Jayaswal Neco Industries Limited

January 21, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	3086.70#	3018.48#	[ICRA]D; reaffirmed
Long Term - Fund Based/ CC	653.04	653.05	[ICRA]D; reaffirmed
Short Term - Non Fund Based	435.26	435.26	[ICRA]D; reaffirmed
Total	**4175.00**	**4106.79**	

*Instrument details are provided in Annexure-1; #Excluding unpaid interest

Rationale

The ratings reaffirmation take into account the continued delays in debt servicing by Jayaswal Neco Industries Limited (JNIL) with the bank account remaining a non-performing asset (NPA) by its lenders. ICRA notes that while the delays in repayment of principal component of term loans are continuing, the servicing of working capital facilities and interest payment on term loans is regular at present. The proposed implementation of a restructuring scheme following the assignment of ~Rs. 2811.7 crore (or ~77% of total outstanding term loan and fund based working capital facility as on October 31, 2018) to Assets Care & Reconstruction Enterprise Limited (ACRE) in December 2018 is likely reduce JNIL's overall indebtedness. However, its liquidity profile would depend on the terms of proposed restructuring.

ICRA also notes that State Bank of India had filed an application in the National Company Law Tribunal (NCLT) following the rejection of debt restructuring plan by the Reserve Bank of India. JNIL, in return, filed a writ petition in the Supreme Court, which directed the NCLT to maintain status quo in its order dated April 16, 2018. The matter is still at pre-admission stage in NCLT. Additionally, JNIL has appealed to the Appellate Authority against the provisional attachment of about Rs.307.6 crore-sponge iron facility by the Enforcement Directorate (ED). Furthermore, JNIL's investment in the green-field sponge iron and captive power projects in Bilaspur, Chhattisgarh remains stuck, which adversely impacts its return on capital employed.

The ratings, however, favourably factor in the extensive track record of JNIL's promoters in the steel and casting businesses along with benefits from scale economies and locational advantage of the company's plants. ICRA also takes into account the improvement in the operating performance of the company on the back of favourable demand and steel prices. However, any adverse movement in the raw material prices could impact JNIL's profitability and further impact its liquidity. Going forward, the monetisation of some of its non-core assets and successful restructuring of loans with favourable maturity profile can improve its liquidity, and hence remain key rating sensitivities.

Key rating drivers

Credit strengths

Integrated nature of operations ensures cost and quality control - JNIL is a mid-sized integrated steel manufacturer, specialising in alloy steel products and steel castings catering to various engineering, industrial, construction and automotive industries. JNIL also generates power from its 54.5 MW-captive power plant units, which fulfill the power requirement partially. Presence of 1.0 million ton per annum (mtpa)-captive iron ore mine, 0.8 mtpa-sinter facility, 1.2 mtpa-pelletisation unit and 0.2 mtpa-coke oven facility ensures adequate backward integration while downstream facility includes 1.0 mtpa-rolling mill, which is capable of producing long products including that of alloy steel category.

The steel division contributed 89% to the net sales in H1 FY2019, while the balance was contributed by the casting division.

Extensive experience of the promoters in the castings and steel industry - JNIL was founded by Mr. B L Shaw and is co-promoted by Mr. Arbind Kumar Jayaswal and Mr. Ramesh Kumar Jayaswal, who have a long track record in the steel and foundry business. The extensive experience of the promoters has facilitated the company in establishment of long-term relationship with several reputed customers.

Improved operating performance in the current year - JNIL's operating income (OI) rose by ~25% (annualised) to Rs.2176.3 crore in H1 FY2019 from Rs. 3477.4 crore in FY2018 on the back of favourable demand and improved realisations. With the ramp up of new rolling mill and SMS divisions in the current fiscal, the share of rolled products increased to 64% in H1 FY2019 from 61% in FY2018. Also, the foundry division turned profitable in H1 FY2019. As a result, JNIL's operating margin improved to 13.6% in H1 FY2019 from 9.6% in FY2018. Rising share of value added products in JNIL's sales mix is likely to support its profitability in the near term.

Locational-specific advantage - JNIL's steel plant and casting division are situated in Raipur and Nagpur respectively. The presence of JNIL's plants at these locations provides it a ready access to suppliers and customers, which entails significant savings in freight cost.

Credit challenges

Continued delays in debt servicing; debt restructuring plan on the anvil - JNIL's bank account remains an NPA with persistent delays in repayment of term loans. However, servicing working capital facilities and interest payment on term loans is regular at present. ICRA also notes that State Bank of India, Union Bank of India, UCO Bank and Punjab National Bank have assigned the ~Rs. 2811.7 crore (or ~77% of total outstanding term loan and fund based working capital facility as on October 31, 2018) term loan and fund-based working capital facility on their books to ACRE, which will propose a restructuring of the loans. Post this, overall indebtedness of JNIL is likely to reduce. However, its liquidity profile would depend on the terms of restructuring.

