Jindal Steel & Power Limited

May 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities	18,441.00	17,227.71^	[ICRA]BBB- (Stable); upgraded from [ICRA]D
Long-term non-fund-based bank facilities	4,800.00	900.00	[ICRA]BBB- (Stable); upgraded from [ICRA]D
Short-term non-fund-based bank facilities	-	3,900.00	[ICRA]A3; upgraded from [ICRA]D
Short-term fund-based bank facilities	2,047.00	1,911.11	[ICRA]A3; upgraded from [ICRA]D
Long-term unallocated	-	1,349.18	[ICRA]BBB- (Stable); upgraded from [ICRA]D
Total Bank Facilities	**25,288.00**	**25,288.00**	
Non-convertible Debentures (NCD)	**1,562.00**	**1,549.60**	[ICRA]BBB- (Stable); upgraded from [ICRA]D

* Instrument details are provided in Annexure-1**;** ^ Includes term loans and cash credit facilities

Rating action

ICRA has upgraded the long-term and short-term ratings for the Rs. 25,288.00-crore[1] bank facilities of Jindal Steel & Power Limited (JSPL)[2] to [ICRA]BBB- (pronounced ICRA triple B minus) and [ICRA]A3 (pronounced ICRA A three), respectively, from [ICRA]D (pronounced ICRA D) earlier. The long-term rating for the Rs. 1,549.60-crore (reduced from Rs. 1,562.00 crore) NCD programme of JSPL has also been upgraded to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]D (pronounced ICRA D) earlier. The outlook on the long-term ratings is 'Stable'.

Rationale

The rating action takes into account the regularisation of debt servicing by JSPL from mid-October 2017 and a significant turnaround in its operational performance and financial position during the past few quarters. While the successful commissioning of the company's enhanced domestic capacity together with favourable sectoral developments is supporting a healthy growth in its sales, profits and cash accruals, its balance sheet position has also strengthened aided by sizeable long-term fund infusions during FY2018. Infusions of long-term funds, through qualified institutional placement (QIP), allotment of convertible warrants to the promoter group and asset divestments, have not only aided an improvement in liquidity but have also facilitated completion of key components of JSPL's large capacity expansion program in Angul, Odisha.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

The ratings also draw strength from JSPL's established position as one of the leading steel producers in India with a sizeable presence in pelletisation, mining and power generation. Moreover, the ratings take into account the company's large-scale and cost-competitive operations, experienced promoters and management, healthy operational track record in steel and power sectors, favourably-located plants in proximity to various coal and iron ore mines, and diversified and value-added product portfolio. The strengths have been augmented further by the commissioning of the company's large and modern capacities in Angul, which have increased its domestic steel-making capacity by about 80%.

The ratings are, however, constrained by JSPL's high indebtedness following the sizeable capital expenditure (capex) undertaken across segments during the past six years. Although the improved visibility of growth in profits and cash accruals is likely to result in a gradual improvement in capitalisation metrics, as reflected by estimated total debt/operating profit before depreciation interest and taxes (TD/OPBDIT) of about 4.5 times in FY2019 vis-a-vis about 6.5 times in FY2018 on a standalone basis, these are likely to remain modest. Nevertheless, the debt service coverage ratio is expected to remain adequate.

The ratings are also constrained by the inherent vulnerability of the steel business to volatility in metal prices as well as price and supply risks associated with coal and iron ore procurement in the absence of commensurate captive mines. Nevertheless, raw material risk is partially mitigated, given JSPL's access to captive iron ore mine for part (~30-40%) of the capacity. ICRA also notes that JSPL, through its overseas subsidiaries, has sizeable coking coal and thermal coal mining assets in Mozambique, Australia and Africa which, if tapped fully, can significantly reduce the company's exposure to volatility in raw material prices. However, sustained under-extraction from these mining assets, accompanied by large borrowings and repayment obligations, remains a concern.

Given the sizeable debt-servicing commitments of JSPL's overseas subsidiaries in Mauritius and Australia over the medium term vis-à-vis projected consolidated cash flows, ICRA notes that further fund infusions may remain crucial for JSPL to sustain an adequate liquidity profile. In this regard, ICRA draws comfort from management's stated intent of divesting some of its overseas assets to pare down debt at the consolidated level and JSPL's demonstrated ability to tap domestic and international capital markets for fund raising. The recent sanction of a priority term loan, aggregating Rs. 1,500 crore is likely to ease the liquidity position in the near term.

