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Will touch full capacity utilisation level by September: Abhyuday Jindal

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Jayajit Dash June 17, 2020 Last Updated at 14:03 IST

Abhyuday Jindal says the overall GDP growth in the quarter slowed down on account of weak market sentiments owing to the outbreak of Covid-19

Jindal Stainless Ltd (JSL), the largest maker of stainless steel, is branching out to new export markets in Korea and South America as domestic demand is unlikely to see any uptick before Q3. As Covid-19 bites demand, **Abhyuday Jindal**, MD of JSL tells *Jayajit Dash* how the company is keeping a flexible production schedule to align with customer demand and will touch full capacity utilization level by September 2020. Also, JSL's fresh Capex will be guided by market dynamics and impact on Ebitda growth. Edited excerpts of the interview:

Steel demand is set to witness significant contraction in FY21. Will stainless steel demand also suffer? Besides, JSL posted a net loss of Rs 22 crore in Q4 of FY20. Does the company hope to stay profitable in this fiscal amid Covid-19 shadow?

The overall growth of the stainless steel industry, like many other industries, and in fact, all of the Indian economy, is bound to witness contraction in FY21. The stainless steel sector has a direct correlation with the GDP growth of the country. With economic activities in April 2020 reaching the lowest levels in several decades, our industry and several other industries were severely impacted. This had a domino effect on supply chains and production planning. April was a complete wash-out. From May onwards, we started seeing incipient signs of recovery. In June, we expect to do double the volume of May. Our estimate is that demand for stainless steel will recover from the third quarter of the current fiscal and that we will touch full capacity utilization level by the end of September 2020.

The reason for a muted Q4 FY20 can be ascribed to an interplay of several factors. The overall GDP growth in the quarter slowed down on account of weak market sentiments owing to the outbreak of Covid-19. Consumer-facing industries using stainless steel, such as auto and utensils, were subdued throughout the year. A steadily falling nickel during Q4 over Q3 negatively impacted inventory valuation, which further affected profitability. The industry continued to reel under the impact of imports from FTA countries. The overall import intensity during Q4 FY20 amounted to nearly 30 per cent of the entire stainless steel market share, forcing domestic industries to operate at reduced capacities. Another reason for the net loss in Q4 was due to exceptional mark-to-market forex loss, though operationally, the company remained profitable.

Going forward, the situation is challenging, but not without hopes. The easing of the nationwide lockdown has gradually improved demand. With the government focusing on self-reliance to boost India's economy, we are confident that the government spending on infrastructure, on Railways and Railway infrastructure, along with the construction of roads and highways, will keep the demand of stainless steel stable in the coming quarters. Once work begins on the government's ambitious National Infrastructure Pipeline project, stainless steel will gain immensely from it. For the development of inland waterways, coastal infrastructure, public utilities, and many more such projects, stainless steel fits the bill of Life Cycle Costing approach adopted by the government. The metal segues with the government mandate of building sustainable infrastructure which is socially safe, economically optimum, and environment friendly.

Demand growth induced by Covid-19, in the area of healthcare infrastructure and two-wheeler segments, is also expected to augment our top line in the coming quarters. This is over and above the demand from conventional application areas such as construction, transportation, and process industries.

It's also not far-fetched to hope that several markets within and outside the country may be vacated by Chinese players and Chinese goods. Our company, and in fact, the entire stainless steel sector of India, is more than prepared to fill this void as it emerges. We have both the capability and the capacity to do so.

Your exports have seen an uptick lately. Is the demand picking up from your existing overseas markets or have you tapped into new geographies?

Exports have been a part of our sales strategy for a long time now. It helps us diversify our markets, stay abreast with international trade and product standards, and compete on globally benchmarked quality and cost parameters. We have been exporting to markets in EU (European Union), Middle-East, Asia, and Russia. Typically, our exports constitute around 18-20 per cent of our entire sales.

However, as a Covid-19 counter-strategy, from April 2020, we started chasing export markets even more aggressively, reaching out to markets in Korea, South America while also serving traditional export markets. As India went under lockdown, economic activities in these countries started resuming towards normalcy. In the month of May, exports comprised more than 40 per cent of the entire share of JSL despatches. In June, the export volumes are expected to be back to pre-Covid-19 period level.

Our reputation for quality and trust in the global market came to our aid in the current crisis. We will keep chasing exports till domestic demand picks up. However, as a *swadeshi* company, India and its self-reliance has been our driving force since inception.

What new measures are you implementing to contain costs and optimize operations amid this pandemic?

Cost optimisation is absolutely critical to the business ecosystem to sustain operating margins. In order to adapt to the new market conditions, we have made substantial strategy shifts in our production planning. We are following a flexible production schedule to align the manufacturing of products in 'batches' as per end-consumer needs and market demand. This enables our casting scheduled to run without any restrictions. Additionally, we have optimized the entire supply chain mechanism and are ensuring that our products are moving easily as per the requirement of the customer. This has significantly optimised our costs as well. We are also stocking material in our yards as per demand, to avoid any overstocking. Emphasis has been laid on working capital management to ensure that finances remain in order.

