

JAYASWAL NECO INDUSTRIES LTD

CIN : L28920MH1972PLC016154

(FORMERLY JAYASWALS NECO LIMITED)

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3rd July, 2020

To

**Manager (Listing),
National Stock Exchange of India Ltd.,
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra Kurla Complex,
Bandra (E), Mumbai**

**Manager (Listing),
Department of Corporate Services,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400001**

Dear Sirs,

Sub: Disclosure of Material Impact of CoVID-19 pandemic under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular SEBI/HO/CFD/CMD1/CIR/P/2020/84 dated 20th May, 2020.

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular SEBI/HO/CFD/CMD1/CIR/P/2020/84 dated 20th May, 2020, please find enclosed Disclosure of Material Impact of CoVID-19 pandemic on the Company.

We request you to take this on record.

For Jayaswal Neco Industries Limited,

**Vikash Kumar Agarwal
Company Secretary & Compliance Officer
Membership No: A19583**



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**DISCLOSURE OF MATERIAL IMPACT OF COVID-19 PANDEMIC ON
LISTED ENTITIES UNDER SEBI**

(As Required by SEBI Circular dated May 20, 2020)

JAYASWAL NECO INDUSTRIES LIMITED

A) Impact of the CoVID-19 pandemic on the business:

The Company is engaged in the business of manufacturing alloy steel billets, rolled products, pig iron, sponge iron, pellets, captive power generation and Iron & Steel - Automotive and Construction Castings. The products manufactured by the Company find applications in automotive and auto components, engineering, power, railways and construction sectors.

The Alloy steel sector (Long Products) was facing strong headwinds from the end of November, 2018 as the Indian automobile sector started facing unprecedented slowdown.

India had commenced nationwide lockdown, since last week of March 2020 due to COVID-19 pandemic outbreak, on the instructions of the Governmental authorities. It has significantly affected the business of the Company, its liquidity and its future prospects

Post gradual lifting of lockdown, significant challenges for the Company's business persists. Businesses in the country are struggling to modify their business processes and practices and getting accustomed to the new normal.

Bringing back lakhs of migrant workers to work, having returned to their hometowns and villages in the wake of the pandemic is key for the revival of operations of the Auto Component customers of the Company. Revival in demand from the Original Equipment Manufacturers (OEMs) would be the key determinant in Auto Component customers' revival of fresh orders to the Steel industry.

Restoring supply chains and customers normal scale of operations more predominantly located in the Red Zones remain huge challenge.

The customers would first try to liquidate the existing stocks once their operations resume before starting to ramp up production. Consequently steel companies will continue to work at lower utilization levels till demand resumes meaningfully.

Commercial vehicles segment which is key end user segment for Alloy Steel remains badly affected and has witnessed around 40% degrowth. Recovery of the Commercial vehicle segment is dependent on the revival in the growth of infrastructure and construction work, addressing Assets liability mismatch of the NBFCs, their ability to lend extensively for vehicle financing, boost in demand with the consumers and improvement in their financial position.

Given the closure of operations in most industries and significant dip in future demand, the nation's steel demand in FY21 is slated to fall by 15-20%.



Quickly rebooting the steel industry being a core industry from hibernation is a tough task. Many buyers could prefer to sit at the sidelines, given the uncertain demand environment and liquidity pangs of the steel consumers, amid dwindling sales and significant fixed cost obligations.

Revival of Steel demand to pre Covid-19 levels would be a painful process expected to be drawn over couple of quarters.

Businesses across the board have laid-off workers and staff, placed many on furlough and announced salary cuts, the overall consumer sentiment is against any discretionary spending and is likely to remain lackluster in medium term.

The Company, being an Integrated Steel Player would focus on sale of more Metallic i.e Iron Products (Pig Iron, Sponge Iron and Pellet) till demand for Alloy Steel starts picking up.

Thus, the Covid 19 outbreak has significantly affected the business of the Company in the short term.

It is not possible to determine the Covid-19 pandemic exact financial impact over the business at this stage. The majority of the end customers operations are located in the Industrial belts presently into Red Zones. The trajectory of business recovery is very difficult to predict at this juncture.

Major impact on the operations and concerns are as follows:

- Interrupted production due to lockdown
- Supply chain disruptions resulting into increase in cost of goods manufactured and non-availability of desired quality of raw material in timely manner.
- Rising inventories of raw material and finished goods.
- Muted demand and negative customer sentiments.
- Customers not lifting finished goods against old orders.
- Suppressed selling prices due to excess supplies.
- Reduced margins .
- Timely recovery from customers remain big challenge due to serious liquidity issues with all the customers.

The sustainable demand volumes, selling prices and margins that the Company can earn post Covid-19 recovery would be known once businesses stabilize and the entire ecosystem starts functioning smoothly.

The fall in turnover volumes, value and margins over Pre Covid-19 period would eventually represent financial impact of Covid-19 pandemic on the business.

B) Ability to maintain operations including the factories/units/office spaces which are functioning and are closed down:

The Governmental authorities by its orders had instructed lockdown of the Raipur district and the State of Chhattisgarh, Nagpur district and the State of Maharashtra to deal effectively with the Covid-19 threat in the month of March, 2020.

