Jindal Saw Limited

September 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,670.95 (Enhanced from 1,929.08)	CARE AA; Stable	Revised from CARE AA-; Stable
Short-term bank facilities	36.00	CARE A1+	Assigned
Short-term bank facilities	7,950.00 (Enhanced from 5,000.00)	CARE A1+	Reaffirmed
Issuer rating- Issuer rating	0.00	CARE AA; Stable	Revised from CARE AA-; Stable
Non-convertible debentures	500.00	CARE AA; Stable	Revised from CARE AA-; Stable
Commercial paper (Carved out)*	400.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities and instruments of Jindal Saw Limited (JSAW) factors in the expectations of continuing steady improvement in the business risk profile and profitability of the company. This is on the back of JSAW's healthy order-book position and relatively de-risked business model with benefits arising through its diversification, in terms of both product profile and manufacturing locations.

The ratings continue to derive strength from the company's experienced promoters and management with long track-record of operations, having a commanding position in the domestic steel pipe manufacturing sector besides also having an iron ore pellet plant backed by captive iron ore mines thereby leading to reasonably resilient operations over the years. The ratings further derive comfort from JSAW's moderate financial risk profile, marked by satisfactory standalone overall gearing and adequate debt coverage indicators. CARE Ratings Limited (CARE Ratings) believes the company shall be able to report healthy operating performance on the back of its existing order-book position which has nearly doubled in the last one year. The improved order-book position is the reflection of governments push towards investment in the water sector. In addition, renewed focus on investments in the Oil & Gas sector, both in the domestic and international markets augers well for the company, with around 30% of the existing order-book being from the exports market.

JSAW has also undertaken inorganic expansion in the recent past, through its acquisition of Sathavahana Ispat Limited (SIL) which was engaged in the manufacturing of DI pipes, pig iron and having its own coke oven and power plant. JSAW has spent ₹1,090 crore plus taxes for acquiring SIL's assets, which was funded through a debt of ₹1,000 crore and balance through internal accruals. The said acquisition is likely to benefit JSAW in terms of garnering the Southern DI pipes market where SIL has its manufacturing facilities. This apart, the coke oven facilities will also be beneficial in terms of achieving synergies in its pig iron manufacturing facilities thereby achieving cost rationalisation over the medium to long-term period.

CARE Ratings continues to monitor JSAW's persistently high exposures towards group/subsidiary companies. According to the company's management, during FY23 (refers to the period April 2022 to March 2023) and Q1FY24 (refers to the period April 2023 to June 2023), no further incremental support was provided towards subsidiaries/group companies, and the company has recovered ₹413 crore from the said exposure during April 22 to August 2023 period. Majority of this exposure pertains towards loans and advances and investments to its subsidiary, Jindal ITF Limited, attributable to the ongoing litigation between JITF and NTPC Limited. Until now, JSAW has received ₹856 crore against the said arbitration as an interim release against bank guarantees. CARE Ratings believes any further receipts from the arbitration award proceeds would be utilised for reducing JSAW's debt levels; however, due to the protracted litigation between JITF and NTPC, the matter is still sub judice and the next hearing is scheduled in October 2023.

The rating strengths are partially offset by high exposure towards subsidiaries and group companies, capital intensive nature of operations resulting in modest return indicators and its exposure towards fluctuation in raw material prices and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

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

Positive factors

- Optimal utilisation of capacities and improvement in return on capital employed (ROCE) above 15% on a sustained basis.
- Total outside liabilities (TOL)/tangible net worth (TNW) below 0.50x on a sustained basis.
- Substantial improvement in the liquidity position.
- Significant reduction in exposure towards subsidiaries/group companies in non-operating pipe companies leading to its de-leveraging.

Negative factors

- Any incremental cash support towards subsidiaries/group companies impacting its leverage position.
- Sizable reduction in order book position.
- Any major debt-funded capex or acquisition resulting in deterioration of TOL/TNW beyond 1x on a sustained basis.
- 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.
- Sustained decline in ROCE below 10% and interest coverage ration below 3.00x.

