JINDAL SAW LIMITED

Ratings

Facilities/Instruments	Amount (Rs.cr)	Ratings[1]	Remarks
Long-term Bank Facilities	1,634.62 (enhanced from Rs.1,327.48)	**CARE AA- [Double A Minus]**	Reaffirmed
Short-term Bank Facilities	3,650	**CARE A1+ [A One Plus]**	Reaffirmed
Total Bank Facilities	**5,284.62**		
Non Convertible Debentures-I	300	**CARE AA- [Double A Minus]**	Reaffirmed
Non Convertible Debentures-II	100	**CARE AA- [Double A Minus]**	Reaffirmed
Non Convertible Debentures-III	300	**CARE AA- [Double A Minus]**	Reaffirmed
Proposed Non Convertible Debentures-IV	250	**CARE AA- [Double A Minus]**	Reaffirmed
Short-term Debt (Including Commercial Papers)/Non Convertible Debentures	125	**CARE A1+ [A One Plus]**	Reaffirmed

Rating Rationale

The ratings continue take into account Jindal Saw Ltd's (JSL) dominant position in steel pipes industry in India, the company's moderate order book position and its diversified product portfolio. The ratings also consider JSL's moderate leverage profile as well as liquidity position and the benefits expected to be received from captive iron ore mine at Bhilwara, Rajasthan. The ratings also take cognizance of the moderation in JSL's profitability margins owing to the competitive industry scenario. The rating strengths are however partially off-set by JSL's working capital intensive nature of operations, the company's significant exposure towards its subsidiaries and the risks associated with the various projects under execution.

Going forward, JSL's ability to improve its profitability and maintain moderate leverage profile would be the key rating sensitivities. Furthermore, the impact of the company's commitments towards subsidiaries on its credit profile would also remain crucial going forward.

Background

JSL, part of the OP Jindal group, was incorporated in 1984 as SAW Pipes Ltd. The company got its present name in February 2005. The major products of JSL include Longitudinal Submerged Arc Welded (LSAW) pipes, Helical SAW (HSAW) pipes, Ductile Iron (DI) pipes, seamless pipes, pig iron etc. The company has four manufacturing facilities at Kosi Kalan (UP), Mundra (Gujarat), Nashik (Maharashtra) and Bellary, (Karnataka) respectively. JSL has an installed capacity of 1.1 Million Tonnes Per Annum (MTPA), 0.74 MTPA, 0.22 MTPA and 0.4 MTPA for manufacturing of LSAW pipes, HSAW pipes, seamless pipes and DI pipes respectively. It also has waste heat recovery-based captive power generation installed capacity of 30 MW in Mundra. Furthermore, JSL also has a 7.5 MW wind mill in Gujarat.

Credit Risk Assessment

Strong promoter group and dominant position in iron and steel pipes industry

JSL is part of the diversified OP Jindal group. The company has a rich business vintage of over 29 years. Its existing business operations are structured with three strategic business units (SBUs) viz SAW pipes, seamless pipes and DI pipes. The company enjoys a dominant position in longitudinal and helical SAW steel pipe segment owing to large capacities and established domestic and international clientele. JSL also has presence outside India with operations in Abu Dhabi, Italy and USA, through its various subsidiaries.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Diversified operations with healthy product portfolio

JSL has geographically diversified operations spread across Kosi Kalan (Uttar Pradesh), Mundra (Gujarat), Nashik (Maharashtra) and Bellary (Karnataka). The company has further increased its presence in Bhilwara (Rajasthan), where it has implemented an iron ore beneficiation plant and a pellet manufacturing unit. Further it is having low-grade iron ore mine of reserves aggregating 180 million tonnes. The company has a healthy product portfolio with presence across all segments of the pipe industry viz LSAW pipes, HSAW, DI pipes, seamless pipes, anti-corrosion coated pipes, hot-pulled induction bends etc. The products manufactured by JSL find application in transportation and exploration of oil & gas, transportation of fluids, automobiles and in various infrastructure projects, among others.

