March 26, 2024

Jindal Aluminium Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Working Capital Facilities	140.00	186.00	[ICRA]AA(Stable); Reaffirmed
Short Term – Non-Fund Based – Working Capital Facilities	91.00	45.00	[ICRA]A1+; Reaffirmed
Fixed Deposit Programme	30.00	0.00	[ICRA]AA (Stable); Reaffirmed and Withdrawn
Commercial Paper	50.00	0.00	[ICRA]A1+; Reaffirmed and Withdrawn
Total	**311.00**	**231.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Jindal Aluminium Limited's (JAL) healthy revenue growth estimated in FY2024, driven by an increase in sales volumes, while the realisations have moderated due to a decline in aluminium prices. ICRA notes that JAL has increased capacities of the rolling mill division (RMD) in FY2023 and is in the process of enhancing the extrusion capacity at its Bhiwadi plant. Thus, going forward, JAL will be better equipped to meet higher demand from the end-user industries. While aluminium prices remain volatile, the company is able to pass on the fluctuations in raw material prices to its customers, resulting in a steady operating margin of ~11-12% (estimated). Going forward, JAL's operating margins are expected to sustain at healthy levels. With an increase in the scale of operation and healthy margins, the absolute operating profits and cash accruals are expected to remain comfortable. The debt coverage indicators are also expected to remain healthy with an estimated interest coverage and total debt/OPBDITA of over 60 times and ~0.2 times, respectively in FY2024. Moreover, a healthy cash and liquid investment balance of over Rs. 750 crore as on date provides cushion to the liquidity position.

The ratings also favourably consider 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 operations are also diversified with healthy generation of revenues from aluminium extrusions, RMD and renewable energy. 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. During FY2023 and FY2024, the profit from this project was over ~Rs. 450 crore, 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 the end-user industries (construction, renewable energy, 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 comfortable demand outlook for its products, which would help the company register healthy profits and cash accruals over the near term.

Key rating drivers and their description

Credit strengths

Increase in scale of operations; operating margins to remain healthy – In FY2023, JAL's revenues increased by ~16%, driven by higher sales volumes and increased revenues from the Prestige project. The capacity utilisation for both the extrusions division and the RMD division remains above 90% as on date. In the current year, while the revenues are supported by higher volumes, the realisation are lower on account of moderate of aluminium prices. JAL is able to pass on the increase in aluminium prices to its customers, supporting its margins. The operating margins of the aluminium business is likely to remain comfortable at ~11-12%. Going forward as well, the operating margins are likely to sustain at these levels.

Comfortable financial profile – Healthy cash accruals from operations helped the company reduce its debt levels over the years. In addition, healthy cash inflows from the Prestige Jindal City Project support the cash flow position and liquidity position of the company during FY2022-2024. Consequently, JAL's capital structure and debt coverage indicators remain comfortable with Total debt/OPBDITA of 0.2 times and interest coverage of over 35 times estimated in FY2024, which is likely to remain healthy, going forward, as well. The company has sizeable cash and investment reserves of over ~Rs. 750 crore as on date, which provides further financial flexibility.

Market leadership in the domestic aluminium extrusion industry – JAL is a dominant player, commanding market leadership position in the domestic aluminium extrusion industry on the back of its capability 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 (~1,20,000 MTPA) in the extrusion segment in India, which is further expected to increase with ~30000 MTPA capacity addition at the Bhiwadi plant, it enjoys strong pricing flexibility with its customers. In the RMD segment, growth in the recent years has been healthy, which is evident from more than 95% capacity utilisation in both the extrusion and the RMD segments in FY2024.

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, renewables, 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 raw material price movement. However, the company matches its 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 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 ~Rs. 750 crore as on date. The debt outstanding as on date is low. The capital expenditure requirement is ~Rs. 200 crore in FY2024 for expanding the Bhiwadi unit, and thereafter ~Rs. 25-30 crore p.a. of 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 liquidity position or coverage indicators of the company will also be a key trigger for downward revision of ratings. Specific credit metrics include Total Debt to OPBITDA above 1 time on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the company.

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. The company is promoted by Mr. Sitaram Jindal, who has over five decades of experience in the aluminium and renewable energy sectors. The company has also acquired an extrusion plant in Bhiwadi, Rajasthan in FY2022 and is planning to enhance its extrusion capacity through the same to ~50000 MTPA.

Key financial indicators (audited)

JAL Consolidated	FY2022	FY2023	9M FY2024*
Operating income	4,138.7	4,819.3	3,518.7
PAT	437.3	422.6	459.2
OPBDIT/OI	14.5%	12.5%	16.1%
PAT/OI	10.6%	8.8%	13.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.3	-
Total debt/OPBDIT (times)	0.6	0.3	-
Interest coverage (times)	43.5	35.5	52.6

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional Numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Mar 26, 2024	Mar 30, 2023	Jun 01, 2022	Mar 30, 2022	Mar 30, 2021	Nov 12, 2020
1	**Fund Based – Working Capital Facilities**	Long term	186.00	-	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	**Non-Fund Based – Working Capital Facilities**	Short term	45.00	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	**Fixed Deposit Programme**	Long term	30.0	-	**[ICRA]AA (Stable); Reaffirmed and Withdrawn**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)
4	**Commercial Paper**	Short term	50.00	-	**[ICRA]A1+; Reaffirmed and Withdrawn**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	**Fund Based – Term Loan**	Long term	-	-	**-**	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Working Capital Facilities	Simple
Short Term – Non-Fund Based – Working Capital 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	Fund Based – Working Capital Facilities	NA	NA	NA	186.00	[ICRA]AA (Stable)
NA	Non-Fund Based – Working Capital Facilities	NA	NA	NA	45.00	[ICRA]A1+
NA	Fixed Deposit Programme	-	6.5%	FY24	30.0	[ICRA]AA (Stable); Reaffirmed and Withdrawn
Not Placed Yet	Commercial Paper	-	-	-	50.00	[ICRA]A1+; Reaffirmed and Withdrawn

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	JAL Ownership	Consolidation Approach
Jindal Naturecare Limited	52.50%	Full Consolidation

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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.

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