March 30, 2022

Jindal Aluminium Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term loans	46.00	46.00	[ICRA]AA (Stable); reaffirmed
Fund based – Working capital facilities	140.00	140.00	[ICRA]AA (Stable); reaffirmed
Non- fund based-Working capital facilities	45.00	45.00	[ICRA]A1+; reaffirmed
Fixed deposit programme	30.00	30.00	MAA (Stable) reaffirmed
Commercial paper	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**311.00**	**311.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Jindal Aluminium Limited's (JAL) favourable operating environment in FY2022 and expected sustenance of the same in FY2023, driven by supportive demand from its end-user industries. The capacity utilisation of both the extrusion and the rolling mill division (RMD) significantly improved to ~90% and ~100%, respectively in 9M FY2022 compared to ~77% and ~80%, respectively in FY2021. While aluminium prices remained elevated in FY2022, the company was comfortably able to pass on the high raw material prices to its customers, which is likely to result in a healthy operating margin of ~15-16% in the current fiscal. With a significant improvement in the scale of operation and healthy margins, the absolute operating profits and cash accruals are expected to considerably improve in FY2022. The debt coverage indicators are also expected to remain healthy with an interest coverage and total debt/OPBDITA of ~24 times and ~0.5 times, respectively in FY2022. A healthy cash and liquid investment balance of over Rs. 570 crore as on date provides an additional cushion to the liquidity position. In FY2023, notwithstanding some moderation, JAL's operating margins are expected to remain at healthy levels. The sales volume is expected to further improve, driven by high production from the newly acquired unit in Bhiwadi and commencement of the enhanced capacity in rolling division in H2 FY2023.

The rating also favourably considers the strong operational profile of JAL, characterised by vast promoter experience and its established market position in the domestic aluminium extrusion industry, its wide distribution network, and strong brand equity. The operation is also diversified with healthy generation of revenues from aluminium extrusions, RMD and renewable energy. The export market performance has improved in the current fiscal with addition of various overseas clients. ICRA also notes that the company has signed a joint development arrangement (JDA) with the Prestige Group (Prestige Jindal City Project in Bangalore) where it has offered land for the project and is currently receiving its share (27%) of all the cash flows from the same. Around ~Rs. 400 crore has already been received as on date from the said project, supporting cash flows to a large extent. The ratings, however, remain constrained by the vulnerability of JAL's revenues and earnings to any slowdown in end-user industries (construction, auto etc.), volatility in raw material costs and intense competition given the fragmented nature of the industry. Nonetheless, the cash flows are expected to remain comfortable relative to its debt service obligations.

The Stable outlook on the long-term rating reflects ICRA's expectations that JAL will continue to benefit from the favourable operating environment for the aluminium downstream industry, which would help the company register healthy profits and cash accruals over the near term.

Key rating drivers and their description

Credit strengths

Surge in earnings in FY2022 driven by higher volumes and inventory gains; overall earnings expected to remain healthy in the near term, notwithstanding some moderation expected – In FY2022, JAL's revenues are expected to witness a healthy growth on the back of higher sales volumes amid favourable demand outlook from the end-user industries. The capacity utilisation for both the extrusions division and the RMD division was above 90% in 9M FY2022, which is expected to improve further. Its operating profits are also expected to remain healthy, driven by an increasing share of export orders, higher sales volumes and inventory gains. JAL is able to pass on the increase in aluminium prices to its customers, supporting its margins. Going forward, the operating margins are expected to moderate, but are likely to remain at healthy levels.

Stable financial profile characterised by comfortable capitalisation and coverage indicators, strong cash balances and healthy cash flows – Healthy cash accruals from operations helped the company reduce its debt levels over the years. In addition, stable cash inflows from the Prestige Jindal City Project support the cash flow position and liquidity profile of the company. Consequently, JAL witnessed a healthy improvement in capitalisation and debt coverage indicators. The Total debt/OPBDITA has improved to 0.5 times as on March 31, 2021 while the interest coverage remained healthy at 20.8 times in FY2021. The coverage indicators are expected to further improve in the current fiscal. The company has sizeable cash and investment reserves of over Rs. 570 crore as on date. Going forward, stable accruals from aluminium and renewable energy business and steady cash inflows from the real-estate project are expected to support the company's financial profile.

Market leadership in the domestic aluminium extrusion industry – JAL is a dominant player, commanding market leadership position in the domestic aluminium extrusion industry on back of its capabilities to produce various profiles depending on the end-user industry. The company also supplied its products directly to some customers in the export markets. As the company has a large capacity (~1,05,000 MT) in the extrusion segment in India, it enjoys strong pricing flexibility with its customers. In the RMD segment, the growth in the recent years has been healthy, which is evident from the fact that the capacity utilisation of both the extrusion and the RMD segments was above 90% in 9M FY2022. The capacity enhancement through the acquisition of the Bhiwadi plant will further strengthen JAL's market position.

Established relationships with dealers and customers and diversified business presence lend stability to business volumes – The company continues to enjoy established relationships with dealers and reputed customers in the domestic market owing to its long presence. This is further supported by the company's good industrial mix where its products are used across various industries such as construction, auto, railways, electricals and electronics among others. A healthy industrial mix and a wide geographical reach across the country lend stability to its business volumes and reduce sales concentration risk. Investments in the RMD and the renewable energy segment helped the company in diversifying its operations, thereby reducing its reliance on the extrusion segment.

