

October 30, 2024

Jindal Steel Odisha Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	15,727.00	15,727.00	[ICRA]AA- (Stable); Reaffirmed
Long Term – Non-fund based Capex LC	(10,000) ^	(10,000) ^	[ICRA]AA-(Stable); Reaffirmed
Long/short Term –Fund based – working capital facilities	500	500	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Long/short term –Non fund based facilities	1,500	1,500	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Long/short term- Unallocated	3,000	3,000	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Total	20,727.00	20,727.00	

*Instrument details are provided in Annexure-I

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

Rationale

The reaffirmed ratings factor in the status of Jindal Steel Odisha Limited (JSOL) as a wholly-owned subsidiary of Jindal Steel and Power Limited (JSPL, rated [ICRA]AA (Stable)/[ICRA]A1+), which has strong operational and financial risk profiles. ICRA expects JSOL to receive significant operational, financial and management support from JSPL due to 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 ~63% in a staggered manner to 15.6 million tonnes per annum (mtpa) from 9.6 mtpa at present.

While JSOL has already commissioned one of the two pellet plants and the hot-strip mill (HSM) in FY2024, the commissioning of other facilities has been delayed by 2-4 quarters from earlier timelines. Although the company is exposed to associated project risk, some comfort is derived from the modular approach for the project implementation and JSPL's established track record of successfully commissioning greenfield/brownfield capacities and operating its plants at healthy capacity utilisation rates.

Moreover, the commissioning of the HSM in January 2024, enhanced the Group's finished steel capacity considerably, diversifying its product portfolio by including flat steel products. JSOL is likely to benefit from the operational synergies resulting from JSPL's cost-competitive operations, established market position and supplier network. This is especially noteworthy considering JSPL's position as one of India's leading primary steel producers, with a significant presence in power generation and mining. Such factors, along with the shared name, reflect JSOL's strategic significance to its parent.

While assigning the ratings, ICRA has noted that JSOL's term loans of Rs. 15,727 crore are backed by a corporate guarantee from JSPL for up to two years of satisfactory performance (as per stipulated financial covenants), following the scheduled commercial operation date (SCOD). ICRA also notes that there can be upward revisions in the project cost. Nonetheless, the strong financial risk profile of the parent will ensure an infusion of additional equity to fund the project, if required.

The ratings are constrained by JSOL's susceptibility to project implementation and stabilisation risks, including cost/time overruns. These risks are attributed to the entity's sizeable scale and implementation timeline spread between FY2025 and FY2026. The company has drawn down debt of ~Rs. 8,540 crore (including buyer's credit of ~Rs. 1,591 crore) as of September 2024 end, and substantial equity 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 long-term 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 while efficiently ramping up operations to remain self-sufficient in meeting its debt servicing obligations after commissioning operations. The outlook also reflects ICRA's expectation of continued operational and financial support from the parent entity, 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 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 undertaking a sizeable debt-funded capex under JSOL. JSOL is strategically important for the Group, as it will aid in enhancing the Group's consolidated steel-making capacity by ~63% to 15.6 mtpa by FY2026 (with the commissioning of BF-BOF), thereby facilitating benefits of economies.

Parent entity's established track record of successful commissioning of greenfield/brownfield capacities – JSPL has an established track record in successfully commissioning greenfield/brownfield capacities in the steel and power segments, as well as running its plants at healthy capacity utilisation rates. This partially mitigates the project implementation and operational risks for JSOL. It is also noted that the proximity of JSOL's project site to JSPL's existing manufacturing capacities will enable the former to benefit from common infrastructure facilities and utilities.

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. Besides, ICRA expects JSPL's consolidated leverage and coverage indicators to remain healthy with further deleveraging likely at the parent level.

