

February 18, 2021

BSE Limited

Corporate Relationship Department,
1st Floor, New Trading Ring,
Rotunda Building, P J Towers,
Dalal Street, Fort, Mumbai – 400 001
Email: corp.relations@bseindia.com
Security Code No.: 539597

National Stock Exchange of India Ltd.

Exchange Plaza, 5th Floor,
Plot no. C/1, G Block
Bandra-Kurla Complex, Bandra (E),
Mumbai-400051
Email: cmlist@nse.co.in
Security Code No.: JSLHISAR

Kind Attn.: Ms. Tanvi Walinjkar, Deputy Manager – Listing Compliance

Sub: Clarification w.r.t. announcement dated February 17, 2021 regarding credit rating

Dear Ma'am,

This is with reference to your email dated 17th February, 2021 seeking clarification with respect to the press release submitted by the Company in relation to credit rating assigned by India Ratings & Research, a Fitch group company (hereinafter referred to as "Ind-Ra").

In this regard, we would like to inform you that on 17th February, 2021 Ind-Ra informed the Company that they had issued a press release assigning rating to the Company's Bank Loans as 'IND A' & CP 'IND A1'. Copy of the aforesaid Press Release dated 17th February, 2021 as issued by Ind-Ra is attached for your reference, which is self-explanatory. The Company, in turn, on the same day informed the Stock Exchanges vide abovementioned press release.

Trust the above information suffice the query mentioned in your e-mail.

Please take the above on record.

Thanking you,

Yours faithfully,
For **Jindal Stainless (Hisar) Limited**


(Bhartendu Harit)
Company Secretary



Encl. As above

India Ratings Assigns Jindal Stainless (Hisar)'s Bank Loans 'IND A' & CP 'IND A1'; Places on RWE

17

FEB 2021

By [Akash Krishnatry](#)

India Ratings and Research (Ind-Ra) has assigned Jindal Stainless (Hisar) Limited's (JSHL) bank loans a long-term rating of 'IND A' and commercial paper (CP) a short-term rating of 'IND A1', while simultaneously placing them on Rating Watch Evolving (RWE) as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
Fund-based working capital limits	-	-	-	INR6.21	IND A/RWE/IND A1/RWE	Assigned; placed on RWE
Non-fund-based working capital limits	-	-	-	INR20	IND A/RWE/IND A1/RWE	Assigned; placed on RWE
Term loans	-	-	October 2028	INR15.12	IND A/RWE	Assigned; placed on RWE
Commercial paper*	-	-	7-365 days	INR1	IND A1/RWE	Assigned; placed on RWE

*to be carved out of working capital limits

Analytical Approach: Ind-Ra has taken a consolidated view of JSHL and its subsidiaries – Jindal Stainless Steelway Limited (100% stake); JSL Lifestyle Limited (73.37%); Green Delhi BQS Limited (51%); JSL Media Limited (100%) and JSL Logistics Limited (100%)- referred to as the group, in view of the operational, strategic and legal linkages among them.

Ind-Ra has placed the ratings on RWE, as JSHL's board has approved the proposed merger between JSHL and Jindal Stainless Limited (JSL; 'IND BBB+' /RWP; JSHL holds 35% stake in JSL). JSHL will cease to exist post the merger, and its rated facilities will be transferred to the amalgamated JSL entity, whose rating profile shall be ascertained post the merger. Ind-Ra expects the merged entity to have an industry-leading business profile, supported by its large scale of operations; high market share and greater diversification across end-user segments. The agency believes the credit metrics of the consolidated entity might not vary much from JSHL's credit profile. The agency further believes the merger shall result in greater financial flexibility and simplification in the group's stainless steel business structure. JSL and JSHL have been self-sufficient in meeting their past financial obligations and the agency has not factored in any imminent financial support; hence, it has not taken a consolidated view of JSHL and JSL, despite the cross-corporate guarantees among them. Moreover, the cash fungibility between the two has been limited using a trust retention account mechanism by the lenders.

