

JAYASWAL NECO INDUSTRIES LTD

CIN : L28920MH1972PLC016154

(FORMERLY JAYASWALS NECO LIMITED)

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24th May, 2024

To
National Stock Exchange of India Limited
Scrip Symbol: JAYNECOIND

BSE Limited
Scrip code: 522285

Through: NEAPS

Through: BSE Listing Centre

Dear Sir/Madam,

Sub.: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Credit Rating - Long Term Issuer Rating and Outlook of the Company.

With reference to the above-mentioned subject matter, we wish to state that India Ratings and Research Private Limited vide its Press Release dated 24th May, 2024 has issued **Long Term Issuer Rating of "IND BBB-" (Investment Grade) and "Stable" Outlook** to the Company.

A copy of the Press Release is enclosed herewith for your reference.

We request you to take this on record.

Thanking you,

Yours faithfully,

For Jayaswal Neco Industries Limited

Ashish Srivastava
Ashish Srivastava
Company Secretary & Compliance Officer
Membership No. A20141



Encl: As above.

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India Ratings Assigns Jayaswal Neco Industries ‘IND BBB-’; Outlook Stable

May 24, 2024 | Ferro & Silica Manganese

India Ratings and Research (Ind-Ra) has rated Jayaswal Neco Industries Limited(JNIL) as follows:

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Long-term Issuer Rating	-	-	-	-	IND BBB-/Stable	Assigned

Analytical Approach

Ind-Ra has taken a standalone view of JNIL while assigning the rating.

Detailed Rationale of the Rating Action

The rating reflects JNIL's established operational track record with a strong market position in the domestic alloy steel manufacturing industry. This is backed by the integrated nature of operations with the presence of captive iron ore mines, captive power plants and a high proportion of value-added products. Furthermore, a robust domestic demand and sustained auto sector demand shall continue to support the company's operations over the medium term. However, the rating is constrained by the company's low financial flexibility, given the lack of banking relationships. Furthermore, the company's ability to tie-up working capital limits and refinance its high-cost, secured non-convertible debenture (NCD) would be a key rating monitorable, given the mandatory redemption option falling due in December 2026.

List of Key Rating Drivers

Strengths

- Strong business profile
- High capacity utilisation, efficiency expected to improve post blast furnace (BF) modernisation
- EBITDA margin to be range bound
- Vast experience of promoters in iron and steel industry
- Comfortable credit metrics
- Governance structure

Weaknesses

- Limited financial flexibility
- Inherent industry risks

Detailed Description of Key Rating Drivers

Strong Business Profile: JNIL is a special steel long product integrated player, operating a 1mtpa per annum steel plant, which includes a blast furnace, two steel melt shops, two coke ovens, two sinter plants, 54.5MW power plants (meeting about 70% requirements), and three rolling mills. Moreover, the company meets 100% of its iron ore requirement from its two captive iron ore mines (ramp-up from December 2022) which are located in proximity to its steel plant, resulting in cost efficiency. JNIL's iron ore mining licenses are valid until 2052 (Metabodeli mine)/2055 (Chotedongar mine). The company has a cost advantage as its mines are on allocation basis, and hence, it does not need to pay any additional premium.

JNIL's end-product of the industry segment is alloy steel (long products) produced in different grades, shapes and sizes which is primarily used in the automotive segment along with engineering, industrial, defence and construction. Reputed automotive original equipment manufacturers (OEMs) have selected JNIL as an approved vendor and have longstanding relationships with it. JNIL has a diversified customer base with the top 10 customers constituting around 42% of the total turnover in 9MFY24 (FY23: 34%). The steel division contributed around 91% to the sales of FY24, with the balance being contributed by the castings division. Almost all the sales are domestic in nature.

High Capacity Utilisation, Efficiency Expected to Improve Post BF Modernisation: JNIL's net revenue grew at a CAGR of 17% over FY21-FY24 and was INR59,335 million in FY24, on back of improving capacity utilisations and realisations post debt restructuring by the trusts managed by Assets Care & Reconstruction Enterprise Limited (ACRE) on 23 August 2021. BF recorded a capacity utilisation of 86% (FY21: 64%), resulting in 10% CAGR growth in the output to 0.64 million tonnes (MnT) in FY24. JNIL is undertaking capex of INR3,710 million related to BF maintenance and upgradation along with general repair in FY24-FY25 (INR2,670 million related to BF and balance maintenance and general repair capex). Of this, INR1,905 has been incurred and the balance INR1,805 million will be spent in FY25 using internal cash accruals. The capex is towards the de-bottlenecking of its assets, improving output quality, revamping BF to increase the output and efficiency. The steel melting shops recorded capacity utilisation of 69% in FY24 (FY21: 40%) and rolling mills recorded a capacity utilisation of 67% (41%). In FY24, rolled product sales volume was 0.57MnT (FY21: 0.39MnT). Ind-Ra expects JNIL to operate at optimum capacity utilisation post BF modernisation.

