Jayaswal Neco Industries Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities (Proposed)	300.00	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating of Jayaswal Neco Industries Limited (JNIL) favourably factors its market position in the domestic alloy steel manufacturing industry along with its well-diversified product portfolio. The integrated nature of operations and location of its unit with proximity to captive iron ore mines along with other raw material supply agreements support its cost structure. The company has two iron ores mines, with the commencement of mining operations at its second mine at Chhote Dongar, Chhattisgarh, since FY21-22, the company's entire iron ore requirement is met captively. More than 50% of the sales are to the automotive sector limiting counter party credit risk. The performance of steel industry players in FY23 was impacted by Russian-Ukrainian war, steep increase in energy prices, sharp fall in steel prices both internationally as well as in India, and imposition of export duty on steel in May 2022. Despite industry headwinds, JNIL posted total operating income (TOI) of ₹6,343 crore and profit after tax (PAT) of ₹227 crore. The company's iron ore integration, price revision by original equipment manufacturers (OEMs) periodically enable the company a pass-through of raw material cost. Availability of sinter facility to optimise cost and pick-up in economic activities in H2FY23 enabled the company to post healthy profitability. The rating also factors the experience of the promoters in the steel industry.

The rating strengths are tempered by the inherent cyclicality and intense competition associated with the steel sector, exposure to fluctuation in raw material prices primarily coking coal and regulatory risk associated to mining activities – the risk is partially mitigated for JNIL due to its captive mining assets.

The rating also considers the refinancing of Assets Care & Reconstruction Enterprise Limited (ACRE) debt on December 14, 2023 through issue of non-convertible debenture (NCD) of ₹3,200 crore. The NCD has been issued for a term of five years with 14.50% p.a. coupon payable monthly and 3% p.a. additional coupon payable on maturity. The company will repay ₹1,662 crore and interest @14.50% p.a over the five-year period. ₹1,538 crore of issue amount and ₹406 crore of redemption premium will be refinanced at the end of the term, i.e., on or before December 13, 2028. CARE Ratings Limited (CARE Ratings) notes the successful refinancing of the ACRE debt, however, the interest payout and repayment of around ₹750 – 800 crore annually from FY26 and onwards will lead to pressure on JNIL's liquidity. Furthermore, 100% of the promoter shareholding (48.03% is promoter shareholding as on September 30, 2023) is in the process of being pledged with the new investors limiting any further financial flexibility. ACRE continues to hold around 26% stake in the company as on December 29, 2023 post transfer of 4.99% stake to promoters. JNIL's steel plant division is also undertaking blast furnace (BF) maintenance in FY25, the BF, Sinter, Steel Melting Shop and Rolling Mill are expected to be closed for around 70 days starting April 2024. Any overrun in the budgeted cost and time for completion will remain a key rating monitorable, though the company has undertaken similar activities in the past as well. Finally, the rating also factors the likelihood of any past liabilities to arise and be payable thereby impacting the cash flow of the company.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustenance of TOI while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 15%.
- Improvement in overall gearing to less than 1.50x, on a sustained basis.
- Improvement in total debt/PBILDT to less than 2.50x, on a sustained basis.

Negative factors

- Significant decline in profitability or TOI by more than 20% y-o-y.
- Overall gearing deteriorating to beyond 2.00x and total debt/PBILDT of more than 4.5x going forward.

Analytical approach: Standalone

Outlook: Not applicable

Detailed description of the key rating drivers:

Key weaknesses

Cyclicality of the steel industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital-intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Regulatory and forex risk

The Indian mining industry is highly regulated by the Government, and companies within the industry are exposed to the risk attached to ban on mining activities due to sudden change in government policy. However, the risk is partially mitigated for JNIL due to captive mining compared to merchant mining.
During FY23, the Government of India announced export duty on iron ore, pellets and other steel intermediaries leading to cooling of steel prices in the domestic market, which was later scrapped in November 2022. CARE Ratings notes that any further announcement in line with the one mentioned above will further constrain the margin for steel players.
Coking coal is a major raw material for steel players which is imported from Australia and other African nations. As the transactions are carried out in dollar denomination, the players are exposed to weakening of the rupee.

Highly competitive and cyclical nature of industry

The steel industry is highly competitive with presence of various organised and unorganised players and expanding applications of steel products. The margins continue to remain under pressure due to the fragmented nature of industry. Also, the steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply.

Intense competition from organised and unorganised sector

The steel industry is characterised by a high degree of fragmentation due to the presence of the large numbers of unorganised players and is subjected to commodity price volatility. CARE Ratings notes that JNIL faces competition from the organised as well as unorganised sector players.