Going forward, JSPL's ability to harness the potential of its enhanced steel capacities as well as international mining assets while achieving healthy profitability and managing working capital cycle efficiently will remain critical determinants of its cash flows and, hence, the pace of deleveraging. In addition, the timing and scale of divestments by JSPL's overseas subsidiaries will determine the extent of financial support to be extended by the Indian operations and, hence, will also be a rating sensitivity. In this context, ICRA notes that any development pertaining to ongoing restructuring/ refinancing arrangements in international subsidiaries will remain a key monitorable.

Outlook: Stable

ICRA believes that the current favourable operating environment in the steel sector, JSPL's experienced management, its long-standing operational track record and established market position will enable it to sustain the growth trend in production volumes demonstrated in Q4 FY2018, which, in turn, will drive further growth in profits and cash accruals, thereby supporting its credit profile.

The outlook may be revised to 'Positive' in case of stronger-than-expected growth in volumes while achieving healthy profitability. The outlook may be revised to 'Negative' if ramp-up of new capacities in Angul is slower-than-expected, leading to low cash accruals, or if liquidity gets constrained because of elongation in working capital or higher-than expected support to subsidiaries.

Key rating drivers

Credit strengths

Cost competitiveness emanating from large-scale integrated operations and attractive plant locations – JSPL's steel manufacturing operations are vertically integrated, encompassing captive iron ore mine for partial capacity, coal washing, coke manufacturing, pelletisation, sponge iron manufacturing, power generation, and production of semi and finished steel products. Also, it's plants are favourably located given their proximity to various coal and iron ore mines. The strengths have been augmented further by the commissioning of the company's large and modern capacities in Angul, which have increased its domestic steel-making capacity to 8.6 million tonnes per annum (mtpa). The integrated and large-scale operations augur well for its operating efficiencies.

Diversified product portfolio with forward integration into value-added products – JSPL has an established track-record of nearly two decades in the successful commissioning of greenfield capacities in the steel and power segments as well as in running its plants at healthy capacity utilisation. In addition, the company has diversified its product portfolio over the years to include high value-added finished steel products such as heavy and medium structurals and rails besides other finished and semi-finished products (such as TMT bars, plates, coils, parallel flange beams & columns, rails, angles & channels, wire rods and fabricated sections). The multiple sale points across the steel value chain (sponge iron, pellets, pig iron, steel semi's, finished steel, power) aid flexibility in catering to market requirements while optimising capacity utilisation and profitability.

Favourable operating environment in the steel sector – Domestic steel consumption growth improved to 7.6% in 11MFY2018 from 2.6% in FY2017 and ICRA expects this growth momentum to continue in the medium term on the back of the Indian Government's thrust on infrastructure, especially towards affordable housing, power transmission and the railways, as reflected in the Union Budget 2018-19. Favourable domestic demand, remunerative prices in both domestic and international markets and lower growth in imports is likely to support steel production growth and profitability for Indian steel manufacturers. ICRA expects international steel prices to remain at buoyant levels on the back of capacity cuts in China, leading to declining Chinese exports. This, coupled with anti-dumping duties, is likely to keep Indian steel prices at elevated levels, helping domestic players including JSPL.

Financial flexibility reflected in ability to mobilise capital - JSPL has demonstrated its ability to raise long-term funds as well as refinance its debt obligations, which reflects favourably on its financial flexibility. Besides the successful QIP issuance of Rs. 1,200 crore in March 2018, JSPL recently secured a sanction of a term loan aggregating Rs. 1,500 crore, which is likely to ease its liquidity position further. In FY2018, the company had also allotted convertible warrants to Opelina Finance and Investments Limited, a promoter group entity. The aggregate inflow against these warrants is expected to be Rs. 673 crore. Out of the issued warrants, Rs.188 crore was received in Q3 FY2018 while the balance is expected by Q1 FY2020. Moreover, JSPL executed a sale and lease back transaction (Rs. 1,121 crore) for its oxygen plant assets with SREI Equipment Finance Limited, with the proceeds being utilised for the clearing of overdues to banks in October 2017.

Credit challenges

High indebtedness to keep debt metrics under pressure – Large debt-funded capital expenditure undertaken by JSPL over the past six years towards the setting up of a steel and power plant in Angul and a pellet plant in Barbil (Odisha), has resulted in high indebtedness. This is likely to keep its debt metrics modest with TD/OPBDIT at a standalone level of about 4.5 times for FY2019. Nevertheless, the improved visibility of sharp volumetric growth in the near term and resultant growth in cash accruals is likely to result in an adequate debt service coverage ratio on a standalone basis. In addition, JSPL has made sizeable overseas investments towards a steel capacity in Oman and coking coal mines in Africa and Australia, besides domestic investments in power generation under its subsidiary, Jindal Power Limited[3]. Large borrowings for these investments, particularly in the overseas operations, continue to keep JSPL's consolidated balance sheet highly leveraged. While JPL and the steel manufacturing plant in Oman (having debt of about Rs. 8,200 crore and US$ 800 million respectively) are self-sufficient for debt servicing, the sustained inability of the overseas mining assets (with an estimated debt of USD 1.2 billion) to generate commensurate returns remain a concern. ICRA notes that further fund infusions may remain crucial for JSPL to sustain an adequate liquidity profile on a consolidated basis. In this regard, ICRA draws comfort from management's stated intent of divesting some of the overseas assets to pare down debt at a consolidated level.