Analytical approach: Standalone

Standalone; factoring its support and exposure towards subsidiaries/associates. Accordingly, CARE Ratings has taken a standalone approach while suitably factoring its exposure towards its group companies.

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.

Outlook: Stable

CARE Ratings believes JSAW's business risk profile will continue to improve on account of its healthy order-book position and its dominant position in the Indian steel pipe manufacturing industry. The financial risk profile is also expected to remain healthy with improving profitability position.

Detailed description of the key rating drivers:

Key strengths

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. JSAW has also undertaken inorganic expansion in the recent past, through its acquisition of SIL, with which the company now have access to southern part of India as well. 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 its various subsidiaries of JSAW as well as demerged entities operating under independent control of the promoter entities.

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 ofportable water, / sewage / water for irrigation, /sanitation and for industrial uses viz. automobiles, pulp & paper, food, pharmaceuticals petrochemical, boiler and heat exchangers as well as general engineering. The Company has a healthy product portfolio with presence across all pipes 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 tubes & pipes. With acquisition of SIL, engaged in the manufacturing of DI pipes, pig iron and having its own coke oven and power plant, the company can now cater to Southern region of India. JSAW has spent ₹1090 crore for acquiring SIL's assets, which was funded through a debt of ₹1000 crores and balance through internal accruals. The said acquisition is likely to benefit JSAW in terms of garnering the Southern DI pipes market where SIL has its manufacturing facilities.

Healthy order book

As on June 30, 2023, JSAW had a healthy order book of nearly USD 1.4 billion (USD 974 million as on August 31, 2022) in terms of value which consists of around 34% orders from global markets. The mix of order-book also remains healthy with Water and irrigation sector accounting for around 73% of the orders followed by Oil & Gas sector with a share of ~21% and industrial sector accounting for the rest. The order book is expected to be executed in the next 9-15 months. Furthermore, CARE Ratings expects that the favourable industry tailwinds on the back of government's push towards investment in the 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 tonnes 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 ₹1,601 crore in FY23, which is reduced in FY23 than the previous year sale of ₹2,101 crore reduction in iron ore and pellet prices. CARE Ratings notes that 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 and profit margins
JSAW's total operating income (TOI) has shown a significant improvement in FY23 with a growth of around 40% from ₹11,284 crore to ₹15,756 crore on account of higher volumes and increased realisation due to increased raw material prices. However, the margins have moderated in FY23 due to cost-side pressures especially in first three quarters of the year. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margins declined to 11.55% in FY23 from 12.20% in FY22 and profit after tax (PAT) margin improved to 4.50% from 3.59% a year ago. The TOI increased to ₹3,831 crore in Q1FY24 (refers to the period April 1 to June 30) from ₹3,019 crore in Q1FY23. The profitability of the company improved during Q1FY24 marked by PBILDT margin of 16.05% (PY: 8.44%) and PAT margin of 7.22% (PY:0.93%). CARE Ratings believes that the company shall be able to earn better PBILDT margins, going forward.

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, improved and continued to remain healthy at 0.64x as on March 31, 2023 (PY: 0.64x). The total debt-to-PBILDT ratio of the company stood improved significantly to 2.87x as on March 31, 2023, from 4.43x previous year. According to the company management, during FY23 (refer to the period April 2022 to March 2023) and Q1FY24 (refer to the period April 2023 to June 2023), no further incremental support was provided towards subsidiaries/group companies and the company has recovered ₹413 crore from the said exposure during April 22 to August 2023 period, the adjusted overall gearing (after knocking off group exposures from net worth) works out to a moderate level of 1.09x as on March 31, 2023 from 1.16x on March 31, 2022 due to significant recoveries during FY23.

Improved return ratios and capital-intensive nature of business
JSAW has reported an improved ROCE of 10.42% during FY23 (PY: 8.56%) on account of the capital-intensive nature of business as reflected in slightly better asset turnover ratios. The working capital cycle improved to 92 days as on March 31, 2023, from 109 days as on March 31, 2022, mainly due to increase in the total revenue in FY23 and reduced inventory days of 91 days from 111 days. The working capital cycle remains long largely on account of high inventory owing to a diversified product portfolio and large order book. The collection period is almost two months which stood at 55 days in FY23 (PY: 55 days).

