May 28, 2020 Revised

Jayaswal Neco Industries Limited: Provisional [ICRA]A3(CE) rating assigned to the non-fund based limits

Summary of rating action

Instrument^	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Short Term Non-fund based facility	-	300.00	*Provisional [ICRA]A3(CE); Assigned
Long Term Fund based - Term Loan	3548.94#	3548.94#	[ICRA]D; Outstanding
Long Term Fund based - Cash Credit	53.71	53.71	[ICRA]D; Outstanding
Short Term Non-fund based - Letter of Credit / Bank Guarantee	313.81	313.81	[ICRA]D; Outstanding
Total	**3916.46**	**4216.46**	

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

Rating without explicit credit enhancement	**[ICRA]D**

** The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.*

The rating to be assigned would be provisional (as denoted by the prefix 'Provisional' before the rating symbol) and is subject to the fulfilment and review of all pending actions/ documentation pertaining to the facility rated by ICRA. The final rating may differ from the provisional rating in case the completed actions/ documentation is not in line with ICRA's expectations.

Rationale

The assigned rating for the Rs. 300-crore short term non-fund based facility of Jayaswal Neco Industries Limited (JNIL or the borrower) takes into account the letter of commitment (LOC) to be provided by Assets Care & Reconstruction Enterprise Limited (ACRE) in favour of the lender and terms of the transaction structure including the payment mechanism. ACRE, by way of the LOC, would irrevocably commit to purchase (by way of assignment) the non-fund based facility, as and when they devolve from time to time, covering all the dues of the facility. Further, ACRE shall upfront enter into an agreement to assign (ATA) with the lender detailing the process of assignment of the devolved facility to ACRE by the lender. ACRE would act as a trustee of the trust to which this facility would be assigned post devolvement. The ATA captures the payment mechanism to ensure that the lender is repaid in full its dues under the facility within three days of devolvement of the facility. While arriving at the rating, ICRA has also taken note of the LOC to be provided by the Bank of America Singapore Limited to ACRE to invest in the trust enabling the trust to purchase the devolved facility within the timelines provided in the ATA.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the ATA and the LOC provided by ACRE in favour of the said facility. The ATA defines that all facilities that have been sanctioned before the NFB termination date (i.e. 365 days from signing of ATA) would be covered under the LOC from ACRE. The LOC is an unconditional and irrevocable commitment of ACRE. The ATA provides a defined payment mechanism to ensure that the dues under the facility are payable in a timely manner. Taking cognisance of the above credit enhancement, ICRA has assigned a provisional rating of [ICRA]A3(CE) to the said facility, against the unsupported rating of [ICRA]D. The rating of this facility may also undergo a change if in ICRA's assessment there is a change in the credit profile of ACRE or non-adherence to the structure of the transaction.

Salient covenants related to the rated instrument

- No letters of credit (LCs)/bank guarantee (BG) will be issued in favour of any associate concerns/ subsidiaries/Group companies/related parties of JNIL
- For import LCs, JNIL will bear the exchange fluctuation risks and will arrange for forward cover whenever called upon to do so by the lender. The lender has the right to crystallise the foreign currency liability at any time during the currency of the transaction by booking forward cover.
- JNIL shall undertake to inform the lender immediately in case of any adverse event related to performance of the underlying obligation such as claims, counter-claims, dispute, cost and time overruns, court/ arbitration proceedings and the likes.
- JNIL to open an escrow account with the lender, prior to the first LC or BG issuance under the non-fund based limits. All the company's collections and payments of all nature shall exclusively be routed through the escrow accounts opened by the Company with the permission of its lenders. Any collection received in any other operative account shall be transferred to these accounts within T+2 days.

For the bank facilities other than the Rs. 300-crore non-fund based facilities, the [ICRA]D rating takes into account the continued delays in debt servicing by JNIL, with the bank borrowings being classified as non-performing asset (NPA) by its lenders. The share of ACRE in JNIL's total debt after debt assignment of fund-based facilities by its existing lenders increased to 94.20% as on March 31, 2020 from ~77% in December 2018. However, a debt restructuring scheme presently under discussions between ACRE and JNIL has not yet been implemented, the terms of which would largely dictate JNIL's liquidity profile going forward.

