

October 27, 2023

Jindal Steel Odisha Limited: [ICRA]AA-(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based - Term Loan	15,727.00	[ICRA]AA-(Stable); assigned
Long-term non-fund-based - Capex LC	(10,000.00) ^	[ICRA]AA-(Stable); assigned
Total	15,727.00	

*Instrument details are provided in Annexure-I

^sub-limit of long-term fund-based term Loan

Rationale

The assigned rating considers the status of Jindal Steel Odisha Limited (JSOL) as a wholly-owned subsidiary of Jindal Steel and Power Limited (JSPL), which has strong operational and financial risk profiles. ICRA expects JSOL to receive significant operational, financial and management support from JSPL because of its parentage. The ongoing capital expenditure (capex) under JSOL is strategically important for the Group (JSOL and JSPL together) as it will enhance the Group's steel-making capacity by ~66% in a staggered manner to 15.9 million tonnes per annum (mtpa) by FY2025 from 9.6 million tonnes per annum at present. Moreover, the Group's finished steel capacity will also be enhanced from 6.5 mtpa at present to ~12 mtpa, as the Group diversifies its product portfolio in the flat steel products. JSOL is likely to benefit from the operational synergies ensuing from JSPL's cost competitive operations and its established market position and supplier network. This is more so, considering that JSPL is one of India's leading primary steel producers with a significant presence in power generation and mining as well. This, together with the shared name, reflects JSOL's strategic significance to its parent. While assigning the rating, ICRA has also noted that JSOL's bank facilities are backed by a corporate guarantee from JSPL, for up to two years of satisfactory performance (as per stipulated financial covenants), post the scheduled commercial operation date (SCOD).

The rating is, however, constrained by project implementation and stabilisation risks that JSOL is susceptible to, including risks related to cost/time overruns, owing to sizeable scale and implementation timeline spread till FY2025. While JSOL has already commissioned its first of the two pellet plants, most of its planned facilities are expected to be commissioned in the coming quarters in a sequential manner, exposing the company to associated project risks. In this context, some comfort is drawn from the modular approach proposed for the project implementation and JSPL's established track record of successful commissioning of greenfield/brownfield capacities and running its plants at healthy capacity utilisation rates. Further, regulatory risks associated with the project remain low as JSOL has received necessary approvals from various regulatory/governing bodies, mitigating timeline related risks to some extent. The funding risks are also mitigated as the entire debt requirement for the project has been tied up. The company has already started debt drawdown from September 2023 and a substantial equity portion has been infused by the parent company. Further, the terms of the debt tied up are favourable, with a moratorium of one year after SCOD and ballooning repayments over 13 years.

The Stable outlook on the rating reflects ICRA's expectation that the Group's track record of setting up large projects will enable JSOL to implement the project within the estimated costs and timelines, as well as efficiently ramp up operations to remain self-sufficient in meeting its debt servicing obligations, post commissioning of operations. The long-term rating outlook reflects ICRA's expectation of continued operational and financial support from the parent, if required.

Key rating drivers and their description

Credit strengths

Wholly-owned subsidiary of JSPL, which has a strong financial risk profile – JSOL is a wholly-owned subsidiary of JSPL (rated [ICRA]AA(Stable)/A1+), which enjoys a strong operational and financial risk profile. JSPL, one of India's leading primary steel producers, has significantly deleveraged its balance sheet in the recent years, led by sustained robust operating performance, amid the strong steel upcycle. The company's leverage is expected to remain comfortable over the medium term, despite the sizeable debt-funded capex being undertaken under JSOL. The company is strategically important for the Group, given that it will help enhance the Group's consolidated steel-making capacity by ~66% to 15.9 mtpa by FY2025, thereby facilitating benefits of economies. Together with a proposal by JSPL to extend a corporate guarantee for JSOL's bank facilities till the latter achieves satisfactory performance¹, this provides comfort on the strong likelihood of support from the parent.

Parent's established track record of successful commissioning of greenfield/brownfield capacities – JSPL has an established track record in successful commissioning of greenfield/brownfield capacities in the steel and power segments as well as in running its plants at healthy capacity utilisation rates. This partially mitigates the project implementation and operational risks for JSOL. It is also noted that proximity of JSOL's project site to JSPL's existing manufacturing capacities will enable the former to benefit from common infrastructure facilities and utilities. This is also reflected in JSOL's competitive capital expenditure estimate of around Rs.23,000 crore for 6.3-mtpa integrated steel capacities.

Favourable terms of debt – The terms of the debt that JSOL has tied up for the project are favourable, with a moratorium of one year after the SCOD and ballooning repayments over 13 years. Step-up instalments are likely to provide the company with adequate time to ramp up and stabilise operations. This apart, with further deleveraging expected at the parent level, ICRA expects JSPL's consolidated leverage and coverage indicators to remain healthy.

Credit challenges

Project implementation and stabilisation risks – Given that the project has sizeable scale and implementation timeline spread over next few quarters, the project is exposed to implementation and/or stabilisation risks, including risks related to costs/time overruns. Till the end of March 2023, company had incurred capital expenditure of ~Rs.8,800 crore (~38% of the total estimated cost) through capex letter of credit (LC) issuance and equity infusion. In the current fiscal, the project has been progressing at a healthy pace, with the parent infusing 85-90% of the equity portion into the project and JSOL also availing the first debt disbursement of its sanctioned term loan at the end of September 2023.