Acquisition of SIL
SIL was strategically identified by JSAW for acquisition, which would enable the company to not just expand its DI capacity but also gain significant footprints in south India. This apart, SIL also has an annual coke oven capacity of 4 lakh metric tonnes, while the plant requirement is around 1.5 lakh metric tonnes. The excess coke availability will be beneficial to JSAW for its own operations in pig iron manufacturing at other plants. Currently, the plant is running at a capacity utilisation rate of around 60%-70% and is expected to contribute in the company's topline and profitability during FY24. SIL was acquired through the NCLT process for a consideration of ₹1,090 crore, which was funded through a debt of ₹1,000 crore and the rest through internal accruals.

Key weaknesses

Inordinate delay in reduction of its exposure towards subsidiaries/group companies, and consequent continued adverse impact on its leverage
JSAW had investments of 1,270 crore as on March 31, 2023 (PY: ₹1,025 crore) in subsidiaries, joint ventures (JV), and associates. This increase is majorly the conversion of advances to equity in FY22, and loans and advances extended to related parties stood at ₹1,442 crore as on March 31, 2023 (PY: ₹1,434 crore). Furthermore, JSAW's commitments towards its subsidiaries in the form of corporate guarantees reduced to ₹680 crore as on March 31, 2023 (PY: ₹707 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 FY23 except for a newly formed JV entity namely Jindal Hunting Energy Services limited, in which the outflow of around ₹15 crore has been invested as equity; albeit there is continued

build-up of accrued interest on the loans & advances extended by it. There has been significant recovery of around ₹413 crores from the said exposure during April 2022 to August 2023. Adjusted overall gearing and total debt/PBILDT standing has improved of around 1.09x (PY:1.16x) and 2.87x as on March 31, 2023 (PY: 4.43x), respectively. 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. .These bank guarantees have been arranged by JITF backed by the security provided by a PR Jindal group investment holding company and also partly backed by providing cash margin as was received by it. Since then, there has not been any progress in the case and matter remains sub-judice. CARE Ratings believes any further receipts from the arbitration award proceeds would be utilised for reducing JSAW's debt levels; however, due to the protracted litigation between JITF and NTPC, the matter is still sub judice and the next hearing is scheduled in October 2023.

Liquidity: Adequate
JSAW has adequate liquidity marked by healthy envisaged gross cash accruals in FY24 against which it has term debt repayment obligations aggregating to around 300 crores during the year. The company had free cash and cash equivalents of ₹62.55 crore as on March 31, 2023 (PY: ₹439 crore). Its maintenance/sustenance of capex requirements of ₹250 crore are modular and will be funded through internal accruals. Its unutilised bank lines (fund based) for the trailing 12 months ending July 2023 has remained at around 38% providing adequate financial flexibility. Furthermore, the average utilisation of non-fund-based limits for the trailing 12 months ended July 2023 stood at around 89%. To meet the increasing business requirements, the banks have sanctioned additional non fund based working capital facilities to the Company.

Environment, social, and governance (ESG) risks
CARE Ratings believes that JSAW's environment, social, and governance (ESG) profile supports its strong credit risk profile. The steel pipe manufacturers have a significant impact on the environment owing to being energy-intensive and high-water consuming. The sector's social impact is characterised by health hazards, leading to a higher focus on employee safety involved in manufacturing activities and the well-being of the local community. JSAW has been focusing on mitigating its environmental and social risks.
Key ESG targets set up by the company are below:

1. The company has implemented processes to safely reclaim our products at the end of their life cycle. While most plants do not generate plastic waste, any plastic waste generated from JSAW plants is sent to an authorised recycler approved by the respective State Pollution Control Board (SPCB) and the Central Pollution Control Board (CPCB).
2. JSAW have implemented processes to safely manage e-waste. The company aims to reuse, recycle, and dispose of e-waste responsibly.
3. Jindal SAW shall ensure that all developmental activities/ initiatives undertaken are accessible to the most marginalised segments, such as children, women, elderly and those with disabilities. This would reflect particularly in the field of education, healthcare, sanitation, community welfare, skill development, employment generation, infrastructure development, promotion of national heritage & culture, etc
4. Jindal SAW had adopted to support Svayam – an initiative of SJ Charitable Trust, as its CSR initiative
5. The company is committed to maintain the highest standards of corporate governance and adherence to the corporate governance requirement set out by SEBI Listing Regulations.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Issuer Rating
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

