

February 28, 2023

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	175.00	175.00	[ICRA]A1+; Reaffirmed
Total	175.00	175.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating factors in the strong parentage of Jamshedpur Continuous Annealing & Processing Co. Pvt. Ltd. (JCAPCPL), a joint venture (JV) between Nippon Steel Corporation (NSC, rated Baa2 (Stable) by Moody's Investors Service) and Tata Steel Downstream Products Limited (TSDPL, rated at [ICRA]AA/Stable/[ICRA]A1+), which in-turn is a 100% subsidiary of Tata Steel Limited (TSL, rated at [ICRA]A1+ and Ba1 (Positive) by Moody's Investors Service). The rating also considers 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. 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, helped the company maintain high capacity utilisation levels across the business cycles. The rating also considers the favourable procurement terms with TSL for raw materials, which help partly insulate the volatility associated with steel prices, in turn supporting the overall earnings across the business cycles. The rating also considers the company's reputed customer base, which comprises leading automotive OEMs in the domestic market. The rating also factors in the improvement in the leverage metrics of the company, aided by reduction in the overall debt levels and improvement in the operating performance.

The rating, however, continues to be constrained by the exposure of the company to sectoral concentration risks as the company's steel deliveries are largely directed towards the passenger vehicle (PV) segment. Consequently, its cash flows and margins remain exposed to the cyclical nature inherent in the PV industry. The rating also considers the company's exposure to earnings volatility due to its linkages with the cyclical nature of the steel sector. ICRA notes that demand for auto grade steel is not directly correlated with steel cycles, but the company's earnings remain exposed to the volatility in scrap prices, which are highly correlated with steel cycles.

Key rating drivers and their description

Credit strengths

Strong parentage and strategic importance to both parents; significant managerial and operational linkages with TSL – JCAPCPL was incorporated as a 51:49 JV between 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 continues to have substantial operational and managerial linkages with TSL. JCAPCPL's manufacturing facility, located within the premises of TSL's Jamshedpur plant, can produce 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.

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.

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. Good 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 domestic market share to 29% in FY2022 from 2% in FY2016.

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 loss-making operations during the initial period. However, the expertise of TSL and NSC helped the company fast-track customer approvals. Consequently, the company has been able to gradually increase the domestic market share to 29% in FY2022. JCAPCPL's volumes largely depend on demand from the automotive sector, particularly the PV segment. ICRA notes that even during periods when the domestic PV production contracted (like in FY2021), the company was able to grow its sales volumes by increasing its market share with leading domestic automobile OEMs. This demonstrates the company's resilience to withstand cyclical downturns.

Improvement in leverage metrics aided by reduction in overall debt levels and better operating performance – The company has witnessed a steady improvement in its leverage metrics (Total Debt/OPBDITA of 1.6 times in FY2022 against 11 times in FY2018) aided by reduction in its overall debt levels and better operating performance. The total debt declined to around Rs.670 crore as on December 31, 2022 from around Rs.1,709 crore as on March 31, 2018. ICRA expects the company's Total Debt/OPBDITA to remain below 2 times, going forward.

Favourable procurement terms with TSL support overall earnings – 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, JCAPCPL has to incur nominal logistics cost for transporting raw materials. In addition, the purchase price is determined by a pricing formula that partly insulates the company from fluctuations in input steel prices.

Credit challenges

Exposed to sectoral concentration risk – The company's steel deliveries are mainly made to the PV segment, which exposes the company to sectoral concentration risks. Consequently, its cash flows and margins remain exposed to the cyclicity inherent in the PV industry.

Exposed to earnings volatility due to linkages with the cyclicity of the steel sector – While demand for the auto grade steel is not directly correlated with steel cycles, the company's earnings remain exposed to the volatility in scrap prices, which are highly correlated with steel cycles. The auto grade steel manufacturing process generates significant scrap. As a result, scrap sales as a proportion of the operating profit before depreciation, interest, taxes and amortisation (OPBDITA) have historically remained high.

Liquidity position: Adequate

JCAPCPL's liquidity has been assessed as **adequate** with undrawn working capital lines of Rs.150 crore as on December 31, 2022 and healthy fund flow from operations expected over the medium term. Against these sources of cash, the company has a total capex commitment of around ~Rs.60-70 crore and debt repayment obligations of ~Rs.341 crore in FY2023. Overall, ICRA

expects JCAPCPL to be able to comfortably meet its capex commitments and service its debt obligations through internal as well as external sources of cash. 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 partners, or if the operational and financial linkages with the promoters are weakened. The rating could also witness pressure if JCAPCPL encounters a sustained period of weak earnings and/ or makes a large debt-funded capex, leading to a significant deterioration in its liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry Rating Approach - Implicit support from Parent or Group
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	For arriving at the ratings, ICRA has considered the standalone financials of JCAPCPL.

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 TSL's plant in Jamshedpur, can produce high strength steel of up to 980 MPa.

Key financial indicators

JCAPCPL	Standalone		
	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 (Provisional)
Operating Income (Rs. crore)	2166.1	3651.7	2955.5
PAT (Rs. crore)	206.2	397.1	121.2
OPBDIT/OI (%)	17.5%	14.3%	7.8%
PAT/OI (%)	9.5%	10.9%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.8	0.6
Total Debt/OPBDIT (times)	2.6	1.6	2.2
Interest Coverage (times)	4.0	7.6	5.6

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 (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Feb 28, 2023	Feb 28, 2022	Feb 19, 2021	Jan 12, 2021	Jan 07, 2020	
1	Commercial paper	Short Term	175.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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 analysing 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, are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Not placed	Commercial Paper	NA	NA	NA	175.00	[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

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Ritabrata Ghosh

+91 33 7150 1107

ritabrata.ghosh@icraindia.com

Deepayan Ghosh

+91 33 7150 1220

deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jyantac@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

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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

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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