Leveraged capital structure and depressed coverage indicators - The total debt of JNIL increased from Rs. 5084.6 crore as on March 31, 2018 to Rs. 5279.4 crore as on September 30, 2018. The total debt as on September 30, 2018 comprised term loans of Rs. 3010.0, accrued interest of Rs. 1283.7 crore, working capital facilities of Rs. 597.5 crore and balance Rs. 193.3 crore primarily from intercorporate deposit, sales tax deferral scheme and financial lease obligations. The elevated debt levels have led to an adverse capital structure as indicated by increase in gearing to 5.6x as on September 30, 2018 from 4.4x as on March 31, 2018. The coverage indicators also remained depressed in H1 FY2019 with interest coverage of 0.8x and total-debt-to-operating-profit of 8.9x.

Raw material price risk due to limited captive sources - JNIL has an iron ore self-sufficiency of up to 40% of its total requirements but its entire coking coal requirement is met from imports. Hence, the company's profitability remains exposed to volatility exhibited by raw material prices. JNIL's practice of maintaining high inventory levels accentuates such risks.

Provisional attachment of some of the assets - The ED provisionally attached JNIL's Rs. 101.0-crore sponge iron facility in Chhattisgarh in July 2018 for alleged misuse of coal raised from Gare Palma Coal Sub Block IV/6 at Chhattisgarh. The company has approached the Appellate Authority to challenge the provisional attachment. ICRA notes that the Appellate Authority had directed the ED to not take any coercive actions in the previous instance of such attachment of an asset worth Rs. 206.6 crore in February 2018.

Stuck up investment in greenfield project impacts the business return - JNIL's green field project of 0.3 mtpa sponge iron facility and 50.0 MW captive power plant remains delayed for various reasons including delays in land acquisition, environmental clearance and funding constraints. In FY2018, the company suspended the project and total investment as on March 31, 2018 date stood at ~Rs. 450 crore, which is likely to remain unproductive in the near-to-medium term, thereby impacting its return on capital employed.

Liquidity Position:

The cash flow from operations remained negative in H1 FY2019 owing to high interest costs. The company has an unencumbered cash balance of ~Rs. 50 crore as on September 30, 2018, which can be used in case of any exigencies. The liquidity of the company going forward would depend on the terms of the proposed restructuring scheme by ACRE.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Ferrous Metals Industry
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer

About the company:

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 the mergers, expansions and group restructuring, JNIL currently operates a 0.75 million tonne per annum (mtpa) pig iron unit, 0.2 mtpa coke oven plant, 0.8 mtpa sinter plant, 0.255 mtpa sponge iron unit, 1.0 mtpa billet making unit and rolling mills, 54.5 MW captive thermal/waste heat recovery-based power plants and two iron ore mines in Laiondongri and Metabodeli, Chhattisgarh. JNIL also has iron and steel castings capacity of 0.08 million tonnes, with its facilities located in Nagpur, Bhilai and Anjora.

In H1 FY2019, on a provisional basis, the company reported a net loss of Rs. 184.4 crore on an operating income of Rs. 2176.3 crore, as compared to a net loss of Rs. 491.4 crore on an operating income of Rs. 3477.4 crore in FY2018.

Key financial indicators

	FY2018 (A)	H1 FY2019 (P)
Operating Income (Rs. crore)	3477.4	2176.3
PAT (Rs. crore)	-491.4	-184.4
OPBDIT/OI (%)	9.6%	13.6%
RoCE (%)	1.1%	5.8%
Total Debt/TNW (times)	4.4	5.5
Total Debt/OPBDIT (times)	15.2	8.9
Interest coverage (times)	0.5	0.8

A – Audited; P – Provisional; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: JNIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan 2019	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Nov 2016	Date & Rating in FY2016 Oct 2015
1	Term Loans	Long Term	3018.48#	3018.48#	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D***
2	Cash Credit	Long Term	653.05	653.05	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D***
3	Letter of Credit & Bank Guarantee	Short Term	435.26	435.26	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D***

#Excluding unpaid interest; *Ratings remained suspended post the downgrade

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Dec-2015	12.15% to 14.20%	Mar-2032	3018.48	[ICRA]D
NA	Cash Credit	NA	NA	NA	653.05	[ICRA]D
NA	Letter of Credit & Bank Guarantee	NA	NA	-	435.26	[ICRA]D

Source: JNIL

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