Jindal Saw Limited

September 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,929.08 (Reduced from 2,244.82)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Short-term bank facilities	5,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**6,929.08 (₹ Six thousand nine hundred twenty-nine crore and eight lakh only)**		
Issuer rating^	0.00	CARE AA- (Is); Stable [Double A Minus (Issuer Rating); Outlook: Stable]	Revised from CARE AA (Is); Negative [Double A (Issuer Rating); Outlook: Negative]
Total	**0.00 (₹ Only)**		
Non-convertible debentures	500.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Total Long-term instruments	**500.00 (₹ Five hundred crore only)**		
Commercial paper (Carved out)*	400.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term instruments	**400.00 (₹ Four hundred crore only)**		
Total instrument	**900.00 (₹ Nine hundred crore only)**		

Details of instruments/facilities in Annexure-1. ^Issuer rating is subject to standalone overall gearing of 1 time.

Detailed rationale and key rating drivers

The revision in the long-term rating of Jindal Saw Limited (JSAW) factors substantial delay in reduction of its continually high exposure towards the group/subsidiary companies in the form of investments, loans & advances, and corporate guarantees. CARE Ratings Limited (CARE Ratings) had previously envisaged that JSAW shall be able to significantly reduce its group exposure and resultantly its debt levels after receipt of proceeds arising from a favourable arbitration award received by its subsidiary Jindal ITF Limited (JITF), however, JITF has not received the complete arbitration award money due to protracted litigation with NTPC and the matter remains sub-judice. Consequently, the JSAW's group exposures and its debt remains at elevated level thereby leading to weaker-than-envisaged leverage and debt coverage metrics after adjusting for these exposures.

The ratings continue to derive strength from the company's experienced promoters and management with long track record of operations and its strong business profile having sizable and diversified presence in metal pipe businesses besides having an iron pellet plant backed by captive iron ore mines thereby leading to relatively resilient operational performance over the years. The ratings also factor in JSAW's healthy order book and its moderate financial risk profile marked by satisfactory standalone overall gearing, adequate debt coverage indicators and adequate liquidity. Going forward, CARE Ratings believes that the company shall be able to report healthy operating performance on the back of its relatively de-risked business model with the benefits of diversification in terms of both product segments and manufacturing locations, and competitive cost structure with captive availability of iron ore for its pellet plant. Furthermore, favourable industry tailwinds on the back of government's push towards investment in water sector and renewed focus on investments in global oil and gas sector shall benefit the company in the medium term.

However, the ratings continue to remain constrained by its working capital intensive operations and susceptibility to fluctuation in raw material prices especially coking coal prices and its modest return ratios.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Optimal utilisation of capacities and improvement in ROCE above 15% on a sustained basis.
- TOL/TNW below 0.5x on a sustained basis.
- Substantial improvement in liquidity position.
- Reduction in exposure towards subsidiaries/group companies leading to its significant de-leveraging.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any major incremental cash support towards subsidiaries/group companies further straining its leverage
- Sizable reduction in order book position.
- Any major debt-funded capex or acquisition resulting in deterioration of TOL/TNW beyond 1 times.
- Any adverse outcome from the ongoing litigation between NTPC and JITF resulting in further support provided to JITF, thereby impacting JSAW's leverage and debt coverage indicators.

Detailed description of the key rating drivers

Key rating strengths

Diversified operations and customer base with healthy product portfolio: JSAW has geographically diversified manufacturing facilities spreading across six states namely Kosi Kalan (Uttar Pradesh), Mundra (Gujarat), Nashik & Nagothane (Maharashtra) and Bellary, (Karnataka), Bhilwara (Rajasthan), Tembhurni (Maharashtra) and Indore (Madhya Pradesh). The pipes manufactured by JSAW find diverse application in transportation and exploration of oil & gas, transportation of fluids, automobiles, pulp & paper, food, pharmaceuticals, water and sanitation, petrochemical, boiler and heat exchangers as well as general engineering. The company has a healthy product portfolio with presence across major segments of the pipe industry viz. LSAW pipes, HSAW pipes, DI pipes, seamless pipes, anti-corrosion coated pipes, hot-pulled induction bends etc. Furthermore, the company also manufactures pipes in both stainless and carbon steel with facilities for seamless and welded segments.

