

May 19, 2021

Hyundai Steel India Private Limited: Ratings reaffirmed, Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fun-based and non-fund-based facilities	USD 35.00 million	USD 35.00 million	[ICRA]A2(CE); Reaffirmed
Fund-based and non-fund-based facilities	Rs. 370.00 crore	Rs. 370.00 crore	[ICRA]A2(CE); Reaffirmed
Long-term/ short-term Fund-based sub-limits	(Rs. 90.00 crore)	(Rs. 90.00 crore)	[ICRA]BBB+(CE)(Stable) [ICRA]A2(CE); Reaffirmed and outlook revised to stable from negative
Long-term fund based sub-limits	(Rs. 168.00 crore)	(Rs. 168.00 crore)	[ICRA]BBB+(CE)(Stable); Reaffirmed and outlook revised to stable from negative
Fund-based facilities	USD 10.00 million	USD 10.00 million	[ICRA]A3; Reaffirmed
Rating Without Explicit Credit Enhancement			[ICRA]BBB- / [ICRA]A3

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]BBB+(CE) (Negative)/[ICRA]A2(CE) ratings

The above ratings are based on the letters of comfort extended by Hyundai Steel Company, South Korea (HSC, rated at Baa3/Stable by Moody's as on May 10, 2021), the parent of Hyundai Steel India Private Limited (HSIPL), for the rated fund-based and non-fund-based lines of credit.

The revision in outlook to Stable from Negative factors in the improvement in the performance of HSIPL's parent company, HSC. ICRA believes that the improvement in the operating environment for the global steel industry, following the steep rally in steel prices, is likely to improve the performance of steelmakers, including HSC, in near term. The ratings factor in HSC's established market position in the Korean steel industry, backed by strong linkages with the Hyundai Motor Group (being a key auto sheet supplier), and healthy financial flexibility enjoyed for being a part of the Group. HSC's credit profile has moderated in the recent past on the back of weak earnings and an increase in debt levels amid challenging market conditions. Nevertheless, HSC's EBIT margin is expected to remain healthy supported by the recovery in steel demand from key end-markets, such as auto and construction, and the company's ongoing initiatives to restructure and enhance the efficiency of its certain low-margin operations. Also, the earning growth along with large cash holdings will allow HSC to reduce its debt level which in turn will improve the leverage and coverage indicators.

The letters of comfort provided by HSC are irrevocable. However, these letters do not have a well-defined payment mechanism and are not legally enforceable.

Key attributes in the letter of comfort documents

- HSC will not permit HSIPL to get into liquidation or enter into any arrangement with its creditors without the liability of the bank being fully discharged.
- The Letter of Comfort shall apply to new or additional facilities that may be made available to HSIPL.

- HSC would not dispose of any shares in HSIPL, which would result in the former's shareholding in the latter reducing to a minority and non-controlling shareholding without the bank's written consent or ensuring that HSIPL's liability to the bank is fully discharged.

Salient covenants of the rated facility

- Should not resort to any additional borrowing without prior approval from the existing lenders; cannot undertake capital expenditure except for projects funded by HSIPL's own resources.
- During the tenure of the bank credit facility, the parent company will not affect any change in the shareholding pattern and management control in HSIPL without the lender's permission.
- HSIPL cannot undertake guarantee obligations or extend Letter of Comfort or extend any loans/ advances to any other company (including any Group company/ associate/ subsidiary).

For the [ICRA]A3 rating

The reaffirmation of the [ICRA]A3 rating considers the expected steady operational and financial performance of HSIPL in the coming quarters, strong operational and financial support received from its parent, and the large captive demand from Hyundai Motors India Limited (HMIL, a leading player in the Indian passenger vehicle industry). HSIPL's operating performance has recovered in H2FY2021, post the impact of the pandemic on volumes and earnings in H1 FY2021, with a healthy off-take witnessed from HMIL. While HSIPL's earnings are likely to be limited in the current fiscal because of the weak first half performance, its revenues and operating profits are likely to witness a growth of more than 10% in FY2022. HSIPL's capital structure and credit metrics had weakened in FY2020 because of a reduction in suppliers' credit extended by HSC to 30 days from 90 days with effect from April 2019. While HSC had extended equity support to part fund the increase in working capital requirements, a sizeable portion was funded by working capital debt, which resulted in weakening of HSIPL's leverage indicators. Despite the reduction in stock and working capital debt levels seen in the recent months post recovery in demand, HSIPL's credit metrics for FY2021 are likely to remain at moderate levels, constrained by lower earnings. While its leverage indicators are likely to remain at moderately high levels over the medium term given the high working capital funding requirements in the business, its coverage indicators and liquidity position are likely to improve going forward, in line with the demand conditions, as seen in Q3 FY2021. The ratings also consider the thin operating margins in the business owing to limited value addition, vulnerability of cash flows to exchange rate fluctuations with a major portion of the steel requirements imported from HSC, high dependence on HMIL and susceptibility of volumes to the cyclical trends in the automobile industry. While HSIPL's subsidiary, Hyundai Steel Pipe India Private Limited (HSPIPL), continues to incur losses, ICRA expects no financial support to be extended by HSIPL to its subsidiary as seen in the last five fiscals. HSPIPL's funding requirements have been largely met through bank borrowings, which are also backed by the Letter of Comfort from HSC.

