

June 8, 2010

CARE REAFFIRMS RATINGS ASSIGNED TO VARIOUS DEBT FACILITIES OF JSL LTD.

Rating Instruments	Amount (Rs. cr)	Ratings¹	Remarks
Long-term Bank Facilities (term loans)	5,233	CARE C	Reaffirmed
Long-term Subordinate Debt	500	CARE C	Reaffirmed
Long-term Outstanding NCD	430	CARE C	Reaffirmed
Long/Short-term Bank Facilities (fund-based limits)	1,597	CARE C /PR4	Reaffirmed
Long/Short-term Bank Facilities (non-fund-based limits)	2,211	CARE C /PR4	Reaffirmed
Total	9,971		

Rating Rationale

The ratings continue to factor in the high financial risk profile of the company marked by considerable decline in operating and financial performance of the company during FY09. The challenging operating environment had led to severe liquidity constraints resulting in restructuring of the company's debt under the Corporate Debt Restructuring scheme. Going forward, the impact of debt restructuring exercise on the overall credit profile of the company and compliance of the terms as per CDR scheme by the company would be the key rating sensitivity.

Company Profile

JSL Ltd(erstwhile Jindal Stainless Ltd), part of the O.P. Jindal group, was formed in April 2002 by hiving off the stainless steel (SS) operations of Jindal Strips Ltd. into a separate company. It is the largest domestic SS producer with a current melting capacity of 720,000 tonnes and hot rolling (HR) capacity of 720,000 metric tones per annum (mtpa). JSL manufactures a wide range of SS products viz. HR strips/plates, CR strips, special steel and coin blanks. It produces 200, 300 and 400 series of S.S. products and is a leading supplier of 200 series of SS products containing lower nickel content. It has, to an extent, backward integrated with presence of captive chrome-ore mines at Sukhinda (Orissa), ferro-chrome plants at Vizag (Andhra Pradesh), ferro alloys manufacturing facilities at Orrisa, 250 MW captive power plant at Orrisa and SS plant with melting, casting, HR & CR facilities at Hissar, Haryana. Mild steel scrap and nickel are procured from international markets whereas ferrochrome requirement is met partly from 40,000 mtpa ferro-chrome furnace at Vizag, 250,000 mtpa from Orissa and the balance through domestic suppliers. The overall performance for FY09 was marked by lower than anticipated production and volume sold (owing to partial shutdown in existing facilities for upgrading/expansion and due to cyclonic disruptions), lower realizations and volatility in the commodities prices.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE Publications

Project Update

JSL has completed Hisar and Orissa (Phase I of expansion plan) projects relating to plant upgradation, capacity enhancement and integrated SS plant. Phase II expansion plan of the company is moving at brisk pace with majority of the imported equipments being delivered at plant site and also completion of the majority of civil work. As on 31st December 2009, the company has incurred around Rs. 2,660 cr towards the capital expenditure (gross) on the Orissa Phase II project.

Financial Performance

During FY09, the company witnessed considerable deterioration in the operating performance, leading to increase in its financial risk profile. The hot rolling mill of Hisar plant of the company was partially shut down for a part of the year thereby leading to lower production. For FY09, the company posted revenue of Rs.4,853 cr, a 6% drop over FY08. Higher incidence of fixed costs along with losses due to fluctuation in the commodity prices led to more than halving of PBILDT margins to 7.15% during FY09 against 14.43% in FY08. Moreover, the company suffered losses on account of foreign exchange rate fluctuations which, along with other factors, led to net loss of Rs.580 cr during FY09. The decline in operational and financial performance culminated in restructuring of debt. The company had approached CDR Cell with its restructuring proposal. The restructuring proposal of the Company under CDR mechanism was approved by the CDR Empowered Group (CDR EG) and the final Letter of Approval from CDR Cell has also been received in this regard.

Further, during 9MFY10 (UA) the company has registered the total operating income of Rs. 4077.7 cr with the PBDILT and PAT of Rs 781.7cr and Rs.258.73 cr respectively. The improvement in the 9 monthly performance was on account of improvement in productivity and capacity utilizations, improved realizations in ferro alloys and increase in domestic stainless steel demand.

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CARE classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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