Healthy order book: As on August 31, 2022 JSAW had a healthy order book of nearly USD 974 million (USD 803 million as on June 30, 2021) in terms of value and 0.83 Million Tonne (MT) in terms of volume (0.98 million tonne as on June 30, 2021). The same included orders of USD 475 million of SAW pipes, USD 297 million of DI pipes and USD 192 million of seamless pipes. The orders for SAW pipes are expected to be executed in the next 9-12 months and the DI pipes provide revenue visibility of over 12-15 months. The company has reported significant rebound in the order book in recent months after witnessing continuous slump in orders due to high volatility in commodity prices in FY22 and Q1FY23. Furthermore, favourable industry tailwinds on the back of government's push towards investment in water sector and renewed focus on investments in global oil and gas sector shall benefit the company in the medium term.

Competitive cost structure with captive availability of iron ore for pellet plant: JSAW operates a captive mine in Bhilwara, Rajasthan with estimated reserves of nearly 180 MMT of low-grade iron ore and extracts about 6-7 million tonne annually. The company had installed an iron ore beneficiation plant and a pellet plant in FY14. Subsequent to the stabilisation, these plants have reported almost full capacity utilisation over the years. The pellets division reported sales of ₹2,044crore in FY22 which is significantly higher than the previous year sale of ₹1,263 crore due to higher pellet prices. The captive availability of iron ore leads to competitive cost structure for the pellets manufactured by the company, and relatively stable operating profit margins for the company as a whole.

Growth in total operating income; albeit moderation in profit margins: JSAW's total operating income has shown a significant improvement in FY22 with a growth of 27% from ₹8,709 crore to ₹11,058 crore on account of higher volumes and increased realisation across all segments due to increased raw material prices. However, the margins have moderated in FY22 due to cost-side pressures especially in the second half of the year. PBILDT margins declined to 10.42% in FY22 from 11.50% in FY21 and PAT margin reduced to 3.67% from 3.78% a year ago. The total operating income increased by 22% y-o-y from ₹2,477 crore in Q1FY22 (refers to the period April 1 to June 30) to ₹3,019 crore in Q1FY23. The profitability of the company further moderated during Q1FY23 marked by PBILDT margin of 8.44% (PY: 16.63%) and PAT margin of 0.93% (PY:5.99%). This was mainly due to sharp increase in coking coal prices which have, however, moderated after Q1FY23 and hence CARE Ratings believes that the company shall be able to earn better PBILDT margins going forward, especially in H2FY23.

Moderate financial risk profile: JSAW has a moderate financial risk profile characterised by moderate debt coverage indicators and a comfortable standalone overall gearing. The overall gearing of the company, on a standalone basis, continued to remain healthy at 0.68x as on March 31, 2022 (PY: 0.69x). The total debt-to-PBILDT ratio of the company stood at a moderate 4.43x as on March 31, 2022. However, due to its continued high exposure in group companies and subsidiaries, the adjusted overall gearing (after knocking off group exposures from net-worth) works out to a moderate level of 1.16x as on March 31, 2022.

Experienced promoters with long track record: JSAW, the flagship company of the well-diversified P. R. Jindal group, has been in operations for over 30 years. It enjoys a dominant position in the longitudinal and helical SAW (submerged arc welded) steel pipe and ductile iron pipe segments on account of its large and geographically diversified capacities and established clientele. The company also operates an iron ore beneficiation and pellet production facility in Rajasthan. The promoters have extended continuous financial support over the years to JSAW, its various subsidiaries of JSAW as well as demerged entities operating under independent control of the promoter entities.

