April 27, 2020

Jayaswal Neco Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund based - Term Loan	3018.48#	3548.94#	[ICRA]D; Reaffirmed
Long Term Fund based - Cash Credit	653.05	53.71	[ICRA]D; Reaffirmed
Short Term Non-fund based - Letter of Credit / Bank Guarantee	435.26	313.81	[ICRA]D; Reaffirmed
Total	**4106.79**	**3916.46**	

^Instrument details are provided in Annexure-1; #Excludes unpaid interest

Rationale

The ratings reaffirmation takes 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. The share of Assets Care & Reconstruction Enterprise Limited (ACRE) in JNIL's total debt after loan sell-off by its existing lenders has increased to ~94% as on March 31, 2019 from ~77% in December 2018. However, a restructuring scheme by ACRE is not yet implemented, the terms of which would largely dictate JNIL's liquidity profile going forward.

ICRA 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 the 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. This investment had been declared as non-core asset by the lenders couple of years back. Since then no fresh investment has been made by the company towards the same. ICRA also takes into account the deterioration in the operating performance of the company in 9M FY2020 on account of weak demand from the automobile sector and correction in steel prices. Going forward, the revenues and profitability of JNIL are likely to remain subdued in FY2021 given the lockdown of operations in Q1 FY2021 following the Coronavirus (COVID-19) outbreak and the fact that recovery in auto sector is still some time away. The ratings, however, favourably factor in JNIL's integrated nature of operations and locational advantage of the company's plants.

Key rating drivers and their description

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 about 65-75%

of its annual power requirement. Presence of a 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. JNIL's downstream facility includes a 1.0-mtpa rolling mill, which is capable of producing long products, including that of alloy steel category. The steel division contributes ~90% to the net sales, while the balance is contributed by the casting division.

Location specific advantage - JNIL's steel plant and casting division are situated in Raipur and Nagpur respectively, which are steel clusters. 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. Moreover, the company's operational captive iron ore mine is situated in Chhattisgarh, with approved mining capacity of 1 mtpa, which fulfils ~50% of its iron ore / fines requirements.

Credit challenges

Ongoing delays in debt servicing - JNIL's bank account remains an NPA with persistent delays in repayment of term loans and interest thereon. ICRA also notes that eight out of twelve bankers have assigned the Rs. 3393.5 crore (94.2% of total outstanding term loan and fund based working capital facility) term loan and fund-based working capital facility on their books to ACRE, which is yet to implement a restructuring of the loans.

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. 5419.3 crore as on March 31, 2019. The total debt as on March 31, 2019 comprised term loans of Rs. 3007.3 crore, accrued interest of Rs. 1477.5 crore, working capital facilities of Rs. 592.3 crore and balance Rs. 342.2 crore primarily in the form of inter-corporate deposit, suppliers credit, sales tax deferral scheme and financial lease obligations. The total debt increased to Rs. 5839.8 crore as on September 30, 2019. The elevated debt levels and erosion in net worth on account of large losses have led to an adverse capital structure as indicated by increase in gearing to 22.7 times as on September 30, 2019 from 7.7 times as on March 31, 2019. The coverage indicators also remained depressed in H1 FY2020 with interest coverage of 0.3 times and total debt-to-operating profit of 23.4 times due to deterioration in operating margins.

Unfavorable demand outlook on the domestic auto sector, which is the key end user industry for JNIL's products - More than 60% of the company's total sales consists of billets and rolled products, which find application in the automobile industry. Due to slowdown in the automobile industry, the company's sale of billets and rolled products declined by 32% Y-o-Y basis in 9M FY2020 against FY2019. This, coupled with correction in steel prices led to decline in operating margins to 5.7% in 9M FY2020 from 13.3% in FY2019. Given the weak demand outlook on the domestic auto sector and lockdown of operations following the outbreak of COVID-19 in Q1 FY2021, operating performance of JNIL is likely to remain subdued in the near term.

Vulnerability of profits and cash flows to cyclicality inherent in the steel industry - Owing to cyclicality inherent in the steel industry, the profits and cash flows of JNIL are likely to remain volatile. Additionally, cyclicality in the auto sector accentuates price risks for JNIL.

Stalled investments in the form of sponge iron and captive power project in Bilaspur (Chhattisgarh), which adversely impact the business return indicators - 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 stood at ~Rs. 450.0 crore, which is likely to remain unproductive in the near-to-medium term, thereby impacting its return on capital employed. This investment had been declared as non-core asset by the lenders couple of years back. Since then, no fresh investment has been made by the company towards the same.

Liquidity position: Poor

JNIL's liquidity remains poor due to continued losses incurred by the company, which in turn led to delays in debt servicing. Going forward, the liquidity of the company would depend on the terms of restructuring scheme to be implemented by ACRE.

Rating sensitivities

Positive triggers – ICRA may upgrade JNIL's rating in case of timely debt servicing on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of JNIL

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-mtpa pig iron unit, 0.2-mtpa coke oven plant, 0.8-mtpa sinter plant, 0.25-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 an iron ore mine in Metabodeli, Chhattisgarh. JNIL also has iron and steel castings capacity of 0.08 mtpa, with its facilities located in Nagpur, Bhilai and Anjora.

In 9M FY2020, the company reported a net loss of Rs. 690.9 crore on an operating income of Rs. 2832.9 crore as against a net loss of Rs. 443.9 crore on an operating income of Rs. 4226.5 crore in FY2019.

Key financial indicators

Standalone financials	FY2018	FY2019	9M FY2020 Prov.
Operating Income (Rs. crore)	3477.4	4226.5	2832.9
PAT (Rs. crore)	-491.4	-443.9	-690.9
OPBDIT/OI (%)	9.6%	13.3%	5.7%
RoCE (%)	1.1%	4.7%	-
Total Outside Liabilities / Tangible Net Worth (times)	4.9	8.6	-
Total Debt/OPBDIT (times)	15.2	9.6	-
Interest Coverage (times)	0.5	0.8	0.2
DSCR	0.3	0.4	-

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); DSCR: Debt Service Coverage Ratio; Prov.: Provisional financials
Source: JNIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019	FY2018	FY2017
					27-Apr-2020	21-Jan-2019	16-Nov-2017	22-Nov-2016
1	Term Loan	Long Term	3548.94	3548.94#	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
2	Cash Credit	Long Term	53.71	53.71	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
3	Letter of Credit/ Bank Guarantee	Short Term	313.81	313.81	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

**as on Dec. 31, 2019 # excludes unpaid interest*

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 o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long Term Fund Based - Term Loans	Dec - 2015	12.15%-14.20%	Mar-2032	3548.94	[ICRA]D
NA	Long Term Fund Based - Cash Credit	NA	NA	-	53.71	[ICRA]D
NA	Short Term Non-Fund Based - Letter of Credit / Bank Guarantee	NA	NA	-	313.81	[ICRA]D

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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