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 product portfolio of JSAW constitute of longitudinal submerged arc welded (LSAW) pipes, helical SAW (HSAW) pipes, ductile iron (DI) pipes, seamless and stainless tubes / pipes and pellets, produced out of six manufacturing facilities, respectively, at Kosi Kalan (UP), Mundra (Gujarat), Nashik and Nagothane (Maharashtra), Bellary (Karnataka), Indore (MP) and Bhilwara (Rajasthan). JSAW has an installed capacity of ~ 2.3 million tonnes per annum (MTPA) of pipes as on March 31, 2023. 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 MMTPA as on March 31, 2023.

After acquisition of Sathavahana Ispat Limited, the Company has acquired additional DI Pipes capacities of 0.21 MTPA and 0.4 MTPA coke facilities.

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	11,284	15,756	3831
PBILDT	1,377	1,819	615
PAT	406	709	277
Overall gearing (times)	0.68	0.64	-
(Adjusted) Overall gearing (times)*	1.16	1.09	-
TOL/TNW (times)	0.86	0.91	-
Interest coverage (times)	3.73	3.44	3.83

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Adjusted for exposure towards subsidiaries and demerged entities in the form of investments, loans & advances and corporate guarantees/ Shortfall undertakings/ Put options and Letter of comfort.

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE324A07179	26-Mar-2021	8.25	March 26, 2031	500.00	CARE AA; Stable
Fund-based - LT-Cash credit	-	-	-	-	1200.00	CARE AA; Stable
Fund-based - LT-Term loan	-	-	-	March 2026	1470.95	CARE AA; Stable
Commercial paper-Commercial paper (Carved out)	-	-	-	7-364 days	400.00	CARE A1+
Issuer rating-Issuer ratings		-	-	-	0.00	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	7950.00	CARE A1+
Non-fund-based - ST-Credit exposure limit		-	-	-	36.00	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 2023-2024	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
1	Fund-based - LT-Term loan	LT	1470.95	CARE AA; Stable	-	1)CARE AA-; Stable (19-Sep-22)	1)CARE AA; Negative (21-Sep-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)
2	Fund-based - LT-Cash credit	LT	1200.00	CARE AA; Stable	-	1)CARE AA-; Stable (19-Sep-22)	1)CARE AA; Negative (21-Sep-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)

3	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (09-Nov-20) 2)CARE AA; Stable (07-Oct-20)
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)
5	Non-fund-based - ST-BG/LC	ST	7950.00	CARE A1+	-	1)CARE A1+ (19-Sep-22)	1)CARE A1+ (21-Sep-21)	1)CARE A1+ (11-Mar-21) 2)CARE A1+ (07-Oct-20)
6	Commercial paper-Commercial paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (19-Sep-22)	1)CARE A1+ (21-Sep-21)	1)CARE A1+ (11-Mar-21) 2)CARE A1+ (07-Oct-20)
7	Debentures-Non-convertible debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA-; Stable (19-Sep-22)	1)CARE AA; Negative (21-Sep-21)	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)
8	Issuer rating-Issuer ratings	Issuer rating	0.00	CARE AA; Stable	-	1)CARE AA-; Stable (26-Dec-22) 2)CARE AA- (Is); Stable (19-Sep-22)	1)CARE AA (Is); Negative (21-Sep-21)	1)CARE AA (Is); Negative (11-Mar-21) 2)CARE AA (Is); Stable (09-Nov-20)
9	Non-fund-based - ST-Credit exposure limit	ST	36.00	CARE A1+				

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

Annexure-4: Complexity level of the various instruments rated

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
6	Non-fund-based - ST-Credit exposure limit	Simple

Annexure-5: Lender details

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

Note on the 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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