October 30, 2024

Jindal Steel & Power Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based (Cash credit)	2,000.00	1,600.00	[ICRA]AA (Stable); reaffirmed
Long-term fund-based (Term loans)	14,859.95	16,759.95	[ICRA]AA (Stable); reaffirmed
Short-term non-fund-based bank facilities	18,140.05	16,640.05	[ICRA]A1+; reaffirmed
Non-convertible debentures (NCDs)	5,000.00	5,000.00	[ICRA]AA (Stable); reaffirmed
Total facilities	**40,000.00**	**40,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the sustained healthy operating performance of Jindal Steel and Power Limited (JSPL or the company) in FY2024 and ICRA's expectation that the company will be able to sustain the same, going forward, on the back of healthy domestic demand from the end-user industries. In FY2024, JSPL reported an improved operating profit per tonne of Rs. 13,200 per metric tonne (MT) (FY2023 –Rs. 11,250/MT) on the back of a moderation in input costs and sustained healthy sales volumes. JSPL's margins are expected to remain protected, owing to significant corrections in raw material prices (coking coal), despite the near-term pressure on domestic steel prices amid unabated steel imports. Consequently, JSPL's debt protection metrics are expected to remain healthy in the near-to-medium term. The liquidity position is also comfortable, with liquid cash and bank balances/investment portfolio of ~Rs. 5,100 crore as on March 31, 2024.

While reaffirming the ratings, ICRA also notes of the ongoing capacity expansion in Angul (Odisha) under its wholly-owned subsidiary, Jindal Steel Odisha Limited (JSOL, rated at [ICRA]AA- (Stable)/[ICRA]A1+). A delay of 2-4 quarters is expected in commissioning of the upcoming facilities, the planned steel making facilities (BF-BOF) are now expected to be commissioned in FY2026. While the company is exposed to associated project risk, comfort is derived from the company's established track record of successful commissioning of greenfield/brownfield capacities and running its plants at healthy capacity utilisation rates.

The company already commissioned the first of the two pellet plants and a hot strip mill (HSM). The ratings also draw strength from JSPL's established position as one of the leading steel producers in India, with a significant presence in pelletisation, mining and captive power generation. The entity's operational profile is characterised by large-scale and cost-competitive operations, a healthy track record in steel and power sectors, favourably located plants in proximity to various coal and iron ore mines and a diversified as well as value-added product portfolio.

The ratings, however, continue to be constrained by the inherent vulnerability of the steel business to volatility in metal prices as well as the price and supply risks associated with key raw materials. Nonetheless, the company's ongoing initiatives, including setting up a slurry pipeline from Barbil to its Angul plant for cost-efficient transportation of iron ore fines from captive mines and availability of low-priced thermal coal from captive mines, are expected to improve the overall cost structure in the medium-to-long term. ICRA expects incremental cost savings, increased scale of operations from its newly commissioned facilities and ballooning repayment structure to keep the company's consolidated cash flows strong relative to its debt service obligations.

JSPL's consolidated debt protection metrics remained healthy, as reflected in an interest cover of 6.8 times in FY2024 and is expected to sustain at ~5.5-5.8 times in the current fiscal, despite a sizeable debt drawdown in the subsidiary for the ongoing capex. The gearing stood at 0.4 times as on March 31, 2024 and is likely to sustain at less than ~0.5 times in the near-to-medium term. ICRA also draws comfort from the company's stated intent to maintain a consolidated net debt/ OPBDITA at 1.5 times or less and a minimum liquidity (including unutilised fund-based limits) cushion of ~Rs. 2,500 crore on a sustained basis.

The Stable outlook on the long-term rating reflects ICRA's expectations of continued healthy operating performance owing to improved steel spreads and healthy domestic demand in the near-to-medium term, leading to strong profits and cash accruals. The company's financial risk profile is expected to remain healthy despite the ongoing debt-funded capex programme.

Key rating drivers and their description

Credit strengths

Cost competitiveness arising from large-scale integrated operations and attractive plant locations – JSPL's steel manufacturing operations are vertically integrated, encompassing captive iron ore mines for partial capacity, captive thermal coal mines, coal washing, coke manufacturing, pelletisation, sponge iron manufacturing, power generation and production of semi and finished steel products. Also, its plants are favourably located, in proximity to various iron ore and thermal coal mines. JSPL has sizeable coking/thermal/anthracite coal mining assets in Mozambique, Australia and South Africa through its overseas subsidiaries. Further, the ongoing capacity expansion project in Angul is further expected to improve scale efficiency. Besides, the ongoing cost savings initiatives, including the establishment of a slurry pipeline, procurement of additional rakes for efficient transportation of raw materials/finished goods and plans to develop the Paradip port, are expected to reflect in the form of higher OPBITDA/tonne in the upcoming fiscals, strengthening the company's operational profile.