Leveraged capital structure with low debt service coverage indicators

JNIL has refinanced the debt of ACRE on December 14, 2023, through issue of NCD of ₹3,200 crore. The NCD has been issued for a term of five years with 14.50% p.a. coupon payable monthly and 3% p.a. additional coupon payable on maturity. The company will repay ₹1,662 crore and interest @14.50% p.a over the five-year period. The remaining amount, i.e., ₹1,538 crore and ₹406 crore of redemption premium will be refinanced at the end of the term, i.e., on or before December 13, 2028. CARE Ratings notes the successful refinancing of the ACRE debt, however, the interest payout and repayment of around ₹750 – ₹800 crore yearly from FY26 and onwards will lead to pressure on JNIL's liquidity. Furthermore, 100% of the promoter shareholding (48.03% as on September 30, 2023) is in the process of being pledged with the new investors limiting any further financial flexibility. ACRE continues to hold around 26% stake in the company as on December 29, 2023 post transfer of 4.99% stake to promoters.

The overall gearing of 1.70x as on March 31, 2023, is expected to improve over the projected period with repayment of maturing debt. The debt service ratio remains between 1.00x and 1.15x with yearly repayment of around ₹750-800 crore from FY26 and onwards vis-à-vis cash available for debt servicing of ₹850-1,100 crore.

Blast furnace maintenance capex

JNIL's steel plant division is undertaking blast furnace (BF) maintenance in FY25 starting April 2024. The BF will be closed for around 70 days resulting into loss of sale. The steel plant division will continue selling pellets, sponge iron, coke and billets/rolled products through scrap arcing route. The total capex cost of ₹278 crore is funded through cash accruals. The company has already placed orders with the vendors. CARE Ratings observes that completion of the BF maintenance capex within the budgeted cost and time would remain key rating monitorable, though the company has undertaken similar activities in the past as well.

Key strengths

Steel outlook for FY24

India's domestic steel demand is expected to grow at a compounded annual growth rate (CAGR) of 8.30% over the next three years. The growth prospects and steel industry outlook in India is favourable. Recent changes in the export taxes and import duties on steel, complemented by the rising demand for affordable housing, infrastructure development and construction projects, have led to a PAN-India need for steel metal.

Recent developments in the steel sector

The Ministry of Steel signed 57 memorandum of understanding (MoUs) with 27 companies for specialty steel under the product-linked incentive (PLI) scheme. Under the scheme, the government has approved a sum of ₹6,322 crore for steel sector growth. The Budget 2023-24 presents several opportunities in other industries that will directly boost the consumption of steel.

Integrated nature of operations ensures cost and quality control

JNIL is an integrated steel manufacturer, producing steel products and steel castings catering to various engineering, industrial, construction and automotive industries. The company generates power from its 54.5-MW-captive power plants, which fulfil about 60-70% of its annual power requirement. The company has captive iron ore mines, currently 100% of the iron ore requirement is met from these captive mines, with operationalisation of Chhote Dongar mine in FY 2021-22. JNIL has a 1.0 mtpa rolling mill, which can produce long products. The steel division contributed around 90% to the sales of FY23, with the balance being contributed by the casting division.

Location advantage resulting in cost savings

JNIL's plants are located in Raipur, Chhattisgarh and Nagpur, Maharashtra, which are steel clusters. Chhattisgarh contributes 30-40% to India' steel/sponge iron production. Similarly, Nagpur also has lot of steel plants. The presence of steel plants in these locations gives easy access to suppliers and customers and results in logistics savings. Furthermore, JNIL captive iron ore mine is situated in Chhattisgarh (around 250 km away from the plant), thereby reducing logistics cost to some extent and ease of availability.

Operating performance in FY23

JNIL reported TOI of ₹6,343 crore in FY23 a growth of 6.45% over FY22. FY23 was a mixed year with volatile raw material prices, levy of export duty by the GoI in May 2022 resulting into fall in steel prices and muted demand in Q2FY23 and Q3FY23. The sales of rolled products was almost same in FY23 compared with FY22, but average realisation improved to around ₹75,000/tonne in FY23 compared with ₹66,790/tonne in FY22. The sale of pellets increased by 12% y-o-y but average price declined to around ₹9,200/tonne in FY23 from ₹12,400/tonne in FY22. More than 50% of the sales are to the automotive sector. In H1FY24, the company has reported TOI of ₹2,966 crore and PAT of ₹119 crore.

Experience of the promoters in steel industry

JNIL was founded by Basant Lall Shaw, who has an experience of more than five decades in the steel and casting industry. The company is managed by second generation of promoters - Arvind Jayaswal and Ramesh Jayaswal who have an experience of more three decades in the steel industry. The promoters are well supported by a professionally qualified management team.

