

Jayaswal Neco Industries Limited

Instrument	Amount Rated	Rating Action
	In Rs. Crore	As in November 2016
Term loans Facilities	3,086.7	[ICRA]D assigned
Long-term Fund-based limits	653.04	[ICRA]D assigned
Short-term Non-fund based limits	435.26	[ICRA]D assigned

Note: The rated amount does not include unpaid interest

ICRA has assigned a long term rating of [ICRA]D (Pronounced as ICRA D) to the Rs. 3086.7 crore term loans and the Rs. 653.04 crore long-term fund-based bank facilities of Jayaswal Neco Industries Limited (JNIL)¹. ICRA has also assigned a short-term rating of [ICRA]D to the Rs. 435.26 crore non-fund based bank facilities of JNIL.

Rating Rationale

The assigned ratings take into account the ongoing delays in debt servicing by JNIL with the bank account having been classified as a non-performing asset (NPA) by most of its lenders. The company's account was earlier classified as a technical NPA due to delay in achieving the commercial operation date (CoD) for its sponge iron and power plant project being set up in Bilaspur, Chhattisgarh. De-allocation of coal blocks and payment of additional levy in FY2015 @Rs. 295 per metric tonne of coal mined since inception on the operational coal blocks coupled with loss-making operations in FY2016 due to a sharp fall in steel prices led to a steep deterioration in the company's liquidity profile. With the capitalisation of most of its expansion projects in the current year, the company's finance cost increased significantly and exerted further pressure on the company's liquidity. As a result, the company could not service its debt for more than three months and has been classified as an NPA account by most of its lenders.

Tight liquidity and tepid demand has resulted in a low capacity utilisation of the recently commissioned steel melting shop and rolling mill. The ratings are also constrained by a leveraged capital structure and depressed coverage indicators of the company due to its elevated debt levels and loss making operations. ICRA also notes that the profitability of the company remains exposed to volatility in raw material prices. Sharp rise in coking coal prices in the current year accentuates the price risks for JNIL unless the increase in costs is accompanied by commensurate price hikes by JNIL. The ratings also take into account JNIL's foundry division's susceptibility to intense competition due to the fragmented nature of the industry.

The ratings, however, favourably factor in long track record of its promoters in the steel and casting businesses, benefits from scale economies and locational advantage of the company's plants. The ratings also take into account improved operating profile post commissioning of debottlenecking and pellet projects in FY2015. While the company has access to captive iron ore mines, out of which a few are already operational, the current production capacity of the same is low in comparison to the overall iron ore requirement of the company.

Withdrawal of protection measures by the Indian Government upon expiry could exert pricing pressures on domestic steel and affect JNIL's profitability in the medium term. In addition, any further time or cost overrun for its greenfield project at Bilaspur would adversely impact JNIL's operating profile and thus would remain a key rating sensitivity. Ability of the company to monetise some of its non-core assets would also remain a key credit monitorable.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Company Profile

JNIL, incorporated in 1972, began operations with foundry units at Nagpur and subsequently integrated backward by setting up a pig iron (with captive power) manufacturing unit at Raipur in 1995. Following a number of mergers, expansions and group restructurings, JNIL currently operates a 0.75 million tonnes per annum (mtpa) blast furnace unit, 0.2 mtpa coke oven plant, 0.8 mtpa sinter plant, 0.255 mtpa sponge iron unit, 1.2 mtpa Pellet Plant, 0.98 mtpa billet making unit, 0.95 mtpa rolling mills and 54.5 MW captive thermal/waste heat recovery based power plants. The company has also been allocated multiple iron ore mines out of which a few are already operational. JNIL also has an iron and steel casting capacity of 0.2 mtpa, with its facilities located in Nagpur, Bhilai and Anjora. Further, the company is setting up 0.3 mtpa sponge iron and 50 MW captive power plants, which are yet to be completed.

Recent Results

During Q1 FY2017, JNIL reported a net loss of Rs. 118.76 crore on an operating income of Rs. 582.17 crore. In FY2016, JNIL reported a net loss of Rs. 86.54 crore on an operating income of Rs. 2632.62 crore.

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