Established track record and diversified operations with forward integration into value-added products – JSPL has an established track record in the successful commissioning of greenfield/brownfield capacities in steel and power segments as well as in operating its plants at healthy capacity utilisation. The company diversified its steel product portfolio over the years to include high-value-added, finished steel products, besides other finished and semi-finished products. The multiple sale points across the steel value chain allow JSPL to cater to market requirements while optimising capacity utilisation and profitability. With incremental capacities being commissioned under JSOL, the company's finished steel capacities are expected to witness a robust increase to 13.40 million tonnes per annum (MTPA) from 6.7 MTPA and will establish its healthy presence in the flats segment.

Healthy financial risk profile – Healthy operating performance and limited capital outlays in recent years resulted in sizeable free cash flow generation, which has been used by the company to deleverage its balance sheet. JSPL's debt protection metrics continue to be healthy, as reflected in an interest cover of 6.8 times in FY2024 and is expected to sustain at ~5.5-5.8 times in the current fiscal, despite sizeable debt drawdown in the subsidiary for the ongoing capex. The gearing stood at 0.4 times as on March 31, 2024 and is likely to be ~0.5 times in the near to medium term. ICRA estimates the company's consolidated net debt/ OPBDITA to remain healthy at less than 1.5 times in the current fiscal owing to expectations of healthy profitability and accumulated cash and bank balances and liquid investments. This apart, given the sizeable net cash accruals on annual basis, JSPL has prepaid some of its loans with the aim of deleveraging its standalone operations. As on June 30, 2024, company's (standalone) total debt stood at ~Rs. 8,120 crore, including working capital debt of ~Rs. 685 crore.

Credit challenges

Sizeable capex and associated risks – The company's ongoing capex at its Angul plant under JSOL is being funded in a debt-to-equity ratio of 68:32, exposing it to associated project risks. The capex will enhance the company's steel-making capacity by ~63% in a staggered manner to 15.60 MTPA by FY2026. The pellet plant-I and the 5.5 MTPA HSM under JSOL were commissioned in FY2024. The iron-making facilities (BF-BOF) are expected to be commissioned in early FY2026 with the entire capex to be concluded by FY2026 end (a delay of 2-4 quarters expected in commissioning, from the previously estimated commissioning timelines). Although JSPL's established track record in successfully commissioning greenfield/brownfield capacities in the steel and power sectors provides comfort, the project remains exposed to risks of time and cost overruns.

Besides 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 – JSPL operates in a cyclical industry with global overcapacity. While the company's cost competitiveness, coupled with a high level of integration in steel manufacturing operations, reduces the susceptibility of its profitability to downturns in the steel industry, JSPL remains exposed to the volatility of the sector and has previously witnessed fluctuations in its operating profitability owing to the tough operating environment.

Susceptibility of profitability to volatility in raw material prices – Despite improving raw material coverage, the company's 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, it is noted that the company's thermal coal requirements will be met captively going forward, with the recent commissioning of captive thermal coal mines. However, any challenge in ramping up 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.

Environmental and Social Risks

The steel industry is one of the largest contributors to air pollution and emissions of carbon dioxide in the world, as primary steelmaking requires coal for the reduction process and energy generation. This exposes JSPL to the risks of strict regulations or investments in alternative, environment-friendly steelmaking methods and technologies. Some of the key initiatives taken by the company in the recent fiscals to address the risk include the installation of top pressure recovery turbine at its blast furnace, waste heat recovery boilers for power generation, modification of electric arc furnace (EAF) to neo-oxy furnace and installation of a vertical direct reduced iron (DRI) plant to consume waste gas from coke oven. The company has adopted a goal to reduce carbon emissions below 2TCO2/TCS by 2030. Other initiatives taken by the company also include the company's ongoing efforts towards reducing reliance on road and rail transport to cut diesel consumption by setting up slurry pipelines and conveyor belts for the transportation of raw materials.

