

February 12, 2024

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	175.00	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), which in turn is a 100% subsidiary of Tata Steel Limited (TSL, rated at [ICRA]A1+ and Baa3 (Stable) 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 business cycles. ICRA notes that the company's business has a high moat due to the technological entry barriers in the auto-grade advanced high strength steel (AHSS), with the domestic market largely dominated by three players, within which JCAPCPL has the leading market share. Going forward, with the secular trends of decarbonation, electrification and light-weighting, ICRA expects the domestic demand for AHSS to witness a healthy growth in the foreseeable future, which augurs well for JCAPCPL. 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 additionally factors in the comfortable financial risk profile of the company, which has been aided by aggressive deleveraging and strong operating performance.

The rating, however, continues to be constrained by the company's exposure to sectoral concentration risk as the company's steel deliveries are mainly directed towards the passenger vehicle (PV) segment. Consequently, its cash flows and margins remain exposed to the cyclicity inherent in the PV industry. The rating also considers the company's exposure to earnings volatility due to its linkages with the cyclicity of the steel sector. ICRA notes that demand for the 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, and remain a meaningful contributor to the overall earnings.

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 level. 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, JCAPCPL, 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 26% in FY2023 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 26% in FY2023. 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.

Comfortable financial risk profile – The company has witnessed a steady improvement in its credit indicators, aided by aggressive deleveraging and strong operating performance. The interest coverage and Total Debt/OPBDITA has improved to 10.3 times and 0.8 times, respectively in 9M FY2024 from 1.8 times and 6.4 times, respectively in FY2020. With no capex plans in sight and working capital funded by internal sources, the company is expected to turn debt free by FY2026 end.

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**, supported by undrawn working capital lines of Rs. 285 crore as on December 31, 2023 and healthy cash flow from operations expected over the medium term. Against these sources of cash, the company has a total capex commitment of Rs.45-50 crore and debt repayment obligations of ~Rs. 198 crore in FY2024. Overall, ICRA expects JCAPCPL to be able to comfortably meet its capex commitments and service its debt obligations through

internal accruals as well as tapping undrawn working capital lines. 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 JCPCPL encounters a sustained period of weak earnings and/ or makes a large debt-funded capex, leading to a significant deterioration in its liquidity profile. Specific metric that can lead to a rating downgrade includes Total Debt/OPBDITA of more than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Iron & Steel Industry
Parent/Group Support	Parent/Group Company: JCPCPL is a 51:49 joint venture (JV) between TSDPL, a 100% subsidiary of TSL, and NSC ICRA expects the promoters to be willing to extend financial support to JCPCPL, given the strategic importance of JCPCPL 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 JCPCPL in the recent past
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of JCPCPL

About the company

Jamshedpur Continuous Annealing & Processing Co. Pvt. Ltd. (JCPCPL), 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

JCPCPL	Standalone		
	FY2022 (Audited)	FY2023 (Audited)	9M FY2024 (Provisional)
Operating Income (Rs. crore)	3651.7	3997.6	2992.9
PAT (Rs. crore)	397.1	167.0	170.5
OPBDIT/OI (%)	14.3%	8.0%	10.6%
PAT/OI (%)	10.9%	4.2%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6	0.4
Total Debt/OPBDIT (times)	1.6	1.7	0.8
Interest Coverage (times)	7.6	5.8	10.3

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Feb 12, 2024	Feb 28, 2023	Feb 28, 2022	Feb 19, 2021	Jan 12, 2021
1 Commercial paper	Short term	175.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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	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

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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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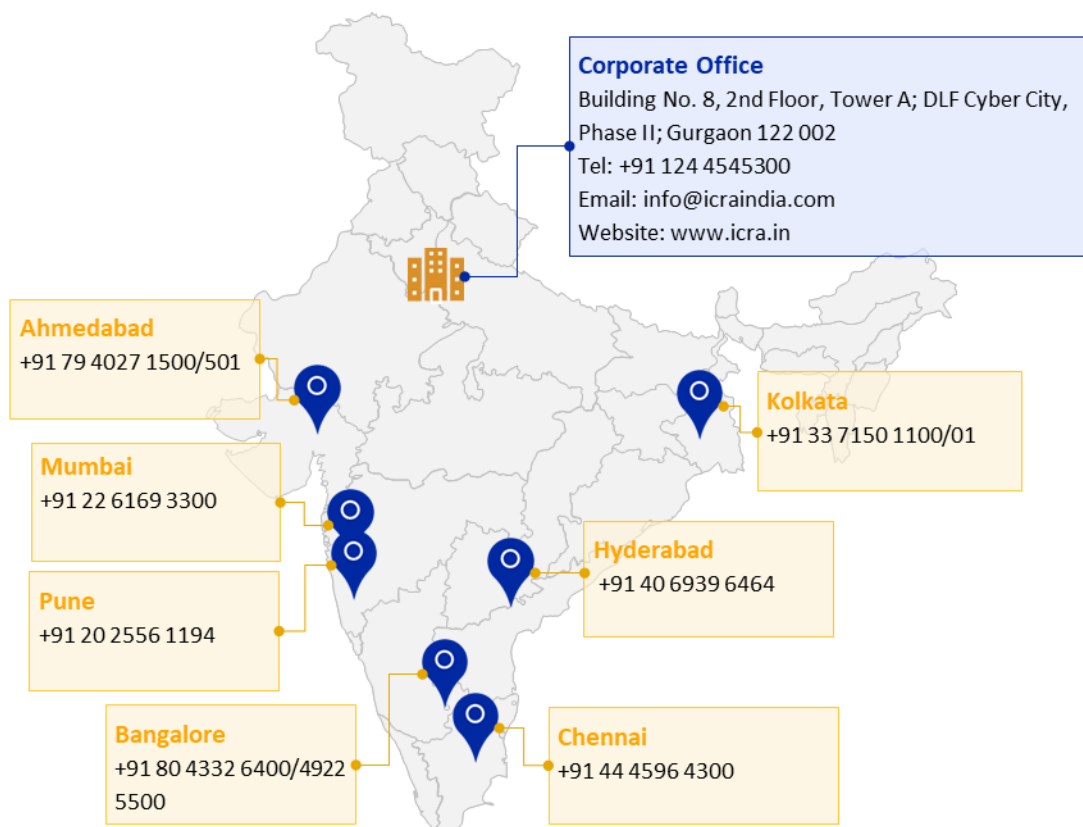


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