Inherent vulnerability of the steel business to volatility in prices – JSPL operates in a cyclical industry with global overcapacity. While the company's cost-competitiveness coupled with a high level of integration in steel manufacturing operations reduces the susceptibility of its profitability to downturns in the steel industry, it is not totally protected from the vagaries of the sector and had witnessed volatility in its operating profitability in recent times owing to the tough operating environment in the sector. Resultant pressures on operating cash flows made the company dependent on the monetisation of non-core assets as well as the refinancing of its debt obligations.

Profitability susceptible to volatility in raw material prices – Till FY2015, JSPL had access to captive pit-head coal for its steel as well as power operations, which helped in achieving strong profitability. However, these coal blocks were deallocated, making the company dependent on external sources for coal from April 2015. At present, JSPL sources a part of its iron ore requirement from its captive mines in Tensa (Odisha), while the balance (60-70% requirement post the ramp-up of new capacities) is sourced from private mine owners in the state. Thermal coal requirements are met partially from coal linkage for the captive power plant while the rest is met through e-auctions. Coking coal requirements are met through imports. Thus, while the raw material risk is partially mitigated by JSPL's access to captive iron ore mine for part of the capacity, the lack of captive coal mines for steel and power operations and lack of captive iron ore mines for the Angul operations, keeps the company exposed to price and supply risks for its key raw materials. Nevertheless, the location of JSPL's plants in mineral-rich states provides comfort. In this context, any additional linkages from mines in proximity can help the company mitigate raw-material related risk. ICRA also notes that JSPL, through its overseas subsidiaries, has sizeable coking coal and thermal coal mining assets across Mozambique, Australia, and Africa, which, if tapped adequately, can significantly reduce the company's exposure to volatility in raw material prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. In addition to a detailed operational and financial analysis of JSPL's standalone operations, ICRA takes a view on the credit profile of JSPL Group i.e. JSPL and its subsidiaries/associates.

3 ICRA has [ICRA]A-(Negative)/ [ICRA]A2+ rating outstanding for the bank lines and NCDs of JPL. For details, please refer to ICRA's website www.icra.in

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Ferrous Metals Industry

Rating Methodology for Thermal Power Producers

About the company:

JSPL is one of India's leading primary steel producers with a significant presence in power generation and mining. Its manufacturing units are situated in Raigarh (Chhattisgarh), Angul (Odisha), Barbil (Odisha), Patratu (Jharkhand), and Oman.

While JSPL's integrated operations in India encompass capacities of 8.45 mtpa of iron making, 9.0 mtpa of pellets, 8.6 mtpa of liquid steel and 6.55 mtpa of finished steel, the operations in Oman include capacities of 1.5 mtpa of iron making, 2.0 mtpa of liquid steel and 1.4 mtpa of finished steel. JSPL's product range includes TMT bars, plates, coils, parallel flange beams & columns, rails, angles & channels, wire rods, fabricated sections among other finished and semi-finished products.

While about 63% of JSPL's domestic iron-making capacity (~5.3 mtpa) is through the blast furnace route, the balance (~3.1 mtpa) is through direct-reduced iron (DRI). In comparison, iron-making capacity at its overseas operations in Oman is through the gas-based hot-briquetted iron (HBI) route.

JSPL also has a captive thermal power capacity of about 1,661 megawatts (MW) at its Raigarh and Angul plants. Besides, Jindal Power Ltd (JPL), a 96.43% subsidiary of JSPL, which is an independent power producer, has an installed thermal power capacity of 3,400 MW. In addition to steel-manufacturing capacities, JSPL's international operations include interests in coking coal mining assets in Australia, thermal/coking coal mining assets in Mozambique, and anthracite coal mining assets in South Africa.