Social risks for JSPL, like other ferrous entities, manifest from the health and safety aspects of employees involved in mining and manufacturing activities. Casualties/accidents at the operating units due to gaps in safety practices could lead to production outages and invite penal action from regulatory bodies. The sector is exposed to labour-related risks and risks of protests/social issues with local communities, which might impact expansion/modernisation plans. Also, the adverse impact of environmental pollution in nearby localities could trigger local criticism. Some key initiatives undertaken by the company include regular safety audits at all plant locations, identification of fatality risk potential conditions (FRCP) at the workplace and at colony premises by safety professionals, monitoring and closure of risk potential conditions and quarterly review of health and safety performance by the company's safety performance review forum.

Liquidity position: Adequate

JSPL's liquidity position is adequate, with free consolidated cash and liquid investments of ~Rs. 5,100 crore as on March 31, 2024, excluding the unutilised fund-based limits. ICRA expects JSPL's consolidated cash flow from operations as well as accumulated liquid balances to be sufficient to meet margin requirements for its capex as well as debt servicing requirements in the near-to-medium term (balance repayment obligations of ~Rs. 1,705 crore in the current fiscal, i.e. Q1 FY2025 onwards).

Rating sensitivities

Positive factors – The ratings could be upgraded in case of sustained and significant growth in revenues, volumes and profitability while maintaining strong credit metrics. Successful commissioning and ramp-up of Angul capex, resulting in significant growth in revenue and profitability may also lead to ratings upgrade.

Negative factors – Pressure on JSPL's ratings could arise if there is a sustained deterioration in its operating performance, resulting in the weakening of earnings and debt protection metrics. Any further considerable time and cost overruns for the ongoing capex in Angul or higher debt funding may also exert pressure on the ratings. Specific trigger for downgrade includes consolidated net debt to OPBDITA ratio of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Iron & Steel
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of JSPL. As on March 31, 2024, the company had 11 subsidiaries, 39 stepdown subsidiaries, 4 associates and 3 joint ventures.

About the company

JSPL is one of India's leading primary steel producers, with a significant presence in power generation and mining. Its manufacturing units are situated in Raigarh (Chhattisgarh), Angul (Odisha), Barbil (Odisha) and Patratu (Jharkhand). JSPL's integrated operations in India encompass capacities of 10.45 MTPA of iron making, 9.0 MTPA of pellets, 9.6 MTPA of liquid steel and 6.65 MTPA of finished steel. JSPL's product range includes TMT bars, plates, coils, parallel flange beams and columns, rails, angles and channels, wire rods, fabricated sections among other finished and semi-finished products. While about 70% of JSPL's domestic iron manufacturing capacity (~7.33 MTPA) is achieved through the blast furnace route, the balance (~3.12 MTPA) is achieved through direct-reduced iron (DRI). JSPL also has a captive thermal power generation capacity of about 1,634 MW at its Raigarh and Angul plants.

In addition to steel-manufacturing capacities, JSPL's international operations include interests in coking coal mining assets in Australia, thermal/coking coal mining assets in Mozambique and anthracite coal mining assets in South Africa.

Key financial indicators (audited)

JSPL Consolidated	FY2023	FY2024
Operating income	52,711	50,354
PAT	3,974	5,943
OPBDIT/OI	18.6%	20.2%
PAT/OI	7.5%	11.8%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	1.3	1.6
Interest coverage (times)	6.1	6.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022		
				Oct 30, 2024	Aug 26, 2024	Oct 25, 2023	Sep 21, 2023	Apr 06, 2023	-	Jan 24, 2022	Sep 27, 2021	Apr 15, 2021 May 06, 2021
1	**Term Loans**	Long term	16,759.95	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A (Stable)
2	**Cash credit**	Long term	1,600.00	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A (Stable)
3	**Non-fund-based**	Long term	-	**-**	-	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A (Stable)
4	**Non-fund-based**	Short term	16,640.05	**[ICRA] A1+**	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1
5	**Unallocated**	Long term/ Short term	-	**-**	-	-	-	[ICRA]AA- (Positive)/ [ICRA]A1+	-	--	--	[ICRA]A (Stable)/ [ICRA]A1
6	**NCDs**	Long term	5,000.00	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	-	-	--	*	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based (Cash Credit)	Simple
Long-term fund-based (Term Loans)	Simple
Short-term non-fund-based bank facilities	Very simple
Non-convertible debentures (NCDs)	Very simple*

** Subject to change as per the terms of NCDs at the time of placement*

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based (Cash Credit)	--	-	-	1,600.00	[ICRA]AA (Stable)
NA	Long-term fund-based (Term Loans)	FY2015	-	Upto FY2030	16,759.95	[ICRA]AA (Stable)
NA	Short-term non-fund-based bank facilities	--	-	-	16,640.05	[ICRA]A1+
Unplaced	Non-convertible debentures (NCDs)	--	--	--	5,000.00	[ICRA]AA (Stable)

