Jayaswal Neco Industries Limited

December 26, 2022

Ratings

Facilities/Instruments*	Amount (₹ crore)	Rating[1]	Rating Action
Short Term Bank Facilities – Proposed Limits	300.00	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	**300.00 (₹ Three Hundred Crore Only)**		

*Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the proposed bank facilities of Jayaswal Neco Industries Limited (JNIL) is 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 related to mining activities – the risk is partially mitigated for JNIL due to captive mining.

Assets Care & Reconstruction Enterprise Limited (ACRE) has bought JNIL's debt from its lenders over the period December 2018 to April 2021. The debt of ACRE has to be refinanced by March 31, 2023 with a maximum extendable time of December 15, 2023 with an exit payout of Rs.23 crore per month from April 2023 till refinancing date. CARE Ratings Limited will continue to monitor developments in this regard. Further, low debt service coverage indicators and liquidity position further constraints the rating assigned to JNIL. Financial flexibility of JNIL is impacted due to 100% shareholding of the promoters being pledged with ACRE. Lastly the ratings also factor the likelihood of any past liabilities to arise and be payable thereby impacting the cash flow of the company.

The ratings favourably factor the market position of JNIL in alloy steel with diversified product portfolio. The integrated nature of operations and location of its unit with 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 FY 2021-22, the company in a short time will be able to meet its 100% iron ore requirement captively and the surplus iron ore mined can be sold in the market as pellets or iron ore after beneficiation. 90% of the sales is to the automotive sector limiting counter party credit risk. Operating performance of the company improved in FY22 with increased sales and higher price realisation in the strong steel cycle. However, in Q1FY23, fall in domestic prices in line with global prices and moderate demand with buyers anticipating further price fall leading to inventory pile-up at manufacturer level impacted the profitability of the steel players across the industry. Q2FY23 was impacted due to monsoons resulting into low demand. However, demand in Q3FY23 & Q4FY23 are expected to improve with pick-up in economic activities and scrapping of the export duty levied by the Government of India on November 19, 2022. The rating also factors the experience of the promoters in the steel industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustenance of Total Operating Income (TOI) while maintaining PBILDT margin of more than 15%
- Improvement in overall gearing to less than 1.50x, on a sustained basis
- Refinancing of the debt within the stipulated timeline

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant decline in profitability or TOI by more than 20% y-o-y.
- Overall gearing deteriorating to beyond 2.00x and Total Debt/Gross Cash Accrual of more than 8x going forward.
- Total debt to PBILDT of more than 4.5x going forward
- Any delay in debt refinancing as envisaged

Detailed description of the key rating drivers

Key Rating 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.

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

Regulatory risk related to mining activities and export duty levied by Government of India (GOI) in May 2022, however, removed on November 19, 2022
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.
Government of India (GOI) had announced imposition of export duty on iron ore, pellets and few steel and steel intermediaries on May 20, 2022. In case of iron ore, the duty has been raised to 50% on all categories up from 30% that was on lumps above 58% iron content. In case of iron ore pellets, a 45% duty has been imposed which currently does not attract export duty. In case of other classes of steel and intermediaries a 15% export duty has been imposed w.e.f May 22, 2022. These are majorly flat steel products comprising HR and CR coils/sheets.
On the other hand, Government of India has reduced import duty on coking coal and anthracite coal to 0% from 2.5% and on coke and semi-coke to 0% from 5% to reduce cost of domestic production of steel products. JNIL's export sale was ~2% in FY22, thus levy of export duty had marginal impact on the company. Further on November 19, 2022, the export duty on iron ore, pellets and steel intermediaries have been removed and import duty on coking coal and coke which was reduced to 0% have been reinstated by the GOI.

Highly competitive and cyclical nature of industry
The steel industry is highly competitive with presence of various organized and unorganized players and expanding applications of steel products. Margins continue to remain under pressure due to 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 characterized by a high degree of fragmentation due to the presence of the large numbers of unorganized players and is subjected to commodity price volatility. JNIL faces competition from the organized as well as unorganized sector players.

Leveraged Capital structure with low debt service coverage indicators
With assignment of debt by the lenders to ACRE and restructuring of debt by ACRE effective from May 23, 2022 with the cut-off date of March 31, 2020 has improved the financial risk profile of the company. JNIL is servicing its debt obligation as per the restructuring plan from the cut-off date of March 31, 2020.
Overall Gearing of 2.12x as on March 31, 2022 is expected to improve over the projected period with repayment of maturing debt. The debt of ACRE is expected to be refinanced by March 31, 2023 with maximum extendable time of December 15, 2023. Further, 100% shareholding of the promoters is pledged with ACRE, thereby giving no financial flexibility to the company.