Liquidity: Stretched

The liquidity profile of the company is supported by cash and bank balance of ₹211.93 crore as on September 30, 2023 (₹282.66 crore as on March 31, 2023). ₹142.76 crore of cash balance was kept as margin money with the banks for LCs as the company does not have any working capital limits as on September 30, 2023. For FY24, expected GCA is ₹290 – 300 crore, the company has refinanced the ACRE loan through a five years NCD issue of ₹3,200 crore raised from strategic investors on December 14, 2023. Considering refinancing of ACRE loan to the extent of ₹3,173 crore, the repayment of ₹217 crore to ACRE (includes cash sweep) upto December 13, 2023 and ₹10.32 crore of repayment towards leases and sales tax deferral loan in FY24 can be comfortably met from the cash accruals. JNIL is undertaking BF maintenance in FY25 which will be done from cash accruals. Part of the expenditure on BF maintenance has been incurred in FY24, and balance will be spent in FY25 along with repayment of ₹157.5 crore towards NCD holders as against a GCA of ₹230 -300 crore. The company proposes to avail ₹300 crore of LC/BG limits from bank.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:
CARE Ratings believes that JNIL's environment, social, and governance (ESG) profile supports its credit risk profile. The steel sector has a significant impact on the environment owing to being energy-intensive, high-water consumption and waste generation, and also carbon emission. The sector's social impact is characterised by health hazards, leading to a higher focus on employee safety involved in mining and manufacturing activities and the well-being of the local community, given the nature of its operations. JNIL's has strong commitment towards fulfilling ESG's goals:

Key highlights of the ESG initiatives implemented by the company are as below:

- The company manages its water consumption responsibly. Zero discharge plants are set up, and wastewater is treated and re-cycled to reduce the water footprints.
- The company has installed STP/ETP/WWTP plants to treat and reuse wastewater.
- The company has robust system of solid waste disposal and waste is recycled/reused by the company and through third party.
- The company is recognising the importance of sustainable practices by prioritise energy management and efficiency in our operations. To contribute to a greener future, various energy-saving initiatives have been implemented at the plants. In FY23 168 KT of emission is reduced through various energy saving initiatives.
- The Company has planted >10,000 trees to contribute towards bio-diversity conservation and overall well-being of the ecosystem.
- CO_2 of ~61000 ton is neutralised (per year) by ~ 5 lakhs tree plantation done within the steel plant division premises.
- Various control measures have been adopted to control emissions from stacks. Some of these include ESP, fume extraction system, dust catcher, 2 stage wet venturi scrubber with gas cleaning plant.
- CO_2 emissions are controlled by using Waste Heat Recovery Boilers (WHRB) for power generation.
- The company had implemented telemedicine programs for its workforce to enhance the accessibility of healthcare services.
- The company holds various programs on shop floor safety, leadership, motivational and management development skills in order to promote a culture of safety and to raise awareness amongst the workforce.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Steel

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & mining	Ferrous metals	Iron & steel

JNIL, incorporated in 1972, began operations with foundry units at Nagpur and subsequently it integrated backward by setting up a pig iron (with captive power) manufacturing unit at Raipur, Chhattisgarh, in 1995. At present, JNIL operates a 0.75 Mtpa blast furnace, 0.20 Mtpa coke oven plant, 0.80 Mtpa sinter plant, 0.25 Mtpa sponge iron unit, 1.50 Mtpa pelletisation unit, 1.0 Mtpa steel melting shop and rolling mills, 54.5 MW captive power plants and has two captive iron ore mines in Chhattisgarh. It has got iron and steel castings operating capacity of 0.075 Mtpa, with its facilities located in Maharashtra and Chhattisgarh.

JNIL is primarily engaged in the manufacturing of alloy steels – wire rods, bars, bright bars along with steel billets, pig iron/DRI, sponge iron, pellets and iron & steel castings. The products manufactured by the company find applications in automotive and auto components, engineering, power, railways, and construction sectors in the domestic market.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	5,959.85	6,343.53	2,965.93
PBILDT	1,302.25	786.06	503.80
PAT	2,247.29@	226.87	119.19
Overall gearing (including acceptances) (times)	2.12	1.69	1.52
Interest coverage (times)	2.84	1.73	2.37
Adjusted Interest coverage (times)^	15.03	5.46	NA

A: Audited UA: Unaudited; NA: Not applicable; Note: 'the above results are latest financial results available'

@includes exceptional income
^based on actual interest payout
The financials have been reclassified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable
Rating history for last three years: Please refer Annexure-2
Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC (Proposed)		-	-	-	300.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - ST-BG/LC (Proposed)	ST	300.00	CARE A4+	-	1)CARE A4+ (26-Dec-22)	-	-

LT/ST: Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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