Liquidity: Adequate

JSAW has adequate liquidity marked by healthy envisaged gross cash accruals of ₹898 crore in FY23 against which it has term debt repayment obligations aggregating to ₹389 crore during the year. The company had free cash and cash equivalents of ₹439 crore as on March 31, 2022 (PY: Rs. 434 crore). Its maintenance/sustenance of capex requirements of ₹246 crore are modular and are expected to be funded through internal accruals. Its unutilised bank lines(fund based) for the trailing 12 months ending July has been 26% which will provide the company with the cushion to meet any fluctuations in cash flows in adverse market situations. Furthermore, the average utilisation of non-fund-based limits for the trailing 12 months ended July 2022 stood at 77%.

Key rating weaknesses

Inordinate delay in reduction of its exposure towards subsidiaries/group companies, and consequent continued adverse impact on its leverage: JSAW had investments of 1,025 crore as on March 31, 2022 (PY: ₹655 crore) in subsidiaries, joint ventures, and associates, and loans and advances extended to related parties stood at ₹1,434 crore as on March 31, 2022 (PY: ₹1,618 crore). Furthermore, JSAW's commitments towards its subsidiaries in the form of corporate guarantees increased to ₹707 crore as on March 31, 2022 (PY: ₹548 crore). The increase in investments is due to conversion of loans & advances of some group companies into equity. In line with the management's stated and demonstrated stance, no major cash support has been provided to any subsidiary in FY22; albeit there is continued build-up of accrued interest on the loans & advances extended by it. The inordinate delay in realisation of loans & advances to JITF has led to continued elevated debt levels for JSAW with its adjusted overall gearing and Total Debt/PBILDT standing at a moderate level of around 1.16x and 4.43x as on March 31, 2022. CARE Ratings had previously envisaged that JSAW would be able to significantly reduce its group exposure and resultantly its debt levels after receipt of proceeds arising from a favourable arbitration award received by its subsidiary Jindal ITF Limited (JITF), however, JITF has not received the complete arbitration award money due to protracted litigation with NTPC and the matter remains sub-judice.

Protracted litigation between JITF and NTPC: JITF is under litigation with NTPC for which JITF is in receipt of a favourable award from the Arbitral Tribunal since long. On January 27, 2019, JITF had received a favourable award from the arbitral tribunal which had directed NTPC to pay an amount of ₹1,891.08 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. The matter was heard before the Court and the Court ordered NTPC to pay ₹356 crore and another ₹500 crore on an interim basis backed by a bank guarantee to be provided by JITF. Subsequently, the bank guarantees were arranged through pledge of shares of the PR Jindal group investment holding companies and money was received by JITF. Since then, there has not been any progress in the case and matter remains sub-judice. Furthermore, developments in this regard, pertaining to the receipt of the complete funds and its utilisation to reduce JSAW's debt and group exposures, will remain a key monitorable.

Modest return ratios and capital-intensive nature of business: JSAW has reported a modest ROCE of 8.56% during FY22 (PY: 8.15%) on account of the capital-intensive nature of business as reflected in low asset turnover ratios. The working capital cycle remained elongated at 109 days as on March 31, 2022 though it reduced from 120 days as on March 31, 2021, mainly due to increase in total revenue in FY22. The working capital cycle remains long largely on account of high inventory owing to a diversified product portfolio with integrated operations with a captive sinter plant and coke oven to manufacture ductile pipes. The inventory days stood at 111 days in FY22 as agsainst 120 days in FY21 and the collection period is almost two months which stood at 55 days in FY22 (PY: 69 days). Besides this, high exposure towards group companies whereby returns are meagre has also impacted the company's return indicators.

