

## Jindal Saw Limited

March 11, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	2606.21	<b>CARE AA; Negative (Double A; Outlook: Negative)</b>	<b>Reaffirmed; Outlook revised from Stable</b>
Short term Bank Facilities	5000.00	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>7606.21 (Rupees seven thousand six hundred and six crore and twenty- one lakh only)</b>		
Non-Convertible Debenture - III	250.00 (Rs. Two hundred fifty crore only)	<b>CARE AA; Negative (Double A; Outlook: Stable)</b>	<b>Reaffirmed; Outlook revised from Stable</b>
Non-Convertible Debenture – Proposed	500.00 (Rs. Five hundred crore only)	<b>CARE AA; Negative (Double A; Outlook: Stable)</b>	<b>Reaffirmed; Outlook revised from Stable</b>
Commercial Paper	200.00 (Rs. Two hundred crore only)	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
Issuer Rating	-	<b>CARE AA (Is); Negative (Double A (Issuer Rating); Outlook: Negative)</b>	<b>Reaffirmed; Outlook revised from Stable</b>

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities/debt instruments of Jindal Saw Limited (JSAW) continue to derive strength from the company's experienced promoters and management, the company's long track record of operations in the submerged arc welded (SAW) pipe business and its steady operational performance as reflected in consistent growth in operating profits, backed by healthy sales volumes and margins. The ratings also factor in JSAW's healthy order book position, its robust operations with the benefits of diversification in terms of both product segments and manufacturing locations, its competitive cost structure with captive availability of iron ore for its pellet plant. The ratings also take cognizance of the company's healthy financial risk profile marked by a comfortable gearing and moderate, and improving, debt coverage indicators, besides its adequate liquidity position. However, the rating strengths are partially offset by a high exposure to subsidiaries and group companies, the company's capital intensive nature of operations resulting in modest return indicators and its exposure to fluctuations in raw material prices and foreign exchange rates.

### **Outlook: Negative**

The revision in outlook from 'Stable' to 'Negative' is on account of the substantial delay in the recovery of loans and advances and investments from its subsidiary, Jindal ITF Limited (JITF, rated CARE AA (CE); Negative)/CARE A1+ and CARE BBB (CE); Stable) due to ongoing litigation between JITF and NTPC Limited (NTPC, rated CARE AAA; Stable/CARE A1+). CARE had previously envisaged that the arbitration award would be utilized for reducing JSAW's debt levels in short to medium term but due to the protracted litigation between JITF and NTPC, JSAW's debt levels continue to remain higher and are expected to remain at elevated levels. The matter is still sub judice and next hearing is expected to take place in April 2020. The outlook may, however, be revised to 'Stable' if the arbitration award money is received leading to a reduction in debt levels of JSAW and, resultantly, an improvement in overall gearing, debt coverage indicators and liquidity position.

### Rating Sensitivities

#### Positive Factors

- Optimal utilization of capacities and improvement in ROCE above 15% on a sustained basis
- Improvement in gearing to below 0.50x on a sustained basis
- Substantial improvement in liquidity position
- Reduction in exposure towards subsidiaries/group companies

#### Negative Factors

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

- Any incremental support towards subsidiaries/group companies
- Sizable reduction in order book position
- Any sizeable debt funded capex or acquisition resulting in deterioration in gearing beyond 1time
- Any significant delay or adverse outcome from ongoing litigation between NTPC and JITF

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters with long track record:** JSAW, the flagship company of a well-diversified P. R. Jindal group, has been in operations for over 30 years. It enjoys a dominant position in longitudinal and helical SAW steel pipe segment on account of its large capacities and established domestic and international clientele. The promoters have extended continuous financial support to various subsidiaries of JSAW as well as demerged entities. Further, there is a demonstrated support from promoter group entities to overseas subsidiaries of JSAW and demerged entities where JSAW had extended corporate guarantees in the past.

**Diversified operations and healthy product portfolio pervading pipe segments:** JSAW has geographically diversified operations spread across the country – at Kosi Kalan (Uttar Pradesh), Mundra (Gujarat), Nasik (Maharashtra) and Bellary, (Karnataka). The company has recently started operations at Nagothane and Timburni (Maharashtra), Indore and Mundra (Gujarat). The company also has a presence in Bhilwara (Rajasthan), where, apart from having low-grade iron ore mine, it has also implemented iron ore beneficiation and a pellet plant. It has a healthy product portfolio with presence across major segments of the pipe industry viz. LSAW (longitudinal submerged arc welded) pipes, HSAW (helical submerged arc welded) pipes, DI (Ductile iron) pipes, seamless pipes, SS (stainless steel) pipes, anti-corrosion coated pipes, hot-pulled induction bends etc. All the products contributed between 10% and 30% of total revenue providing diversification to the cash flows and hedge against market volatility related to any single product segment. Moreover, the company has a diversified customer base including PSUs, private sector players, EPC contractors and exports. The top 10 customers contribute to Rs.3,356 crore representing 33.10% of the total revenues in FY20.