Key Financial Indicators (Standalone)

	FY2016 (Audited)	FY2017 (Audited)	9M FY2018 (Un-audited)
Operating Income (Rs. crore)	12,614	13,530	11,314
PAT (Rs. crore)	(1,419)	(986)	(506)
OPBDIT/ OI (%)	18.1%	18.7%	21.7%
RoCE (%)	1.0%	2.2%	NA
Total Debt/ TNW (times)	1.1	1.2	NA
Total Debt/ OPBDIT (times)	11.4	10.2	6.9^
Interest coverage (times)	0.8	1.0	1.4
NWC/ OI (%)	40%	26%	NA

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital
^ ICRA's estimate
Source: JSPL's Annual Reports and unaudited financial results, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. cr)	Amount Outstanding (Rs. cr)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016					
					May 2018	Apr 2017	-	Mar 2016	Feb 2016	Jan 2016	Dec 2015	Sep 2015	May 2015
1	Fund-based	LT	17,227.71	15,132.49*	[ICRA]BBB- (Stable)	[ICRA]D	No Change	[ICRA]D	[ICRA]BB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]AA-@
2	Non-fund-based	LT	900.00	701.68*	[ICRA]BBB- (Stable)	[ICRA]D	No Change	[ICRA]D	[ICRA]BB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]AA-@
3	Non-fund-based	ST	3,900.00	3,292.27*	[ICRA]A3	-	-	-	-	-	-	-	-
4	Fund-based	ST	1,911.11	1,911.11*	[ICRA]A3	[ICRA]D	No Change	[ICRA]D	[ICRA]A4+	[ICRA]A3+	[ICRA]A2+	[ICRA]A1	[ICRA]A1+@
5	Unallocated	LT	1,349.18	-	[ICRA]BBB- (Stable)	-	-	-	-	-	-	-	-
6	NCD	LT	1,549.60	1,549.60*	[ICRA]BBB- (Stable)	[ICRA]D	No Change	[ICRA]D	[ICRA]BB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]AA-@
7	Commercial Paper	ST	-	-	-	Rating Withdrawn	No Change	[ICRA]D	[ICRA]A4+	[ICRA]A3+	[ICRA]A2+	[ICRA]A1	[ICRA]A1+@

**Estimate for March 31, 2018; @Rating watch with negative implications; Note: LT – Long term; ST: Short term*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	3,600.00	[ICRA]BBB- (Stable)
NA	Short-term Loans	-	-	-	1,911.11	[ICRA]A3
NA	Bank Guarantee	-	-	-	900.00	[ICRA]BBB- (Stable)
NA	Letter of Credit	-	-	-	3,900.00	[ICRA]A3
NA	Fund-based Unallocated	-	-	-	1,349.18	[ICRA]BBB- (Stable)
NA	Term Loans	FY2009	-	FY2036	13,627.71	[ICRA]BBB- (Stable)
INE749A07185	NCD	Oct 12, 2009	9.8%	Apr 12, 2020	100.00	[ICRA]BBB- (Stable)
INE749A07193	NCD	Oct 22, 2009	9.8%	Apr 22, 2020	150.00	[ICRA]BBB- (Stable)
INE749A07219	NCD	Nov 24, 2009	9.8%	May 24,2020	150.00	[ICRA]BBB- (Stable)
INE749A07268	NCD	Dec 24, 2009	9.8%	Jun 24, 2020	150.00	[ICRA]BBB- (Stable)
INE749A07284	NCD	Jan 25, 2009	9.8%	Jul 25, 2020	150.00	[ICRA]BBB- (Stable)
INE749A07300	NCD	Feb 19, 2009	9.8%	Aug 19, 2020	150.00	[ICRA]BBB- (Stable)
INE749A07318	NCD	Mar 26, 2009	9.8%	Sep 26, 2020	150.00	[ICRA]BBB- (Stable)
INE749A07276	NCD	Dec 29, 2009	9.8%	Dec 29, 2021	49.60	[ICRA]BBB- (Stable)
INE749A07151	NCD	Aug 24, 2009	9.8%	Feb 24, 2020	100.00	[ICRA]BBB- (Stable)
INE749A07169	NCD	Sep 8, 2009	9.8%	Mar 8, 2020	80.00	[ICRA]BBB- (Stable)
INE749A07177	NCD	Oct 8, 2009	9.8%	Apr 8, 2020	80.00	[ICRA]BBB- (Stable)
INE749A07201	NCD	Nov 9, 2009	9.8%	May 9, 2020	80.00	[ICRA]BBB- (Stable)
INE749A07227	NCD	Dec 9, 2009	9.8%	Jun 8, 2020	80.00	[ICRA]BBB- (Stable)
INE749A07250	NCD	Jan 8, 2010	9.8%	Jul 8, 2020	80.00	[ICRA]BBB- (Stable)

Source: JSPL

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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.

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