EBITDA Margin to be Range Bound: Ind-Ra expects the funds flow from operations to remain steady over the next 18-24 months, on back of improved capacity utilisation and product mix along with increased proportion of value-added products, which is likely to support per tonne EBITDA. EBITDA improved to INR10,268 million in FY24 with an EBITDA margin of 17.3% (FY21: INR6,101 million and 16.5%), supported by cost improvements led by a high reduction in input cost compared to the reduction in sales realisations which resulted in higher spreads in the steel sector. A further ramp-up in the captive iron ore production since December 2022 led to higher cost savings. Ind-Ra expects the EBITDA margins to be at 17%-19% in FY25-FY26, supported by 100% use of captive iron ore mines along with periodic price revisions by OEMs, enabling the company a pass-through of raw material cost albeit with a time lag. A robust domestic demand and sustained auto sector demand (over 80% of the sales are to the automotive sector) shall continue to support the company's operations over the medium term.

Vast Experience of Promoters in Iron and Steel Industry: JNIL was founded by Basant Lall Shaw, who has an experience of more than five decades in the iron and steel and casting industry. The company is managed by the second generation of promoters - Arvind Jayaswal and Ramesh Jayaswal - who have an experience of over four decades in the steel industry. The promoters are well supported by a professionally qualified management team.

Comfortable Credit Metrics: Ind-Ra expects the interest coverage (operating EBITDA/gross interest expense) to sustain above 2x over FY25-FY26 (FY24: 2.1x, FY23: 5.4x) and the net leverage (including acceptances; total debt including

acceptances net of cash/operating EBITDA) around 3x (3.1x, 4.2x). JNIL refinanced its total debt in December 2023 at a higher interest payout with staggered principal payments starting July 2024. The debt service coverage ratio is likely to remain in the 1.4x-1.7x range over the medium term.

Governance Structure: JNIL has related-party transactions (RPTs) with Neco Mining Company Private Limited, an associate entity. Neco Mining Company has a mining and beneficiation contract with JNIL. JNIL also has RPTs with NSSL Private Limited, where the latter has a purchase and sale contract for machining JNIL's auto castings. All RPTs are on an arms' length basis, mostly having an economic rationale, and require prior approval of the audit committee and NCD lenders. Furthermore, JNIL has a concurrent cash flow monitoring process and an agency has been appointed by NCD holders/trustee for conducting a prior separate due diligence for RPT contracts. All receivables and payables are routed through a trust and retention account.

Limited Financial Flexibility: As of date, JNIL has been operating using its operating cash flows and has no banking relationships and working capital tie-ups, resulting in low financial flexibility. Furthermore, 100% of the promoter shareholding (53.02% as on 31 March 2024) is pledged with new investors, limiting any further financial flexibility. JNIL refinanced the outstanding debt of ACRE on 14 December 2023, through the issue of secured NCD of INR32,000 million raised from financial investors. The secured NCD has been issued for a term of five years with 14.50% p.a. coupon payable monthly and 3% p.a. additional coupon payable on maturity. The company will repay INR16,620 million and interest at 14.50% p.a. over the five-year period. The remaining amount of INR15,380 million and interest of INR4,060 million accrued but not due will be refinanced at the end of the term, i.e., on or before 13 December 2028. The secured NCD has a call option (early repayment option) and put option (mandatory redemption option). The call option can be exercised after 24 months from December 2023 and the put option can be exercised after 36 months from December 2023. ACRE continued to hold around 26.45% stake in JNIL as on 31 March 2024 post transfer of 4.99% stake to the promoters. JNIL's ability to raise/refinance a portion of the high-cost, long-term debt at favorable terms and successful tie-up of funds from domestic lenders for meeting working capital requirements will be a key monitorable. This would improve the balance sheet liquidity while also improving the financial flexibility, thereby providing an incremental liquidity buffer.