ICRA notes that State Bank of India, the erstwhile lead lender, 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, had filed a Special Leave Petition (SLP) in the Supreme Court, which directed all the parties to maintain status quo in its order dated April 16, 2018. The matter is still at pre-admission stage in the NCLT which adjourned the matter sine die in the hearing dated November 14, 2019.

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). The ED Appellate Authority stayed the ED attachments on an appeal filed by the Company. Besides, 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 a couple of years back. Since then no fresh investment has been made by the company towards the same. ICRA also considers 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.

The revenues and profitability of JNIL are likely to remain subdued in FY2021 given the lockdown of operations in Q1 FY2021 following the Covid-19 outbreak and the fact that recovery in the auto sector will be delayed further. ICRA, however, favourably factors in JNIL's integrated nature of operations and location-specific advantage of the company's plants.

Key rating drivers and their description

Credit strengths

Support in the form of ATA and LOC from ACRE - The rating for the Rs. 300-crore facility is based on the strength of the LOC from ACRE. The LOC would be backed by a board resolution. As per the terms of the LOC, the amount payable to the lender post devolvement, if any would cover all the outstanding dues under the facility. The LOC is an unconditional and irrevocable commitment of ACRE and valid for the entire duration of the rated facility. An ATA is to be executed between Lender (as Assignor) and ACRE (as Assignee) detailing the terms to assign the non-fund based facilities as and when they devolve. In addition, Bank of America Singapore Limited will also provide an LOC to ACRE to enable the purchase of the devolved facility within the timelines provided in the ATA.

Presence of payment mechanism - As per the terms of the ATA, the lender would intimate ACRE about devolvement of the NFB facility within one business day of devolvement. Further, within three business days of devolvement of the facility, the assignment of facility and the payment of purchase consideration to the lender in full would be completed. The purchase consideration would cover the outstanding dues of the lender on the date of assignment of the facility.

ACRE's market position as one of the top five ARCs in the country, however, its business remains exposed to high concentration and cash flow volatility inherent to the distressed asset space; operations supported by strong shareholder base and investor network - ACRE's credit profile benefits from its strong shareholder base with operational support from the sponsors and established relationship with a number of global investors, which helps ACRE in raising funds for acquisition of assets. With an asset under management (AUM) of Rs. 10,690.50 crore as on March 31, 2020 (compared to Rs. 3,106 crore as on March 31, 2018), ACRE is positioned as the fourth largest asset reconstruction companies (ARC) in India. ACRE's financial profile has improved over the past two years, driven by scale up in operations (it acquired assets worth ~Rs. 10,100 crore during FY2018-FY2020), and healthy profitability and accruals to reserves.

ACRE's credit profile is, however, constrained by the concentration risks inherent to the ARCs dealing with large corporate distressed assets (top five assets accounted for more than 50% of ACRE's AUM as on March 31, 2020) and the yet-to-be demonstrated ability of ACRE in resolving the acquired assets. The asset reconstruction industry has witnessed limited seasoning with continuously evolving dynamics and regulations. It exhibits a volatile earnings profile and cash flows given the uncertainty associated with the resolution process. ACRE has a moderate capitalisation profile with a total gearing of 3.76 times as on March 31, 2020 despite the regular equity infusions over the past four years. However, ACRE has been funding its contribution for acquiring assets through innovative products such as non-principal-protected non-convertible debentures (NPNCD), where the repayment obligations are contingent upon the recovery of the underlying asset. While the total leverage was high at 3.76 times as on March 31, 2020, the same adjusted for NPNCD remained low at 0.40 times.

Credit challenges

Unfavourable demand outlook on the domestic auto sector, the key end user industry for JNIL's products - More than 60% of the company's total sales consist 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 of the domestic auto sector and lockdown of operations following the outbreak of Covid-19 in Q1 FY2021, the 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.

Ability to ramp up operations - Going forward, ability of JNIL to ramp up operations in a timely and profitable manner would remain critical.