Notwithstanding the above risks, the rating draws comfort from the extensive experience and track record of the promoters, of timely and successfully implementing large size projects in the past. The funding risks have been addressed as the entire debt requirement has been underwritten. The parent's ability to fund the balance equity commitment provides further comfort. Besides, the financial flexibility enjoyed by JSPL is expected to support the contingency funding requirements, if any. Given the long gestation period, the operational risks associated with the project will be heightened if the project commissioning coincides with a cyclical downturn in the sector.

Inherent vulnerability of the steel business to volatility in metal prices – Steel is a cyclical industry with global overcapacity. Accordingly, JSOL will remain exposed to the vagaries of the sector and may witness volatility in its operating profitability depending on the operating environment. The entity's parent, JSPL, has cost competitive operations. Together with a high level of integration in steel manufacturing operations, this reduces the susceptibility of its profitability to downturns in the steel industry. JSOL is likely to benefit from JSPL's ability to maintain cost competitiveness in its operations.

¹ As per the proposed terms of sanction, JSOL's bank facilities will be backed by a corporate guarantee from JSPL for two years of satisfactory performance as per stipulated financial covenants, post commercial operation date (COD)

Susceptibility of profitability to volatility in raw material prices – Despite the Group’s improving raw material coverage, its profitability remains susceptible to volatility in raw material requirements as it remains dependent on external purchases for ~50% of its coking coal and ~40% of its iron ore requirements. Further, the company’s thermal coal requirements will be met captively from the upcoming fiscal. However, any challenge in ramping up of these mines will keep the company exposed to volatility in prices as it will continue to be partially dependent on coal linkages, e-auctions and imports for its thermal coal requirements.

Liquidity position: Adequate

JSOL’s liquidity position is **adequate**, supported by the liquidity of its parent entity, JSPL. Till September 2023, JSPL had infused 85-90% of the equity portion in the company. The project-related funding risks have been addressed to a large extent as the entire debt requirement for the project has already sanctioned and disbursement has started. The parent entity’s ability to fund any additional equity requirement provide more comfort. Besides, the financial flexibility enjoyed by JSPL is expected to support the contingency funding requirements during the project execution phase, if any. Thereafter, the liquidity profile will be driven by timely commissioning of the project and the company’s ability to successfully ramp up operations.

Rating sensitivities

Positive factors – Successful and timely implementation of the entire project within the budgeted costs, and profitable ramp-up of operations thereafter, resulting in a sustained improvement in the company’s financial risk profile, will be positive rating triggers.

Negative factors – Pressure on the rating could arise if the company experiences significant time and cost overruns, slow ramp-up, and/or weak revenue growth and profitability, resulting in inadequate coverage metrics. Further, a deterioration in the credit profile of the parent and/or weakening in linkages/ strength of support from the parent could be negative rating 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: Jindal Steel and Power Limited ICRA expects JSPL [rated [ICRA]AA (Stable)/[ICRA]A1+] to be willing to extend financial support to JSOL, should there be a need, given the high strategic importance of JSOL. Both JSOL and JSPL share a common name, which in ICRA’s opinion would persuade JSPL to provide financial support to JSOL to protect its reputation from the consequences of a Group entity’s distress.
Consolidation/Standalone	The rating is based on the standalone business and financial risk profiles of JSOL, factoring in the support from JSPL, as mentioned above.

About the company

Incorporated in April 2021, Jindal Steel Odisha Limited (JSOL) is a wholly-owned subsidiary of Jindal Steel & Power Limited, setting up a 6.3-mtpa integrated steel plant at Angul, Odisha near the already existing plant of JSPL. The capex will enhance JSPL’s domestic consolidated steel-making capacity by ~66% in a staggered manner to 15.90 MTPA by FY2025 from 9.6 MTPA at present. The project involves an estimated capital outlay of ~Rs. 23,000 crore and is proposed to be funded in a debt to equity ratio of 68:32. The company’s board comprises Mr. Damodar Mittal, Mr. Ashish Pandey, Mr. Sunil Agarwal, Mr. Revinipati Venkata Sridhar, Mr. Sunil Agrawal and Ms. Suhana Bibi.

Key financial indicators (audited):

JSOL	FY2022	FY2023
Operating Income (Rs. crore)	--	--
PAT (Rs. crore)	--	(4)
OPBDIT/OI (%)	--	NM
PAT/OI (%)	--	NM
Total Outside Liabilities/Tangible Net Worth (times)	--	0.3
Total Debt/OPBDIT (times)	--	NM
Interest Coverage (times)	--	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding * (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 27, 2023	-	-	-
1 Fund-based - Term Loan	Long term	15,727.00	0.00	[ICRA]AA-(Stable)	-	-	-
2 Non-fund-based (Capex LC)	Long term	(10,000.00) [^]	-	[ICRA]AA-(Stable)	-	-	-

*outstanding as on March 31, 2023

[^]sub-limit of long-term fund-based term Loan

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based bank facilities	Simple
Long-term non-fund-based bank 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 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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb 2022	NA	FY2039	15,727.00	[ICRA]AA-(Stable)
NA	Non-fund-based (Capex LC)	Feb 2022	NA	NA	(10,000.00)^	[ICRA]AA-(Stable)

Source: Company

^sub-limit of long-term fund-based term Loan

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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Branches



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