980 megapascal (MPa) for the automotive sector, making it strategically important to TSL as the latter can only manufacture automotive cold-rolled sheets with a maximum strength of 300 MPa through the batch annealing route. Almost the entire raw material requirement is met by supplies from TSL. The company also carries out tolling orders for TSL, which help in maintaining the overall capacity utilisation levels. The presence of the company in the domestic market has been strengthened further by NSC, a leading global supplier of automotive quality steel. NSC has provided technology for setting up the plant, enabling quality production at a competitive cost, which can improve service requirements of automotive OEMs and in turn, increase NSC's market share in India.

The promoters have demonstrated their willingness to support the company, given the strategic importance of JCAPCPL, through infusion of funds in the form of equity. Since commissioning of the plant, there has been a total equity infusion of ~ Rs. 558 crore, including Rs. 80 crore in the current year. JCAPL has utilised the same to fund losses in the past as well as to prepay debt. ICRA understands that the promoters remain committed to support JCAPCPL through further fund infusion, if required.

Reputed customer base, supplying to most leading automotive OEMs – Post commissioning of production facilities, JCACPL, within a short period, has established itself as one of the largest suppliers of auto grade steel. The company is either already supplying or has been approved for supplying to most of the major passenger car OEMs in India. The established relationships of both TSL and NSC with a reputed clientele helped the company in establishing its credentials as a high-strength steel manufacturer. Consequently, the company has been able to rapidly increase its market share to ~25% in the current year from nil in FY2016 in the domestic market.

Limited sensitivity to steel price volatility – The raw materials of the company are full hard cold-rolled coils (FHCR), which are primarily procured from TSL. Located within TSL's Jamshedpur campus, there is only a nominal logistics cost that JCAPCPL has to incur for transporting raw materials. In addition, the purchase price is determined by a pricing formula that largely insulates the company from fluctuations in input steel prices.

Credit challenges

High gearing and moderate coverage indicators; timely equity infusion in the past supported the capital structure – The total project cost stood at Rs. 2,650 crore, which was funded by Rs. 1,718 crore of debt and Rs. 932 crore of equity capital, thus implying a debt to equity ratio of 1.8:1. Subsequently, losses accumulated in the initial years, coupled with the working capital debt, led to a further deterioration in the capital structure, with the gearing increasing to ~4.3 times as of end FY2018. Infusion of equity along with an improvement in profitability has, however, helped in correcting the capital structure with the gearing improving to 1.1 times as of December 2020. While there has been an improvement, the total debt quantum remains high, which continues to weigh on the debt coverage indicators of the company.

In the initial years, the company used to undertake tolling business for TSL at a significantly lower margin. The tolling business constituted ~90% of total sales in FY2016, which reduced to only ~17% in FY2020 and ~8% in 9M FY2021 due to higher demand for automotive sales. The automotive business has substantially higher margins, resulting in an improvement in the operating margins to ~15.5% in the current year from ~12% historically. Going forward, this is expected to sustain, and the tolling sales will be marginal. The improvement in profitability has led to an improvement in Total debt/OPBITDA to ~4.2 times at the end of December 2020 from 11 times in FY2018 and the interest cover increasing to ~2.7 times in FY2021 (annualised) from ~1 times in FY2018.

Exposure to inherent cyclicality of the automotive business – The company remains exposed to the inherent cyclicality in the automotive business, which is dependent on the overall demand supply situation. There was a slowdown in the domestic PV industry during FY2019 and FY2020. In the current year, the demand was muted during the first half due to the lockdown on account of the pandemic. However, the demand has gradually picked up since September and is expected to sustain at least in the near term.

Liquidity position: Adequate

The liquidity position of the company is adequate. While ICRA notes that JCAPCPL has substantial debt repayment obligations in the near to medium term, low utilisation of working capital facilities from bank as well as improved profitability are likely to support its liquidity position in the near term. Moreover, the parentage of TSL and NSC and demonstrated support from the promoters in the past impart significant financial flexibility to the company.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating may be downgraded if there is a deterioration in the credit profile of the JV partner, TSDPL, a 100% subsidiary of TSL and NSC or if the operational and financial linkages with the promoters are weakened. Moreover, the companies' inability to maintain the profitability and improve debt coverage indicators and liquidity profile in the medium term will also be negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Parent/Group Company: JCAPCPL is a 51:49 joint venture (JV) between TSDPL, 100% subsidiary of TSL and NSC. ICRA expects the promoters to be willing to extend financial support to JCAPCPL, given the strategic importance of JCAPCPL for its promoters and the close business linkages among them. There also exists a consistent track record of TSL and NSC for extending timely financial support to JCAPCPL in the recent past.
Consolidation/Standalone	Standalone financials have been considered.

About the company

Jamshedpur Continuous Annealing & Processing Co. Pvt. Ltd. (JCAPCPL), incorporated in 2011 as a 51:49 joint venture (JV) between Tata Steel Limited (TSL) and Nippon Steel Corporation (NSC) has a continuous annealing and processing line (CAPL) with an annual capacity of 6,00,000 MT of high-grade cold-rolled sheets for the automotive industry. In January 2021, TSL's 51% stake was transferred to Tata Steel Downstream Products Limited (TSDPL), a 100% subsidiary of TSL, as a part of the overall business restructuring plan of the Tata Steel Group. The manufacturing facility, located within the TSL's plant in Jamshedpur, can produce high strength steel of up to 980 MPA.

In FY2020, the company reported a net loss of Rs. 6.8 crore on an operating income of Rs. 1,884.6 crore compared to a net profit of Rs. 33.8 crore on an operating income of Rs. 2,007.3 crore in the previous year. In 9M FY2021, the company reported a net profit of Rs. 63.0 crore on an operating income of Rs. 1,296.3 crore compared to a net loss of ~Rs. 64.4 crore on an operating income of Rs. 1,376.5 crore during the same period last year.

Key financial indicators (audited)

LTHL Consolidated	FY2019	FY2020	9M FY2020*	9M FY2021*
Operating Income (Rs. crore)	2007.3	1884.6	1376.5	1296.3
PAT (Rs. crore)	33.8	-6.8	-64.4	63.0
OPBDIT/OI (%)	12.3%	10.5%	6.1%	15.5%
PAT/OI (%)	1.7%	-0.4%	-4.7%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	1.9		
Total Debt/OPBDIT (times)	5.6	6.4		
Interest Coverage (times)	1.9	1.8	1.0	2.7

**These are provisional financials*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 19, 2021	Jan 12, 2021	Jan 07, 2020	Jan 08, 2019	Dec 15, 2017	Apr 18, 2017
1	Commercial Paper	Short Term	175.0	-*	[ICRA]A1+ reaffirmed	[ICRA]A1+ outstanding	[ICRA]A1+ reaffirmed	[ICRA]A1+ reaffirmed	[ICRA]A1+ reaffirmed	[ICRA]A1+ assigned

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Commercial Paper	Not issued	-	-	175.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Maitri Vira
+91 33 7150 1103
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.