Inherent Industry Risks: The rating considers the susceptibility of the operations and profitability to price volatility in sponge iron, pellets and coal (coking and thermal) along with the cyclicality in the steel industry. Furthermore, volatility in input costs is mitigated by operational captive iron ore mines. However, majority of its coal requirement is imported, and thus, is exposed to coking coal price and foreign exchange fluctuations. However, considering the presence of value-added special steel products in its portfolio (around 70% of revenue), its susceptibility to fluctuations in steel prices is lower than that of other steel commodity product manufacturers. The company hedges its foreign currency exposure by way of forward contracts (one to 12 months) only occasionally. The rating is also constrained by the highly competitive and fragmented nature of the steel manufacturing industry.

Liquidity

Stretched: The liquidity is constrained on account of no banking relationships or working capital tie-ups as on date, impacting JNIL's financial flexibility. However, the liquidity profile of the company is supported by a cash and bank balance and liquid investment of INR1,295.5 million as on 31 March 2024 (31 March 2023: INR2,725.1 million). INR400.8 million of cash balance as of 31 March 2024 (March 2023: INR2,004.9 million) was kept as margin money for supplier letters of credit as the company does not have any working capital limits. Working capital requirements are primarily met through internal accruals, letters of credit acceptances (subject to volatile coking coal prices) and vendor financing. The company has debt obligations of around INR6,300 and INR7,600 million in FY25 and FY26, respectively, which can be comfortably paid through internal accruals.

Rating Sensitivities

Positive: Timely completion of capex and ramp-up of production while maintaining the profitability and credit metrics on a sustained basis and an improvement in the financial flexibility by way of timely sanction of working capital and/or visibility in debt refinancing at lower rates will be positive for the ratings.

Negative: Deterioration in the operational performance resulting in lower-than-expected profitability leading to net leverage (including acceptances) exceeding 4.0x on a sustained basis will lead to a negative rating action. Furthermore, any stretch in the working capital cycle resulting in deteriorated liquidity position and reduced financial flexibility will lead to a negative rating action.

About the Company

JNIL, incorporated in 1972, is the flagship company of the Neco Group of Industries promoted by Shri Basant Lall Shaw, Shri Arvind Jayaswal and Shri Ramesh Jayaswal. JNIL is listed on the BSE Limited and National Stock Exchange. The company began operations with foundry units in Nagpur, and subsequently it integrated backward by setting up a pig iron (with captive power) manufacturing unit at Siltara, Raipur, Chhattisgarh, in 1995. JNIL is primarily engaged in manufacturing alloy steels – wire rods, bars, bright bars along with steel billets, pig iron, 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.

JNIL operates a 0.75mtpa blast furnace, 0.20mtpa coke oven plant, 0.80mtpa sinter plant, 0.25mtpa sponge iron unit, 1.50mtpa pelletisation unit, 1.0mtpa steel melting shops and rolling mills, 54.5MW captive power plants and has two captive iron ore mines, all in Chhattisgarh. It is also operating a 7.5MW power plant on lease basis from the group company. It has got iron and steel castings operating capacity of 0.075mtpa, with its facilities located in Maharashtra and Chhattisgarh.

JNIL underwent financial stress during FY14-FY18 and was referred to the National Company Law Tribunal for the Corporate Insolvency and Resolution Process under Insolvency and Bankruptcy Code in 2018 by a consortium of banks led by the State Bank of India ('[IND AAA/Stable](#)'). However, JNIL did not get admitted into IBC. Subsequently, the consortium bankers assigned their debt through the auction route to the trusts managed by ACRE. On 23 August 2021, JNIL had entered into a restructuring support agreement with ACRE, acting in its capacity as the trustee of various trusts (ACRE Trusts), in relation to restructuring of all its outstanding debt owed to ACRE Trusts, in accordance SARFAESI Act. The debt restructuring had become effective on 23 May 2022 from the cut-off date of 31 March 2020.

KEY FINANCIAL INDICATORS

Particulars (INR million)	FY24	FY23
Revenue	59,336	63,429
EBITDA	10,268	7,819
EBITDA (%)	17.3	12.3
Gross interest cover* (x)	2.1	5.4
Net adjusted leverage (x)	3.1	4.2
Source: JNIL, Ind-Ra		
*based on actual interest payout		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating
Long-Term Issuer Rating	Long-term	-	IND BBB-/Stable

Complexity Level of the Instruments

Not applicable

APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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