Credit challenges

Susceptibility of margins to fluctuations in raw material prices and foreign exchange rates – Aluminium accounts for ~90% of the total raw material costs. With volatility in prices, JAL's margins remain susceptible to the raw material price movement. However, the company matches sales with purchases, mitigating the raw material price risk to an extent. The company purchases aluminium in the form of ingots and billets from large domestic suppliers like Vedanta Aluminium Limited, National Aluminium Company and Hindalco Industries Limited. In addition to domestic purchases, the company imports a part of its raw material requirement. While there is a natural hedge to the extent of exports, the earnings remain susceptible to fluctuations in foreign exchange rates. As the company derives the major portion of its revenues from industries such as construction and automobile OEMs, demand fluctuations in the end-user industries also continue to affect the company's revenue trajectory.

Intense competition in the industry – Apart from the major organised players like JAL, the domestic downstream aluminium industry also has many unorganised players with small capacity, leading to a highly fragmented industry structure and intense competition. Under the RMD, the competition continues to remain high, which affects the pricing power of the company. However, JAL has strengthened its position in this segment by increasing the share of export revenues in addition to having direct relationships with several OEMs across the industries.

Liquidity position: Strong

JAL's liquidity is strong with healthy cash and investment surplus of over Rs. 570 crore as on date. The term loan outstanding is ~Rs. 115 crore as on date, which will be repaid in the next financial year. In addition, the capital expenditure requirement is around Rs. 150-160 crore in FY2023 for expanding the Bhiwadi unit and other maintenance capex. However, healthy cash accruals from business operation would continue to support the liquidity position. JAL will be able to comfortably meet its commitments through internal accruals and is expected to maintain healthy investment balance, going forward.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant improvement in JAL's scale of operations and accruals while sustaining its strong capital structure and coverage indicators.

Negative factors – The ratings could be downgraded in case of a significant deterioration in JAL's financial profile. Any large spend towards capex/inorganic growth impacting the overall capital structure or coverage indicators of the company will also be a key trigger for downward revisions of ratings. Specific credit metrics include Total Debt to OPBITDA above 1 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer

About the company

Incorporated in 1968, JAL manufactures aluminium extruded profiles that are used across various end-user industries, namely, construction, electrical, automobiles, general engineering etc. In 2012, the company diversified into manufacturing aluminium rolled products by commissioning its RMD at Dabaspet, Bangalore. JAL also owns wind and solar power projects in Karnataka and Andhra Pradesh with an aggregate capacity of 80.84 MW. It currently employs 2,000 people across its manufacturing locations and is promoted by Mr. Sitaram Jindal, who has over five decades of experience in the aluminium and renewable energy sectors. The company has entered a JDA with the Prestige Group to develop a 33-acre land parcel, which is located in vicinity to the company's plant on Tumkur Road. The first phase of the Prestige Jindal City Project was launched at the start of FY2019. The company has also acquired an extrusion plant in Bhiwadi, Rajasthan in FY2022 and is planning to enhance its extrusion capacity through the same.

Key financial indicators (audited)

JAL-Standalone	FY2020	FY2021
Operating Income (Rs. crore)	2,490.0	2411.7
PAT (Rs. crore)	200.8	267.8
OPBDIT/OI (%)	11.4%	15.7%
PAT/OI (%)	8.1%	11.1%
ROCE (%)	20.3%	26.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDITA (times)	0.7	0.5
Interest Coverage (times)	14.1	20.8

JAL – Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2,549.7	2,425.2
PAT (Rs. crore)	223.1	266.7
OPBDIT/OI (%)	14.7%	15.9%
RoCE (%)	20.1%	25.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.6	0.5
Interest Coverage (times)	17.4	19.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year); Source: JAL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					Mar 30, 2022	Mar 30, 2021	Nov 12,2020	Mar 17, 2020	Aug 14,2019	Mar 12, 2019	May 03,2018
1	Term Loan	Long-term	46.0	5.60	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund based facilities	Short-term	140.0	NA	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Non-Fund based facilities	Long-term	45.0	NA	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fixed Deposit Programme	Medium term	30.0	NA	**MAA (Stable)**	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)
5	Commercial Paper Programme	Long term	50.0	NA	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	Withdrawn	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposit Programme	Very Simple
Commercial Paper Programme	Very Simple
Term Loan	Simple
Fund based facilities	Simple
Non-Fund based facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2016	NA	FY 2022	46.0	[ICRA]AA (Stable)
NA	Fund based facilities	NA	NA	-	140.0	[ICRA]AA (Stable)
NA	Non-Fund based facilities	NA	NA	-	45.0	[ICRA]A1+
NA	Fixed Deposit Programme	-	6.5%	FY 2022	30.0	MAA (Stable)
Yet to be placed	Commercial Paper	NA	NA	NA	50.0	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Jindal Naturecare Limited	52.50%	Full Consolidation
Varama Sir India Logistic and Infrastructure Private Limited	100.00%	Full Consolidation

Source: *Company*

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