#### **Steady operational performance albeit moderation in 9MFY21 amid covid impact:**

The total operating income increased by 3.27% from Rs.9,829 crore in FY19 (refers to the period: April 1, to March 31) to Rs.10,129 crore in FY20 on account of increase in sales realizations for most of its products coupled with marginal increase in sales volume. The profitability margin improved on the back of a marginal increase in blended PBILDT/tonne from Rs.12,270/tonne in FY19 to Rs.12,413/tonne during FY20, on account of which the PAT margin improved from 4.98% in FY19 to 5.76% in FY20. JSAW operates in five product segments. Despite fluctuations in individual PBILDT margins, the company's PBILDT per tonne has remained steady over the years reflecting the benefits of product diversification. The increase in profitability can also be attributed to the decrease in raw material cost as a percentage of total operating income from 60.17% in FY19 to 56.42% in FY20.

The total operating income decreased by 27.12% from Rs.7,776 crore in 9MFY20 (refers to the period: April 1, to December 31) to Rs.5,667 crore in 9MFY21 on account of decline in sales volume coupled with lower sales realizations for most of its products. The profitability margin moderated slightly on the back of a decline in blended PBILDT/tonne from Rs.12,860/tonne in 9MFY20 to Rs.11,207/tonne during 9MFY21, on account of which the PAT margin also decreased from 7.31% in 9MFY20 to 2.47% in 9MFY21. The decline in PBILDT margin can also be attributed to a rise in prices of raw material, primarily hot rolled coils and iron ore.

#### **Healthy financial risk profile:**

JSAW has a healthy financial risk profile characterized by healthy debt coverage indicators and comfortable overall gearing. The overall gearing of the company, on a standalone basis, improved during FY20 and continued to be comfortable at 0.69 time as on March 31, 2020 (PY 0.81 times). The overall gearing of the company has further improved to 0.62 times as on December 31, 2020. The improvement in the overall gearing was on account of repayment of debt coupled with accretion of profits to net worth. The debt coverage ratios of the company also remained healthy marked by total debt to PBILDT which stood at 3.08 times as on March 31, 2020 (PY: 3.48 times).

**Healthy order book volume:** JSAW has a healthy order book of nearly USD 1,029 million as on December 31, 2020 in terms of value and 1.28 million tonne in terms of volume, which included orders of USD 414 million of SAW pipes, USD 489 million of DI pipes and USD 98 million of seamless pipes. During Q3FY21, the company was able to get new orders aggregating to almost Rs.2,500 crore which includes product from different segments but mainly in water segment. The orders for SAW pipes are expected to be executed in next 9-12 months and the DI pipes provide revenue visibility of over 12-15 months. The current order book includes export orders of ~20% of the total order book as on December 31, 2020.

**Competitive cost structure with captive availability of iron ore for pellet plant:** JSAW owns a mine in Bhilwara with estimated reserves of nearly 180 MT of low-grade iron ore and extracts about 6-7 million tonne annually. The company installed an iron ore beneficiation plant and a pellet plant in FY14. Subsequent to the stabilization of these plants, they reported almost full capacity utilization over the past three years through FY20. The pellets division reported sales of Rs.1,135 crore in FY20 which is similar to the previous year sales of Rs.1,140 crore. The captive availability of iron ore leads to competitive cost structure for the pellets manufactured by the company.

### Key Rating Weaknesses

**Modest return ratios and capital-intensive nature of business:** JSAW has a modest ROCE which reduced to 9.68% during FY20 (PY: 10.97%) on account of the capital-intensive nature of business as reflected in low asset turnover ratios. The working capital cycle remained elongated, while improving to 114 days as on March 31, 2020 from 131 days as on March 31, 2019 largely on account of increase in average creditor days. However, it still remains high largely on account of high inventory owing to diversified product portfolio with integrated operations with captive sinter plant and coke oven to manufacture ductile pipes. The inventory days stood at 110 days in FY20 as against 106 days in FY19 and collection period is close to 2 months which stood at 61 days in FY20 (PY: 65 days). Besides this, high exposure towards group companies has also impacted the company's return indicators.

**Exposure towards subsidiaries/group companies:** JSAW has investments of Rs.638 cr as on March 31, 2020 (PY: Rs.655 cr) in subsidiaries, joint ventures and associates and loans and advances extended to related parties stood at Rs.1,410 cr as on March 31, 2020 (PY: Rs.1,248 cr). JSAW's commitments towards its subsidiaries in the form of corporate guarantees, shortfall undertakings, put options and letter of comfort stood at Rs.645 cr as on March 31, 2020 (PY: Rs.714 cr). The increase in loan and advances is due to accrued interest and forex fluctuations although no major cash support is being extended to any subsidiary except JITF.