What measures are you taking to support your customers during this crisis, especially those among the worst-hit MSMEs?

MSMEs constitute about 60 per cent of the total downstream manufacturing of stainless steel in India. For Jindal Stainless, incubating, handholding and growing MSMEs has been a business philosophy from the very beginning. To support them, and all our other customers, we relaxed performance obligation terms in our MoU keeping in mind the overall volatility of the market. However, to encourage them to push sales, we augmented performance-based incentive levels. Further, we supported their cash flow by liasioning with our channel finance partners to extend credit limits under the scheme from 3 months to 6 months. We aggregated the SKU (stock keeping unit) level demand to provide enhanced services to the customers. Despite the logistical challenges including the movement of goods across borders, we coordinated with authorities to ensure last-mile connectivity of order deliveries for our customers. Throughout this crisis and even earlier, we have been handholding our MSME partners in helping them avail of government benefits and identify opportunities for growth.

As an industry leader, we have been undertaking several measures to increase awareness of stainless steel. As a strategy to influence the influencer, we have been carrying out training and educational drives among fabricators and students respectively, in various applications of stainless steel.

JSL exited the CDR (Corporate Debt Restructuring) framework in March 2020. How do you plan to pare debt and deleverage non-core assets?

The exit from CDR marks a significant step forward for JSL. This underlines the improvement in JSL's liquidity profile and profitability. We have reduced JSL's debt by Rs 1,074 crore in the last two years and our focus on deleveraging remains intact. Therefore, today, the strengthened balance sheet profile of JSL would help to navigate some of the macro-level challenges going ahead. We have already completed our Asset Monetisation Plan (AMP) earlier to restructure our assets.

What is your Capex guidance for FY21? Do you intend to cut Capex or shelve it?

Currently, we do not have any large open capex commitment and the good thing is that we expanded our capacity to 1.1 million tonnes per annum (mtpa) from 0.8 per mtpa last year, about 35 per cent increase, through debottlenecking and process improvement. We have similar plans for this year too. On new capex, we will tread cautiously in the current environment and take decisions based on market dynamics and business progression, and impact on EBIDTA growth.

What new innovative, value-added products do you aim to add to your portfolio to beat Covid-19 induced demand blues?

Stainless steel lies at the highest spectrum of value-added products in the steel family. It's exemplified by the fact that both domestically and internationally, stainless steel comprises only three per cent of the volume share of the overall market of steel, and 12-15 per cent of its share in value terms. Hence, our entire business is in the space of value-added products. Our product is used for nuclear applications, which includes projects of international repute such as the world's largest nuclear fusion experiment in France, the International Thermonuclear Experimental Reactor. We've also been supplying to strategic sectors of Defence and Aerospace. Our products find applications, among others, in mine protecting vehicle, mine trawl, armored vehicle, nuclear submarine missile launcher etc. Our plant in Hisar produces high-end precision strips that are used in oil, gas, and petrochemical industries.

For the end consumers, we are planning the development and launch of a new grade of product that addresses health concerns. The company plans to unveil a new grade of anti-bacterial ferritic stainless steel in the hollowware (utensils) segment. The product is presently in a trial stage.

In order to meet the stringent emission regime for the automotive sector as laid out by the Bharat Stage VI (BSVI) norms, we're also supplying special grades of stainless steel to the auto industry.

We've put together a cross-functional team including senior metallurgists and management executives to assess real-time demand, predict upcoming demand, and align our products and production accordingly.

How difficult will be fundraising for steelmakers in general and JSL in particular after the outbreak of Covid-19?

JSL achieved two critical milestones before the pandemic. First, it successfully exited CDR by paying Rs 275 crore recompense in full cash to existing lenders and entirely paid OCRPS (Optionally Convertible Redeemable Preference Shares) to absolutely eliminate any equity dilution risk. Second, we raised Rs 800 crore fresh debt in February/March, just in time before the Covid-19 crisis hit the market. We are hopeful that the relief package introduced by the government will improve overall business sentiment, and eventually strengthen our balance sheet.

Is this an opportune time to ramp up capacities of your units at Kalinganagar (Odisha) and Hisar? What factors will influence your choice?

India has a low per capita consumption of stainless steel at 2.5 kgs as compared to a global average of 6 kg. This underlines an immense untapped potential for stainless steel in India. The per capita consumption is bound to increase in the future and we have been planning our expansion for the long term in line with the market dynamics, especially for our Jajpur facility. With the current slowdown, our long term plan will only be adjusted to reconcile with new circumstances. At the right time, we will be undertaking expansion initiatives to continuously serve our markets, and fulfill the government's vision of Atmanirbhar Bharat Abhiyaan by eliminating any kind of import dependence in the stainless steel sector of India.