Accordingly the foundry units of the Company situated at Hingna and Butibori Industrial Areas, had been closed from 21st March, 2020 till the mid of May, 2020.



Further the Integrated Steel Plant at Siltara, Raipur, Captive Iron Ore Mine at Metabodeli and Foundry Unit at Anjora in the state of Chhattisgarh had been closed from 24th March, 2020 till the mid of May,2020.

Subsequently, with the gradual relaxation orders in the lockdown conditions as issued by the Governmental authorities, the Company had partially resumed operations from the mid of May,2020.

The operations would be scaled up post their recommencement depending on the revival of Auto Sector demand. The revival might take couple of quarters.

C) Schedule, if any, for restarting the operations

Elaborated in Response to Point No B above.

D) Steps taken to ensure smooth functioning of operations:

Covid-19 pandemic is a huge health and economic challenge, presently being faced by more than 185 countries of the world.

The effect of Covid-19 on the health of people more particularly with comorbidities, pressure created on the health infrastructure, businesses, its supply chains, customer demand, sentiments, way of doing business, way of social interaction is humungous and unprecedented.

To deal effectively with the Covid-19 pandemic, periodic instructions were issued by the Company's Human Resources department to its workers, contractors and employees aligned with the periodic instructions issued by the Governmental authorities. Constant awareness campaign and the need and importance to adhere to them has been continuously spread amongst the workers, contractors and the employees.

The Company has also ensured regular and contract labour continuity for its operations. The migrant labour exodus has not affected the Company's work force.

HYGIENE PREPAREDNESS TO RESTART THE OPERATIONS:

- The Company has made appropriate changes in its Standard Operating Procedures to recommence economic activities by following physical distancing norms and meticulously following host of other measures, changes in socio-economic behaviour with a sharp focus on health and enhancing immunity of the personnel.
- Detailed shop-floor precautions & safety measures have been implemented with imparting appropriate training to staff and workmen. Factory roads and entrance areas are being regularly sanitized.
- Regular Fumigation of the offices and shop floors is being carried out.
- Thermal screening of employees and workers, truck drivers, other entrants and sanitization of loading and unloading vehicles at the entry gate of factories.

The Company strives hard to come out of the Covid-19 crisis with positive approach, patience, committed team work, enhancement of efficiencies, Governmental and



stakeholders support, clearly defined objectives and meticulous roadmap for its execution.

E) Estimation of the future impact of CoVID-19 on its operations:

Elaborated in Response to Point No A above.

F) Details of impact of CoVID-19 on listed entity-

a. Capital and financial resources:

COVID 19 has impacted the capital and financial resources of the Company with significant dip in revenues and the need to cater to unavoidable liability payments including committed fixed costs.

b. Profitability

EBIDTA margins are expected to be sharply affected in FY21 due to muted market demand in Auto, infrastructure and construction segments. Due to bleak demand, the alloy steel products (rolled products) are presently not being manufactured, instead intermediary metallic (iron) products are being manufactured and sold. These products have lower margins as compared to the rolled products.

Due to the impact of COVID-19, the selling prices of metallic products and rolled products are under great pressures without corresponding reduction in raw material prices, consequently the estimated margins in these products are expected to reduce significantly and will have significant impact on the profitability.

Contraction in economic activity will impact the utilization levels of various plants of the company and overall revenue and profitability will remain under pressure with committed fixed overheads to be honored.

The overall performance is expected to improve progressively as the demand recuperates.

c. Liquidity position

COVID 19 has affected the liquidity position of the Company and increased its current liabilities. The Company is continuously engaged with its creditors to enlist their support to the business.

d. Ability to service debt and other financing arrangements:

The same has been affected in the short term. The Company has been engaged in discussions with its secured lenders to restructure its debts.

e. Assets

The Company has undertaken the valuation of its fixed assets, as per its impairment policy the Company has carried out impairment testing and has recognized provisions / impairment of fixed assets wherever necessary and applicable.



f. Internal financial reporting and control:

The Company has an Internal Control System, commensurate with the size, scale and nature of its business. It's a risk focused system, analyzing and reporting to the management in timely manner and is fairly robust.

g. Supply chain:

There has been significant disruption in supply chain for procurement of Raw Material, stores, spares and consumables.

Logistic arrangements plays important role in the overall supply chain management.

Gradually supply chain issues are getting sorted out.

The company usually maintains the stock of key raw materials (imported coking coal.) for around 1 to 2 months considering the total procurement time cycle constrains, volatility in prices etc. The necessary stock of key raw materials sourced domestically is also now available adequately with the company.

h. Demand for its products/services

Elaborated in Response to Point No A above.

G) Existing contracts / agreements where non-fulfilment of the obligations by any party will have significant impact on the listed entity's business:

The Raw material and stores and spares procurement contracts have been negotiated for revised delivery and payment schedules wherever feasible, there are not any major cancellations in key contracts.

Further, there won't be any major cancellation in sale contracts / arrangements, but delivery schedules have witnessed significant deferments resulting in lesser than average uplift of the stock. The same has resulted in liquidity issues due to falling sales, increased inventories, margin pressures and deferred recoveries. The same is expected to be eased out over time though.