Industry prospects: The global steel pipes industry is expected to grow at nearly 4% in the next three years and the contribution of the domestic pipes industry in global industry will continue to remain at 9-10%. The domestic iron and steel pipe industry is one of the key sectors in the infrastructure development of the country. From the extension of pipelines for river interlinking to providing drinking water to every household, the industry plays a critical role in the development of the nation. The overall industry size has grown at double-digit over the last four years and is currently estimated to be around ₹60,000 crore. The major growth drivers for the industry include demand emanating from domestic water infrastructure, oil exploration and transportation, construction, irrigation, infrastructure, and expansion of gas pipelines such as national gas grid and city gas distribution. While the COVID-19 pandemic had caused certain disruptions, the industry witnessed a V-shape recovery post the removal of restrictions and has surpassed pre-covid levels. The industry has witnessed consolidation with increasing dominance of larger players especially in Electric Welded Resistance (ERW) segment which has been the most fragmented segment historically. JSAW operates in all major segments barring ERW pipes, and the company shall benefit from the government's focus on water sector and renewed focus on investments in oil & gas segment after recent spike in oil prices.

Analytical approach: Standalone

JSAW's management has a stated and demonstrated stance that the cash flows of JSAW will not be utilised to provide any major cash support to any demerged entities, domestic or overseas subsidiaries or associates, except to the limited extent of operational or debt servicing requirements of JITF, until the actual receipt of funds against the arbitration award in the ongoing legal proceedings against NTPC. Accordingly, CARE Ratings has taken a standalone approach while suitably factoring its exposure towards its group companies.

Applicable criteria

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
Criteria for Issuer Rating

About the company

JSAW, the flagship company of the PR Jindal group, was incorporated in 1984 as SAW Pipes Limited. 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 0.60 million tonnes per annum (MTPA), 0.79 MTPA, 0.35 MTPA and 0.50 MTPA for manufacturing of LSAW pipes, HSAW pipes, seamless pipes and DI pipes, respectively, as on March 31, 2022. 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, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	8,709.08	11,058.64	3,019
PBILDT	1,001.96	1,151.76	254
PAT	329.05	405.50	28
Overall gearing (times)	0.69	0.68	0.71
(Adjusted) Overall gearing (times)	1.13	1.16	NA
TOL/TNW (times)	0.88	0.86	NA
Interest coverage (times)	2.48	3.12	1.95

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	**December, 2026**	729.08	CARE AA-; Stable
Fund-based - LT-Cash credit		-	-	-	1200.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	5000.00	CARE A1+
Issuer Rating-Issuer ratings		-	-	-	0.00	CARE AA- (Is); Stable
Debentures-Non convertible debentures	INE324A07179	March 26, 2021	8.25%	March 26, 2031	500.00	CARE AA-; Stable
Commercial paper-Commercial paper (Carved out)	INE324A14902	August 23, 2022	6.15%	November 21, 2022	100.00	CARE A1+
Commercial paper-Commercial paper (Carved out)	-	-	-	7-364 days	300.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	729.08	CARE AA-; Stable	-	1)CARE AA; Negative (21-Sep-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)
2	Fund-based - LT-Cash credit	LT	1200.00	CARE AA-; Stable	-	1)CARE AA; Negative (21-Sep-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)
3	Debentures-Non convertible debentures	LT	-	-	-	-	1)Withdrawn (09-Nov-20) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)
4	Debentures-Non convertible debentures	LT	-	-	-	1)Withdrawn (02-Jul-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)

5	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	-	1)CARE A1+ (21-Sep-21)	1)CARE A1+ (11-Mar-21) 2)CARE A1+ (07-Oct-20)	1)CARE A1+ (09-Oct-19)
6	Commercial paper-Commercial paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (21-Sep-21)	1)CARE A1+ (11-Mar-21) 2)CARE A1+ (07-Oct-20)	1)CARE A1+ (06-Mar-20)
7	Debentures-Non convertible debentures	LT	500.00	CARE AA-; Stable	-	1)CARE AA; Negative (21-Sep-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (19-Mar-20)
8	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AA- (Is); Stable	-	1)CARE AA (Is); Negative (21-Sep-21)	1)CARE AA (Is); Negative (11-Mar-21) 2)CARE AA (Is); Stable (09-Nov-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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

Sr. No.	Name of 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

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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