Key rating drivers and their description

Credit strengths

Operational and financial support received from the parent – HSIPL is a wholly-owned subsidiary of HSC, which in turn is a part of the larger Hyundai Motor Group. HSC benefits from the large captive demand from Hyundai Motor Group Companies - primarily Hyundai Motor Corporation (HMC) and Kia Motors Corporation (Kia), which are among the major automobile manufacturers in South Korea. In addition to the Letter of Comfort, management and technical support, HSIPL receives financial support from HSC in the form of supplier credit for steel imports, reducing its dependence on external debt. While the credit period offered by HSC reduced in FY2020, the parent extended support in the form of equity to support the liquidity position of HSIPL.

Captive demand lends stability to earnings – HSIPL enjoys strong business linkages with the Group, with around 70% of its steel requirements imported from its parent and around 95% of sales made to HMIL and its ancillaries. HSIPL enjoys a healthy share of business as it the largest supplier of sheet metal to HMIL, which provides the company with a large captive demand, lending stability to earnings.

Credit challenges

Moderate credit metrics – Despite stable earnings in FY2020 and 9M FY2021, high working capital requirements and thin margins in the business have resulted in low return on capital employed and high leverage indicators. While HSIPL's coverage metrics are likely to improve in line with the recovery in volumes and earnings, high inventory requirements and consequent dependence on the external debt are likely to result in leverage metrics remaining at elevated levels over the medium term.

Low operating margins and high customer concentration – HSIPL's operating margins have remained thin over the years, limited by low value addition in the business with a portion of sales generated from trading of imported steel. In addition, limited pricing power and considerable dependence on imports expose the earnings to foreign exchange rate fluctuations. However, the cost-plus-pricing model followed by HSIPL mitigates the impact of raw material price fluctuations on its operating margins. HSIPL's business is also exposed to high customer concentration risk, with the major portion of its sales made to HMIL. Nevertheless, HSIPL's high share of business and importance to HMIL, along with the strong market position of HMIL in the domestic PV segment, mitigate the risk to an extent.

Liquidity position: Adequate

For the [ICRA]BBB+ (CE)(Stable) rating: Adequate

The liquidity position of HSC is **adequate**, supported by cash and cash equivalents of around KRW2.6 trillion as on March 31, 2021, increasing from KRW1.1 trillion as on March 31, 2019. A sizeable on-balance sheet liquidity, along with healthy free cash flows following the commodity price rally, would support HSC's liquidity profile. While HSC's funding requirements are high, which include its repayment obligations and likely capital spending, the company's strong financial flexibility, given its access to financial markets and linkages with the Hyundai Motor Group, provides comfort to its liquidity position.

For the [ICRA]A3 ratings: Adequate

HSIPL's liquidity position is **adequate**, supported by cash buffer (which includes cash reserves and unutilised fund-based lines of credit) of around Rs. 230 crore). The working capital utilisation level has reduced to around 70% in the recent months, post the increase seen in the beginning of the current fiscal amid disruption in operations, backed by recovery in demand and consequent reduction in stock levels. HSIPL's liquidity position is expected to be supported by adequate unutilised lines of credit and a steady recovery in earnings from operations, apart from the likely funding support from the Hyundai Group, if required.

Rating sensitivities

For the [ICRA]BBB+(CE) (Stable)/[ICRA]A3(CE) rating

The above rating would remain sensitive to the change in the credit profile of the parent (support provider, HSC). The ratings would be prone to revisions upon any change in the strength of the operational and financial linkages between HSC and HSIPL.