Liquidity position

For the Provisional [ICRA]A3(CE) rating: Adequate

As per the terms of the transaction, in case of devolvement of the facility, ACRE is obligated to purchase the same for an amount which covers all outstanding dues on the facility within three days of devolvement, thus protecting the facility from default. ACRE has sufficient sanctions from lenders/commitment from the investor (Bank of America Singapore Limited) in place, to fulfill its obligation under the LOC and ATA, if needed.

For the [ICRA]D ratings: 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 debt restructuring scheme to be finalized between ACRE and JNIL.

Rating sensitivities

For the Provisional [ICRA]A3(CE) rating

The rating assigned to the Rs. 300-crore short term NFB facility would remain sensitive to the credit profile of ACRE and adherence to the structure of the transaction.

For the [ICRA]D ratings

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 Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Not applicable; however, the Provisional [ICRA]A3(CE) rating factors in the ATA to be executed between the lender and ACRE (Assignee) to assign the non-fund based facilities to the Assignee as and when they devolve; ATA would be supported by an LOC from ACRE for 100% of the amount required for the purchase of devolved facility in a timely manner
Consolidation / Standalone	For arriving at the Provisional [ICRA]A3(CE) rating, ICRA has assessed the financial risk profile of ACRE and the same has been used to support the unsupported rating of JNIL. For arriving at the unsupported rating, ICRA has considered the standalone financial statements of JNIL.

About the company

JNIL, incorporated in 1972, began operations with foundry units in Nagpur and subsequently integrated backward by setting up a pig iron (with captive power) manufacturing unit in 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. 2,832.9 crore against a net loss of Rs. 443.9 crore on an operating income of Rs. 4,226.5 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

About ACRE

Incorporated in June 2002, Assets Care & Reconstruction Enterprise Limited (ACRE) is registered with the Reserve Bank of India (RBI), under the SARFAESI Act, 2002, as a securitisation and asset reconstruction company. ACRE was promoted by IFCI along with other banks and financial institutions. IFCI exited ACRE in FY2017 by selling its stake to Axis Bank. Currently, SSG Capital Management and Axis Bank are the sponsors of ACRE. ACRE commenced the business of acquiring non-performing financial assets from banks / financial institutions in July 2007. ACRE focuses on distressed credits in the mid-to-large sized corporate loans. As on March 31, 2020, the company had an AUM of ~Rs. 10,690 crore and a net worth of ~Rs. 320 crore. ACRE, headquartered in Delhi, had set up an office in Mumbai in H2 FY2018 and currently has an employee strength of ~40.

Key financial indicators – ACRE (Audited)

	FY2018	FY2019
Total Income	60.1	168.6
Profit after Tax	9.7	41.4
Net Worth	164.9	269.3
Assets under Management	3,105.5	9,314.1
Total Assets	573.2	1,627.5
Return on Average Total Assets	1.8%	3.8%
Return on Average Net Worth	6.1%	19.1%
Gearing (times) {= *Total Debt/ (Net worth + Minority Interest)*}	1.73	4.31

Source: ACRE and ICRA research; Amounts in Rs. crore
All ratios are as per ICRA calculations

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	FY2021	FY2019	FY2018
					28-May-2020	27-April-2020	21-Jan-2019	16-Nov-2017
1	Non-Fund Based Facility	Short Term	300.00	-	Provisional [ICRA]A3(CE)	-	-	-
2	Term Loan	Long Term	3548.94	3548.94#	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
3	Cash Credit	Long Term	53.71	53.71	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
4	Letter of Credit/ Bank Guarantee	Short Term	313.81	313.81	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

**as on December 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Short Term Non-Fund Based	NA	NA	-	300.00	Provisional [ICRA]A3(CE); Assigned
NA	Long Term Fund Based - Term Loans	Dec - 2015	12.15%-14.20%	Mar-2032	3548.94	[ICRA]D; Outstanding
NA	Long Term Fund Based - Cash Credit	NA	NA	-	53.71	[ICRA]D; Outstanding
NA	Short Term Non-Fund Based - Letter of Credit / Bank Guarantee	NA	NA	-	313.81	[ICRA]D; Outstanding

Corrigendum

The press release dated May 28, 2020 has been revised. The relationship contact person's contact number has been corrected/updated (Changed from 022 6169 3328 to 022 6114 3406).

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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.

For more information, visit www.icra.in

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