ACRE debt to be refinanced by March 31, 2023 with a maximum extension by December 15, 2023
The debt of ACRE has to be refinanced by March 31, 2023 with a maximum extension upto December 15, 2023 with an exit payout of Rs.23 crore per month till the date of refinancing.

Particulars	Amount (Rs crore)
Debt o/s as on March 31, 2022	3,773.83
Less: Repayment for FY23	371.51
Less: Write off of debt by March 31, 2023	194.00
Less: Prepayment through cash sweep	249.75
Add: Fair value impact for FY23	307.16
Total as on March 31, 2023	3,265.73
Refinancing of debt as on March 31, 2023	2,065.73
Refinancing of debt as on March 31, 2023	1,200.00
Refinancing of interest accrued but not due on borrowings	42.00

The refinancing amount may further reduce on prepayments done by the company. JNIL has proposed to prepay Rs.432 crore in FY23, of which the company has paid Rs.105 crore over and above the scheduled repayment as on October 01, 2022. JNIL post March 31, 2023 would be servicing interest only and the entire debt has to be refinanced before December 15, 2023.

Key Rating Strengths
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, more than 70% of the iron ore requirement is met from these captive mines, with operationalisation of ChhoteDongar mine in FY 2021-22, the company will be able to meet its iron ore requirement captively in a short time. JNIL has a 1.0 mtpa rolling mill, which can produce long products. The steel division contributed ~90% to the sales of FY22, 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 32% to India' steel/sponge iron production. Similarly, Nagpur also has lot of steel plants. Presence of steel plants in these locations gives easy access to suppliers and customers and results in logistics savings. Further, JNIL captive iron ore mine is situated in Chhattisgarh thereby reducing logistics cost with ease of availability.

Improved operating performance in FY22
Total income from operations grew to Rs.5959.85 crore in FY22 from Rs.3707.31 crore in FY21, a growth of 60.76%. With the restructuring of debt by ACRE, the cash flow of the company improved, and the company was able to operate its plant at optimum capacity. FY22 saw a strong upcycle in steel sector with improved demand and increased sales realisation. 90% of the sales is to automotive sector. PBILDT margin improved to 21.85% in FY22 from 16.52% in FY21 with increase in volumes and higher sales realisation. Sales of rolled products increased by 39.50% in FY22 to 543,980 MT. The average selling price of rolled products was Rs.59,464/MT in Q1FY22, Rs.61,142/MT in Q2FY22, Rs.62,636/MT in Q3FY22 & Rs.64,552/MT in Q4FY22. Along with increased sales volume, the increasing trend in sale price supported the improvement in profitability for FY22.

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

Liquidity: Stretched
The liquidity profile is supported by cash & bank balance of Rs.130 crore as on September 30, 2022 (Rs.181.87 crore as on March 31, 2022). The liquidity position is adequate, however, at the end of every quarter, balance in excess of Rs.30 crore is adjusted towards outstanding debt. Rs.310.94 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 March 31, 2022. The GCA for FY23 is sufficient to service scheduled repayment of Rs.381.68 crore. The company plans to prepay Rs.432 crore through cash accruals and cash balance available in FY23, however, the balance term loan after scheduled repayment and prepayment will be refinanced in March 2023 with maximum extendable time of December 15, 2023. Capex of Rs.100 crore is planned for FY24 and routine capex of Rs.15-20 crore for FY25 & FY26. JNIL has no working capital limits from banks. The company proposes to avail Rs.300 crore of LC/BG limits from bank.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Policy On Curing Period

Rating Outlook and Credit Watch

Short Term Instruments

Manufacturing Companies

Steel

About the company
Jayaswal Neco Industries Limited (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 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)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	3707.31	5959.85	3187.99
PBILDT	612.55	1302.25	318.06
PAT	-558.97	2247.29@	163.99
Overall gearing (including acceptances) (times)	NM	2.12	1.92
Interest coverage (times)	0.67	2.84	1.39
Interest coverage (times)^	0.67	15.03	4.27

A: Audited; UA: UnAudited; NM: Not meaningful
@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 for this company: Annexure-4

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		-	-	-	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	**300.00**	CARE A4+				

*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 for this company

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

Annexure-5: Bank lender details for this company
To view the lender wise details of bank facilities please click here

Note on 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:

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