KEY RATING DRIVERS

Expected Benefits of Proposed Merger: The management believes the proposed merger of JSHL into JSL will create a large stainless steel entity, globally among the top 10, with a capacity of 1.9 million metric tonne per annum, which will occupy a volume market share of about 60% in the Indian flat stainless steel market. Ind-Ra expects the combined entity post-merger to have a more diversified end-customer base; higher bargaining power with raw material suppliers given the scale of operations; diversified plant operations (Jaipur (Odisha) and Hisar (Haryana)); higher share of speciality products and a more balanced ratio of domestic-to-export sales. Additionally, the agency believes operational diversification will stem from JSL's Jajpur plant offering benefits of efficient raw material procurement and export markets, due to port proximity (Paradip, Dhamra and Vizag) while JSHL's Hisar plant benefits from its proximity to the domestic consumption hub in northern India.

According to the proposed scheme, JSHL will be merged into JSL in all-equity consideration with a swap ratio of 1: 1.95, resulting in the elimination of equity cross-holdings and knocking-off loans with accrued interest of about INR11.7 billion (FY21 estimates) extended by JSHL to JSL. Ind-Ra expects no major variation in the new consolidated leverage profile (than the standalone JSHL profile). Furthermore, the agency believes the merged entity may have greater financial flexibility, supported by business profile improvements and capital structure simplification.

Ind-Ra expects the total balance sheet debt (including letters of credit (LC) acceptances) of the combined entity to be around INR58 billion in FY21 (FY20: INR67.5 billion) with EBITDA of around INR20.6 billion (INR20.7 billion) on account of the debt repayment and inter-company debt knock-off, resulting in the net adjusted leverage (net adjusted debt/operating EBITDA) reducing below 3x (3.4x). Ind-Ra expects the proforma revenue to be around INR200 billion in FY21 (FY20: INR223 billion, without factoring in inter-company transactions) and the operating margins around 10% (9.3%).

Sharp Recovery from COVID-19 led Disruptions: JSHL's standalone as well as consolidated revenue recovered completely in 2QFY21 to its pre-COVID-19 levels, led by strong domestic pent-up demand and the introduction of countervailing duties on increasing subsidised imports from Indonesia. Ind-Ra expects this strong demand momentum to be sustained over 2HFY21, led by controlled imports and the swift recovery in domestic demand. Ind-Ra expects JSHL's volumes to grow by around 13% yoy in 2HFY21 to about 350,000 tonnes, thereby restricting the sales volume decline in FY21 to about 9%. JSHL's 9MFY21 volume decline reduced to 13% yoy as 3QFY21 volumes grew at 23% yoy.

JSHL's profitability was also supported by the strong pent-up demand amid limited market supply, resulting in significantly healthy EBITDA performance of INR3.9 billion in 3QFY21 (2QFY21: INR2.9 billion; 1QFY21: INR0.4 billion, 2QFY20: INR2.7 billion). Ind-Ra estimates the same to sustain over 4QFY21 as volumes remain strong, supported by strong demand momentum and order pipeline. Ind-Ra expects JSHL's consolidated EBITDA to be at around INR9 billion in FY21 (FY20: INR9.4 billion) supported by expansion in EBITDA margin to around 11% (FY20: 10%).

Profitability Strengthened in 9MFY21; Likely Sustainable Improvement: Ind-Ra expects JSHL's EBITDA margin and EBITDA/tonne to increase to around 11% and INR15,000, respectively in FY21 (FY20: 10% and INR13,800; 9MFY21: 11.5% and INR15,500) due to an uptick in market-led gross margins 2QFY21 onwards. The agency believes the EBITDA/tonne in FY21 has also been supported by about INR500/tonne decline in the cost of consumables of production (FY20: about INR8,000/tonne), led by reduced prices of ultra-high power graphite electrodes of about USD4,000/tonne (USD7,000/tonne). JSHL reported standalone EBITDA margin and EBITDA/tonne of 11.3% and INR16,200, respectively, in 9MFY21 (9MFY20: 10.9% and INR15,246). Ind-Ra also expects the EBITDA performance of the company's subsidiaries to improve over FY21 (FY20: INR0.73 billion; FY19: INR1.4 billion), supported by improved margins due to the pent-up demand amidst supply constraints in the domestic markets.