Benefits expected to accrue from captive availability of iron ore and pellets

JSL has been allocated an ore mine in Bhilwara with estimated reserves of nearly 180 million tons of low-grade iron ore. The company is setting-up an iron ore beneficiation plant and a pellet plant at total estimated costs of Rs.630 cr. It has already commissioned two out of the four manufacturing lines of iron ore beneficiation plant whereas the balance two are expected to get completed by October 2013. The pellet plant is complete and has also started operations in June 2013. The captive availability of iron ore is expected to reduce the manufacturing costs of the company in the DI pipe segment going forward.

Moderate order book position

JSL's order book stood at nearly USD 630 million (approximately Rs.3,400 cr), as on April 10, 2013, which comprised orders of Rs.1,780 cr of DI pipes, Rs.1,480cr of SAW pipes and Rs.140 cr of seamless pipes. The orders in SAW pipe segment are expected to be executed within 6 to 9 months whereas the timeline for execution of orders in DI pipes segment ranges from 12 to 18 months. The company's order book position registered improvement over December 31, 2012 levels when it stood at USD 550 million.

Working capital intensive nature of operations

JSL's operations of working capital intensive nature as exhibited by elongated working capital cycle of 174 days during FY13 (refers to the period April 1 to March 31), largely on account of order-based nature of business which involves considerable raw material inventory holdings. The company is required to obtain multiple customer approvals before the pipes are finally sold, thereby leading to higher working-in-progress and finished goods inventories. Furthermore, it extends an average credit period of 80 to 90 days to its customers which further elongates the company's working capital cycle. On the other hand, the company's average creditor days stood at 32 days in FY13, which have reduced over the years due to higher usage of relatively cheaper buyer's credit limits. Nevertheless, the company's average utilization of cash credit limits stood moderate at around 63% for the trailing 12 months ended March June 2013.

Moderation in profitability profile during FY13

Although, JSL registered a growth in excess of 8% in its total operating income in FY13, the company's profitability remained under pressure. Its PBILDT margins moderated by 178 bps on yoy basis to 11.41% in FY13, attributable to the competitive industry scenario. The lower operational profitability also impacted the PAT margin also which declined by 91 bps to 3.40% during FY13. The decline in ROCE and RONW from 7.03% and 5.74% respectively in FY12 to 6.16% and 5.12% respectively in FY13 was also attributable to the same. Furthermore, apart from funds deployed in capital work in progress, the low ROCE and RONW are also attributable to significant investment in subsidiaries which are yet to yield returns.

Moderate leverage profile

JSL's debt to equity and overall gearing (including acceptances) moderated from 0.27x and 0.79x as on March 31, 2012 to 0.39x and 0.89x as on March 31, 2013 respectively. The same was largely attributable to increase in term debt (largely availed for capex requirements) and increase in the working capital borrowings. Consequently, the company's total debt to gross cash accruals ratio deteriorated from 4.69x as on March 31, 2012 to 6.51x as on March 31, 2013. However, the company's interest coverage ratio stood comfortable at 4.31x during FY13 despite deterioration from 6.07x in FY13. JSL's consolidated overall gearing stood moderate at 1.31x as on March 31, 2013.

Significant exposure towards subsidiaries

JSL through its wholly owned subsidiary Jindal ITF Ltd (JITF) has ventured into businesses like water and waste water management, urban waste management, coastal and inland water transport, rail wagon manufacturing etc. These projects are being implemented by various subsidiaries of JITF. Apart from this, JITF is also implementing a coal transportation project for NTPC Ltd. JSL had invested Rs.519 cr (including share application money of Rs.50 cr) in JITF till March 31, 2013. The company had also made investment of Rs.118 cr in Jindal Saw Holdings FZE, which has commissioned a DI pipe manufacturing facility in Middle East. JSL's incremental equity commitments towards its subsidiaries from FY14 to FY18 stand at Rs.520 cr including conversion of CCDs issued by JITF.