JITF, which is under litigation with NTPC, the Arbitral Tribunal has pronounced the final award in the favour of JITF. On January 27, 2019 JITF had received favourable award from the arbitral tribunal which had directed NTPC to pay an amount of Rs.1891.08 crore plus interest and applicable taxes to JITF. However, NTPC challenged the Arbitral Award dated January 27, 2019 and filed its objections before the Hon'ble High Court of Delhi. Till January 31, 2020, JITF has received Rs.856.31 crore as interim relief against submission of bank guarantees arranged by promoter group companies. Further developments in this regard, pertaining to the receipt of the complete funds and its utilisation to reduce JSAW's debt or group exposure, will remain a key monitorable.

### Liquidity: Adequate

JSAW has adequate liquidity marked by sufficient gross cash accruals of Rs.715 crore projected in FY21 against which it has repayment obligations aggregating to Rs.334 crore in FY21. The company had free cash and bank balances of around Rs.133 crore as on March 31, 2020 (PY: Rs.61 crore). Its maintenance/sustenance capex requirements of Rs.150 crore is modular and are expected to be funded through internal accruals. Its unutilized bank lines to the extent of 27% provide the company with the cushion to meet any fluctuations in cash flows in adverse market situations. Furthermore, the average utilization of non-fund-based limits for the trailing 12 months ended June 2020 stood at 80.48% (PY: 88.09%). Its current ratio has improved and stood at 1.43 times as on March 31, 2020 (PY: 1.37 times). The company had availed first moratorium; however, it has already paid all deferred interest and repayments already.

**Analytical approach:** Standalone, based on the management's declaration and demonstration of the cash flows of JSAW not being utilized to provide additional financial support to any demerged entities, domestic or overseas subsidiaries or associates, except to the limited extent of operational or debt servicing requirements of one of its domestic subsidiaries, JITF, until the actual receipt of funds against the arbitration award in the ongoing legal proceedings against NTPC, as stated and demonstrated by the management.

### Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Rating Outlook and credit watch](#)

[Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology Steel](#)

### About the Company

JSAW, the flagship company of PR Jindal group, was incorporated in 1984 as SAW Pipes Ltd. The company got its present name in February 2005. The major products of JSAW are longitudinal submerged arc welded (LSAW) pipes, helical SAW (HSAW) pipes, ductile iron (DI) pipes, seamless pipes and pellets, produced out of five manufacturing facilities, respectively, at Kosi Kalan (UP), Mundra (Gujarat), Nashik (Maharashtra), Bellary (Karnataka) and Bhilwara (Rajasthan). JSAW has an installed capacity of 0.85 million tonnes per annum (MTPA), 0.74 MTPA, 0.25 MTPA and 0.50 MTPA for manufacturing of LSAW pipes, HSAW pipes, seamless pipes and DI pipes, respectively as on March 31, 2020. Besides this, it also has an iron ore mine at Bhilwara (Rajasthan) with a beneficiation plant and pellet plant with an installed capacity of 1.50 MTPA as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	10,091.83	10,371.96
PBILDT	1,483.08	1,534.00
PAT	498.09	594.46
Overall gearing (times)	0.81	0.69
Interest coverage (times)	2.99	2.98

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2026	1406.21	CARE AA; Negative
Fund-based - LT-Cash Credit		-	-	-	1200.00	CARE AA; Negative
Non-fund-based - ST-BG/LC		-	-	-	5000.00	CARE A1+
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AA (Is); Negative
Debentures-Non Convertible Debentures		September 04, 2020	7.89	NA	500.00	CARE AA; Negative
Debentures-Non Convertible Debentures	INE324A07120 & INE324A07161	December 24, 2012	10.38-10.73	December 26, 2021	250.00	CARE AA; Negative
Commercial Paper-Commercial Paper (Carved out)		-	-	-	200.00	CARE A1+

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1406.21	CARE AA; Negative	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA; Stable (18-Mar-19)	1)CARE AA-; Positive (08-Dec-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (08-Dec-17)
3.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (08-Dec-17)
4.	Fund-based - LT-Cash Credit	LT	1200.00	CARE AA; Negative	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA; Stable (18-Mar-19)	1)CARE AA-; Positive (08-Dec-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (09-Nov-20) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA; Stable (18-Mar-19)	1)CARE AA-; Positive (08-Dec-17)
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA; Negative	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA; Stable (18-Mar-19)	1)CARE AA-; Positive (08-Dec-17)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (08-Dec-17)
8.	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (18-Mar-19)	1)CARE A1+ (08-Dec-17)
9.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (18-Mar-19)	1)CARE A1+ (08-Dec-17)
10.	Commercial Paper-Commercial Paper (Carved out)	ST	200.00	CARE A1+	1)CARE A1+ (07-Oct-20)	1)CARE A1+ (06-Mar-20)	-	-
11.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Negative	1)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (19-Mar-20)	-	-
12.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA (Is); Negative	1)CARE AA (Is); Stable (09-Nov-20)	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Fund-based - LT-Cash Credit	Simple
4.	Fund-based - LT-Term Loan	Simple
5.	Non-fund-based - ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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