Ind-Ra, however, expects JSHL's overall EBITDA margin and EBITDA/tonne to moderate slightly in FY22 to 10%-11% and INR14,000/tonne-15,000/tonne, respectively, considering the government of India's budget notifications on reduced custom duties and the revocation of countervailing duties and anti-dumping duties on imports.

Significant Debt-Reduction Plans: The management has enhanced focus on strengthening the balance sheet over FY21, with accelerated long-term debt repayments using strong free cash flows achieved by strong profitability, optimised working capital cycle and low capex outflows in FY21. Ind-Ra expects JSHL to reduce its total loans (excluding LC acceptances) by around INR4 billion to around INR17.6 billion over FY21 (9MFY21: INR20.1 billion; FY20: INR22 billion) through expected healthy operating free cash flows of around INR5.2 billion (INR1.9 billion; INR5.7 billion). The agency also expects JSHL's reduced debt to strengthen its FY21 net adjusted leverage (including LC acceptances) and gross interest coverage (operating EBITDA/gross interest expenses) to 2.8x and 3.5x, respectively (FY20: 3.3x and 2.9x). JSHL's interest costs also comprise discounting costs of the usance LC provided by JSHL to its suppliers. JSHL accrues interest income of about 10% on inter-corporate loans of INR9 billion extended to JSL, which shall be knocked off post the proposed merger.

As of December 2020, JSHL's debt comprised long-term loans of INR16.4 billion (FY20: INR19.3 billion, FY19: INR21.1 billion); short-term borrowings of INR2.3 billion (INR0.9 billion; INR0.7 billion) and subsidiary's loan borrowings of INR1.4 billion (INR1.6 billion; INR1.9 billion). JSHL's LC acceptances reduced to INR7 billion, as of September 2020 (FY20: INR8.6 billion; FY19: INR8.9 billion).

Liquidity Indicator - Adequate: The consolidated fund-based limit and non-fund-based limit utilisation was about 50% and 60%, respectively, for the 12-months ended December 2020. As of December 2020, JSHL had INR0.01 billion of cash and equivalents and INR2 billion of unutilised fund-based credit lines against the available drawing power. JSHL's management plans to prepay FY22's scheduled debt repayments of INR2.7 billion in FY21, along with FY21's scheduled repayments of INR1.4 billion. The agency expects its debt-service coverage ratio to be comfortable at about 1.2x and 3.6x in FY21 and FY22, respectively, considering the accelerated debt payment strategy. JSHL's cash flow from operations reduced to INR4.2 billion in FY20 (FY19: INR7.8 billion) due to reduced profitability and higher working capital requirement. The agency expects the same to improve back to INR7 billion in FY21 due to improved working capital efficiency and healthy profitability.

Ind-Ra expects JSHL's gross working capital requirements to reduce in 2HFY21, supported by strong steel demand and the rationalisation of the credit period in the supply chain; the agency expects the same to sustain in the near term at least. In 2QFY21, JSHL's inventory was flat at INR15.5 billion (March 2020: INR15.5 billion); debtors marginally increased to INR7.9 billion (INR7.5 billion), while 2QFY21 sales rose 2% to INR23 billion (INR22.5 billion). At March 2020, JSHL's gross working capital cycle elongated to 99 days (91 days), as the inventory days increased to 70 (60) due to the COVID-19-led operational disruptions. With the exception of the COVID-19 situation, JSHL's management has been consistently optimising its inventory and debtor days and reducing its gross cash cycle.