Also, JSL has provided credit enhancement in form of 'put right' for payment of interest and principal repayments of NCDs aggregating Rs.221.30 cr issued by JITF during FY13 and FY14. This apart, JSL has provided letter of comfort/undertaking for debt facilities availed by its various subsidiaries and step down subsidiaries. Furthermore, the company's incremental commitments towards its subsidiaries may increase in case of slower-than-envisaged ramping-up of subsidiaries' operations and time and cost overrun of the various projects being implemented by the subsidiaries. However, JITF has reached an advanced stage of execution of its project for coal transportation whereas Timarpur Okhla waste to energy plant has also become operational. The other step down subsidiary, which commissioned its plant for manufacturing of rail wagons, has also delivered 250 wagons to Indian railways. JSL's subsidiary in Abu Dhabi has also commissioned its plant for manufacturing of DI pipes.

Risks related to projects under implementation

JSL is currently implementing iron ore beneficiation project, pellet plant, sponge iron/steel plant with a housing colony at Bhilwara, Rajasthan. The aggregate cost of these projects stands at Rs.1,030 cr out of which Rs.529 cr has already been incurred upto March 31, 2013. JSL does not fund the debt requirements of its projects through project financing route and raises the funds at the entity level. As conveyed by the management, the company has deferred its project for rounds/billets at Mundra while the scope of work for sponge iron/steel project at Bhilwara has also been revised, thereby reducing the aggregate project costs by Rs.350 cr. The reduced capex plans coupled with minimal debt repayment obligations in FY14 and FY15 support the company's debt servicing indicators. Nevertheless, the ongoing projects of JSL expose the company to project execution-related risks. However, such risks are mitigated to some extent by the company's track record in the execution of projects.

Prospects

The iron and steel pipe industry is currently facing the problems of over-capacities, slowing demand and intense competition. Going forward, the prospects for JSL would depend upon its ability to register improvement in the profitability margins while overcoming these problems. The company derives more than 50% of its revenues from exports and its initiatives to strengthen the presence in Middle-east and European region are likely to provide it competitive advantages in the medium to long-term. With the increase in capacities, the company's endeavours to increase its share in DI pipe segment, which is majorly sold domestically, would also remain crucial going forward.

Financials

Rs.cr

Y.E. Mar.31,	**2011**	**2012**	**2013**
	(12m, A)	**(12m, A)**	**(12m, Prov.)**
Income from Operations	4,222	5,244	5,665
PBILDT	863	692	646
Interest	151	114	150
Depreciation	137	150	155
PBT	603	325	265
PAT	462	226	193
Gross Cash Accruals	639	613	534
Financial Position			
Equity Share capital	55	55	55
Net Worth	4,236	3,642	3,891
Total Debt	1,701	2,517	3,268
Key Ratios			
Profitability (%)			
PBILDT / Total OI	20.44	13.19	11.41
APAT / Total OI	10.93	4.31	3.40
ROCE	14.52	7.03	6.16
RONW	11.60	5.74	5.12

Y.E. Mar.31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, Prov.)
Solvency(times)			
Debt Equity Ratio	0.11	0.27	0.39
Overall Gearing (Excluding Acceptances)	0.40	0.69	0.84
Overall Gearing (Including Acceptances)	0.42	0.79	0.89
Interest coverage	5.72	6.07	4.31
Term Debt/GCA	0.71	1.63	2.82
Total Debt/GCA	2.76	4.69	6.51
Liquidity (times)			
Current ratio	1.46	1.32	1.31
Quick ratio	0.82	0.71	0.77
Avg. Collection Period (days)	88	89	80
Avg. Inventory (days)	138	145	126
Avg. Creditors (days)	51	30	32
Op. cycle (days)	176	204	174

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