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	Ownership	Consolidation Approach
Jindal Steel & Power (Mauritius) Limited	100.00%	Full Consolidation
Pt Jindal Overseas	99.00%	Full Consolidation
Skyhigh Overseas Limited	100.00%	Full Consolidation
Jindal Steel Bolivia Sa	51.00%	Full Consolidation
Gas to Liquids International S.A	87.56%	Full Consolidation
JSPL Mozambique Minerais LDA	100.00%	Full Consolidation
Avion Mineraux Limited	100.00%	Full Consolidation
Jindal Africa Investments (Pty) Limited	100.00%	Full Consolidation
Osho Madagascar Sarl	100.00%	Full Consolidation
Jindal Madagascar Sarl	100.00%	Full Consolidation
Jindal Investimentos Lda	100.00%	Full Consolidation
Belde Empreendimentos Mineiros Lda.	100.00%	Full Consolidation
Eastern Solid Fuels (Pty) Ltd.	100.00%	Full Consolidation
Jindal Mining SA (Pty) Limited	73.94%	Full Consolidation
Jindal Steel & Power (Australia) Pty Limited	100.00%	Full Consolidation
Jindal Tanzania Limited	99.00%	Full Consolidation
Jindal (BVI) Ltd	100.00%	Full Consolidation
Jindal (Barbados) Energy Corp	100.00%	Full Consolidation
Jindal (Barbados) Mining Corp	100.00%	Full Consolidation
Jindal (Barbados) Holdings Corp	100.00%	Full Consolidation
Jindal Transafrica (Barbados) Corp	100.00%	Full Consolidation
Meepong Energy (Mauritius) Pty Limited	100.00%	Full Consolidation
Meepong Resources (Mauritius) Pty Limited	100.00%	Full Consolidation
Bon-Terra Mining (Pty) Limited	100.00%	Full Consolidation
Jindal Resources (Botswana) (Pty.) Limited	100.00%	Full Consolidation
Meepong Energy (Pty) Ltd.	100.00%	Full Consolidation
Meepong Service (Pty) Ltd	100.00%	Full Consolidation
Meepong Water (Pty) Ltd.	100.00%	Full Consolidation
Trans Africa Rail (Pty) Ltd	100.00%	Full Consolidation
Jindal Mining Namibia (Pty) Limited	100.00%	Full Consolidation
Jindal Botswana (Pty) Limited	100.00%	Full Consolidation
Blue Castle Ventures Limited	100.00%	Full Consolidation
Brake Trading (Pty) Limited	85.00%	Full Consolidation
Jindal Processing KZN (Pty) Limited	85.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Wollongong Resources Pty Limited	100.00%	Full Consolidation
Wongawilli Resources Pty Limited	100.00%	Full Consolidation
Oceanic Coal Resources NL	100.00%	Full Consolidation
Southbulli Holding Pty Limited	100.00%	Full Consolidation
JB Fabinfra Limited	100.00%	Full Consolidation
Trishakti Real Estate Infrastructure and Developers Limited	94.87%	Full Consolidation
Jindal Iron Ore Pty Limited	74.00%	Full Consolidation
Jindal Botswana (Pty) Limited Jindal Africa Sa	100.00%	Full Consolidation
Raigarh Pathalgaon Expressway Limited	100.00%	Full Consolidation
Jindal Africa Consulting (Pty) Limited	100.00%	Full Consolidation
JSP Mettalics Limited	100.00%	Full Consolidation
Jindal Steel Odisha Limited	100.00%	Full Consolidation
Jindal Steel Chattisgarh Limited	100.00%	Full Consolidation
Jindal Steel JindalGarh Limited	100.00%	Full Consolidation
Jindal Steel USA Inc	100.00%	Full Consolidation
Jindal Synfuels Limited	70.00%	Full Consolidation
Shresht Mining and Metals Private Limited	50.00%	Equity Method
Urtan North Mining Company Limited	66.67%	Full Consolidation
Goedehoop Coal (Pty) Limited	50.00%	Equity Method
Jindal Steel Andhra Limited	49.00%	Equity Method
Jindal Paradip Port Limited	51.00%	Full Consolidation
Sunbreeze Renewables Nine Private Limited	26.00%	Equity Method
JSP Green Wind 1 Private Limited	26.00%	Equity Method

Source: Annual report

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