As of March 2020, JSHL had an unhedged exposure of only about INR1.4 billion (FY19: INR1.8 billion) completely towards foreign-currency trades payables. JSL's total unhedged forex accounted for only about 10% of its total outstanding trade payables at FYE20. It reported a foreign currency gain of INR0.2 billion in FY20 (FY19: INR0.3 billion).

Diverse Product Profile: JSHL has a strong and established market position in the stainless steel industry, serving diversified end-user industries. The company has been focusing on enhancing its margins profile with low-thickness and value-added products, such as blades, precision strips and coils. JSHL has diversified its presence across multiple stainless steel grades (200, 300, 400 and duplex); generally, 300-product series has a higher net sales realisations and margin profile due to high nickel content, but the series has been most impacted by import supplies in the past. The 200- and 400-series have low net sales realisations but both have been witnessing increased volume growth in the Indian markets and have been less impacted by the import pressures. The industry has also received support from the domestically-manufactured iron and steel products policy, wherein the government decided to opt out of the Regional Comprehensive Economic Partnership and start the steel import monitoring system. Ind-Ra believes lower imports would enhance the pricing power of domestic stainless steel manufacturers and result in better-than-expected margins.

Raw Material Price Risks: JSHL's inventory is exposed to price-variation risks. To minimise this risk, the management tries to maximise purchases backed by sales orders. The company also works on ensuring that a majority of the products are contracted with pass-through clauses, thereby minimising the adverse impact from raw material price fluctuations. Additionally, the company has increased its domestic scrap procurement, which has shorter order-to-delivery time,

helping JSHL lower its inventories, freeing up both capital required and lower price variation risk. The management has also been working on improving the share of value-added products to decrease the impact of the price-variation risk.

Standalone Performance: JSHL recorded revenue of INR56.4 billion in 9MFY21 (9MFY20: INR63.1 billion; FY20: INR83.4 billion), EBITDA margin of 11.3% (1HFY20: 11.6%; FY20: 10%), and interest coverage of 3.3x (3.1x; 2.9x). In FY20, the net adjusted leverage (excluding LC acceptances) stood at 2.1x

RATING SENSITIVITIES

The RWE indicates that the ratings may be affirmed, upgraded or downgraded. Ind-Ra will resolve the RWE within six-to-12 months on the completion of the planned amalgamation of JSHL into JSL.

COMPANY PROFILE

Incorporated in 2013, JSHL is a stainless steel manufacturing company. Its products include slabs, blooms, hot rolled coil, cold rolled coil, plates, coin blanks, precision strips, blade steel and stainless steel plumbing.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY20	FY19	FY18
Revenue (INR billion)	93.8	102.9	103.6
EBITDA margin (%)	10.	10.1	11.9
Interest coverage (x)	2.9	2.8	3.0
Net adjusted leverage (x)	2.3	2.3	2.4
Net adjusted leverage(including LC Acceptances) (x)	3.3	3.1	3.4
Source: JSHL, Ind-Ra			

STANDALONE FINANCIAL SUMMARY

Particulars	FY20	FY19	FY18
Revenue (INR billion)	83.4	89.6	92.6
EBITDA margin (%)	10.3	10.0	11.9
Interest coverage (x)	2.8	2.6	2.9
Net adjusted leverage (x)	2.3	2.4	2.5
Source: JSHL, Ind-Ra			

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIARATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIARATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Applicable Criteria

[Corporate Rating Methodology](#)

[Parent and Subsidiary Rating Linkage](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

Analyst Names

[Primary Analyst](#)

Akash Krishnatry

Senior Analyst

India Ratings and Research Pvt Ltd DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurgaon Haryana 122002

0124 6687263

[Secondary Analyst](#)

Rohit Sadaka

Director

+91 33 40302503

[Tertiary Analyst](#)

Mahaveer Jain

Director

+91 80 46666817

[Committee Chairperson](#)

Vivek Jain

Director

+91 124 6687249

[Media Relation](#)

Ankur Dahiya

Manager – Corporate Communication