For the [ICRA]A3 ratings

Positive factors – A sustained growth in revenues and earnings, which in turn would improve HSIPL's liquidity position and coverage metrics, may result in a favourable rating action.

Negative factors – The ratings may be downgraded if there is a sustained pressure on the operating performance or any elongation of its working capital cycle, which would adversely impact its liquidity position and coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities operating in the Ferrous Metals Industry Approach for rating debt instruments backed by third-party explicit support Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: HSC The ratings factor in the very high likelihood of HSC extending financial support to HSIPL because of the close business linkages between them and given the high strategic importance that HSIPL holds for HSC. There also exists a consistent track record of HSC extending financial support to HSIPL in the past, whenever a need has arisen in the form of equity or letter of comfort to the banks facilities
Consolidation/Standalone	The rating is based on the standalone financial statements of HSIPL ¹

About the company

Incorporated in 2006, HSIPL processes and trades in hot and cold rolled coils, catering primarily to the steel requirements of Hyundai Motors India Limited and its ancillaries. HSIPL was incorporated as a wholly-owned subsidiary of Hyundai Hysco Company Limited (HHCL), Korea. In July 2015, HHCL was merged with HSC and thus HSIPL became a wholly-owned subsidiary of HSC. HSC is part of the Hyundai Motor Group and is listed on the Korea Stock Exchange. HMC, Kia and the Group's Chairman collectively hold around 36% stake in HSC. HSIPL holds a 55% stake in HSIPL (the rest is held by HSC), which manufactures electric resistance welded pipes and cold-drawn steel pipes.

Key financial indicators (audited)

HSIPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	3205.1	3072.3
PAT (Rs. crore)	33.0	26.9
OPBDIT/OI (%)	2.1%	2.4%
PAT/OI (%)	1.0%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	5.5	2.0
Total Debt/OPBDIT (times)	4.1	8.0
Interest Coverage (times)	2.4	2.8

Source: HSIPL

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

¹ There has been a change in the analytical approach for rating HSIPL's lines of credit to standalone, as ICRA expects no fund-based or non-fund based support to be extended by HSIPL to its subsidiary (HSIPL), with HSIPL's funding requirements being met with support from HSC.

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019	
					May 19, 2021	Feb 15, 2021	May 21, 2020	May 8, 2020	Dec 5, 2019	May 16, 2019	Jun 8, 2018	
1	Fund-based and non-fund-based facilities	Short Term	USD 35.00 million	-	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2+(S)	[ICRA]A2+(S)	[ICRA]A2+(S)
2	Fund-based and non-fund-based facilities	Short Term	Rs. 370.00 crore	-	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2+(S)	[ICRA]A2+(S)	[ICRA]A2+(S)
3	Fund based (sub-limit) facilities	Long Term/ Short Term	(Rs. 90.00 crore)	-	[ICRA]BBB+(CE) (Stable) [ICRA]A2(CE)	[ICRA]BBB+(CE) (Negative) [ICRA]A2(CE)	[ICRA]BBB+(CE) (Negative) [ICRA]A2(CE)	[ICRA]BBB+(CE) (Negative) [ICRA]A2(CE)	[ICRA]A-(S) (Stable) [ICRA]A2+(S)	[ICRA]A-(S) (Stable) [ICRA]A2+(S)	[ICRA]A-(S) (Stable) [ICRA]A2+(S)	
4	Fund based facilities (sub-limit)	Long Term	(Rs. 168.00 crore)	-	[ICRA]BBB+(CE)/(Stable)	[ICRA]BBB+(CE) (Negative)	[ICRA]BBB+(CE) (Negative)	-	-	-	-	
5	Fund-based facilities	Short Term	USD 10.00 million	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Short term - Fund based and Non-fund based	Very Simple
LT/ST Interchangeable (Sub-limit)	Simple
LT Interchangeable (Sub-limit)	Simple
Short term Fund based	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 analyzing 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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund-based and non-fund-based facilities	-	-	-	USD 35.00 million	[ICRA]A2(CE)
NA	Fund-based and non-fund-based facilities	-	-	-	Rs. 370.00 crore	[ICRA]A2(CE)
NA	Fund based (sub-limit) facilities	-	-	-	(Rs. 90.00 crore)	[ICRA]BBB+(CE) (Stable) [ICRA]A2(CE)
NA	Fund based (sub-limit) facilities	-	-	-	(Rs. 168.00 crore)	[ICRA]BBB+(CE)/ (Stable)
NA	Fund-based facilities	-	-	-	USD 10.00 million	[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Not Applicable	-	-

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