Credit challenges

Project implementation and stabilisation risks – Due to its sizeable scale and implementation timeline spread over the next 6 quarters, the project is exposed to implementation and/or stabilisation risks, including risks related to costs/ time overruns. While JSOL has already commissioned one of the two pellet plants and the HSM in FY2024, the commissioning of other facilities has been delayed by 2-4 quarters from earlier timelines. ICRA also notes that there can be upward revisions in the project cost. Nonetheless, strong financial risk profile of the parent will ensure an infusion of additional equity to fund the project, if required. Until the end of September 2024, the company incurred a capex of ~Rs. 16,000 crore (~65% of the total estimated cost), including capital work in progress, through term debt, capex letter of credit (LC) acceptances and equity infusion. At present, the project has been progressing at a healthy pace, with the parent company having infused ~90% of the equity portion into the project. Additionally, JSOL availed ~Rs. 6,949 crore term loan (excluding buyer's credit ad capex LCs) from its sanctioned term loan of ~Rs. 15,727 crore, until the end of September 2024.

Notwithstanding the above risks, the ratings draw comfort from the extensive experience and track record of the promoters in timely and successfully implementing large-size projects in the past. 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 – The steel industry is cyclical in nature, with global overcapacity. Accordingly, JSOL will remain exposed to the vagaries of the sector and may witness volatility in its profitability depending on the operating environment. The entity's parent, JSPL, has cost-competitive operations, along with a high level

of integration in steel manufacturing operations, which 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.

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 most of its coking coal and ~40% of its iron ore requirements. Further, with the recent commencing of thermal coal mining operations, the company’s thermal coal requirements are being met captively. However, any operational challenges in ramping up the production 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. As of September 2024, JSPL infused 90% of the equity portion in JSOL and JSOL availed debt of ~Rs. 8,540 crore (including buyer’s credit and capex LCs) of the sanctioned term debt of ~Rs. 15,727 crore. The parent entity’s ability to fund any additional equity requirement provides more comfort. Besides, JSPL is expected to support the contingency funding requirements during the project execution phase, if any. The liquidity position is also supported by the partial commissioning of facilities (pellet plant – I and HSM), with cash flow from operations expected at ~Rs.470 crore in FY2025. However, the liquidity profile, going forward, will largely be driven by the project’s timely commissioning 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, coupled with a profitable ramp-up of operations, thereafter, resulting in a sustained improvement in the company’s financial risk profile will be positive rating triggers. Further, improvement in the credit profile of the parent entity could be a positive rating trigger.

Negative factors – Pressure on the ratings could arise if the company experiences significant time and cost overruns, slow ramp-up, and/or weak revenue growth and profitability resulting in the weakening of the debt protection 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 Iron & Steel 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 ratings are 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-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 ~63% in a staggered manner to 15.60 mtpa by end of FY2026 from 9.6 mtpa at present. The project is being 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 and Ms. Suhana Bibi.

Key financial indicators (audited)

JSOL Standalone	FY2023	FY2024
Operating income	--	1,109
PAT	5	(37)
OPBDIT/OI	NM	4.3%
PAT/OI	NM	-3.3%
Total outside liabilities/Tangible net worth (times)	0.3	1.1
Total debt/OPBDIT (times)	(197.2)	100.6
Interest coverage (times)	NM	1.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; NM: Not meaningful

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 (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
			Oct 30, 2024	Mar 28, 2024	Oct 27, 2023	-	-
1 Fund-based -Term Loan	Long term	15,727.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-
2 Non-fund-based (Capex LC)	Long term	(10,000.00)^	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-
3 Fund based – working capital facilities	Long/short term	500	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-
4 Non fund based facilities	Long/short term	1,500	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-
5 Unallocated	Long/short term	3,000	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based TL	Simple
Long term – Non-fund based Capex LC	Very simple
Long/Short term –Fund based – working capital facilities	Simple
Long/Short term –Non fund based facilities	Very simple
Long/short term- Unallocated	Not applicable

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)
NA	Fund based – working capital facilities	NA	NA	NA	500	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Non fund-based facilities	NA	NA	NA	1,500	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Unallocated	NA	NA	NA	3,000	[ICRA]AA-(Stable)/[ICRA]A1+

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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