Jindal Saw Limited (Revised)

September 21, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	2,244.82 (Reduced from 2,606.21)	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Short Term Bank Facilities	5,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**7,244.82 (Rs. Seven Thousand Two Hundred Forty-Four Crore and Eighty-Two Lakhs Only)**		
Non Convertible Debentures	500.00	CARE AA; Negative (Double A; Outlook: Negative)	Reaffirmed
Total Long Term Instruments	**500.00 (Rs. Five Hundred Crore Only)**		
Commercial Paper (Carved out)*	400.00 (Enhanced from 200.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**400.00 (Rs. Four Hundred Crore Only)**		
Issuer Ratings	-	CARE AA (Is); Negative (Double A (Issuer Rating); Outlook: Negative)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/debt instruments of Jindal Saw Limited (JSAW) 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 steady operational performance over the years. The ratings also factor in JSAW's healthy order book position and its comfortable financial risk profile marked by healthy gearing and debt coverage indicators, besides its adequate liquidity position. Going forward, CARE Ratings believes that the company will report healthy operating performance on the back of its relatively derisked 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. Moreover, leverage levels are expected to improve as the company does not have any major debt-funded capex plans although reliance on working capital borrowings is expected to remain modertarely high. However, the rating strengths are partially offset by 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 ratings continue to be on 'Negative' outlook on account of JSAW's persistently high exposures towards group companies mianly due to delay in the recovery of loans and advances and investments from its subsidiary, Jindal ITF Limited (JITF, rated 'CARE AA (CE); Negative/CARE A1+ (CE)' and 'CARE BBB (CE); Stable') attributable to the ongoing litigation between JITF and NTPC Limited (NTPC, rated 'CARE AAA; Stable/CARE A1+'). CARE Ratings believes that the arbitration award proceeds would be utilized for reducing JSAW's debt levels in the short to medium term; however, due to the protracted litigation between JITF and NTPC, the matter is still sub judice and the next hearing is expected to take place in October 2021. The outlook may, however, be revised to 'Stable' if the arbitration award money is received leading to a reduction in group exposures and debt levels of JSAW and, resultantly, an improvement in the overall gearing, debt coverage indicators, and liquidity position.

Rating Sensitivities

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

- Optimal utilization of capacities and improvement in return on capital employed (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- Factors that could lead to negative rating action/downgrade:

- 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 one time.
- 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 the longitudinal and helical SAW (submerged arc welded) steel pipe and ductile pipe segments on account of its large capacities and established clientele. The company also operates pellet production facility in Rajasthan. The promoters have extended continuous financial support to various subsidiaries of JSAW as well as demerged entities.

Diversified operations and healthy product portfolio pervading pipe segments: JSAW has geographically diversified operations spread across the country – at Kosi Kalan (Uttar Pradesh), Indore (Madhya Pradesh), Mundra (Gujarat), Bellary (Karnataka), Nasik, Nagothane and Timburni (Maharashtra).The company also has a presence in Bhilwara (Rajasthan), where, apart from having a low-grade iron ore mine, it has also implemented iron ore beneficiation and a pellet plant. It has a healthy product portfolio with a 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 15% and 30% of the total revenue in FY21 (refers to the period April 1 to March 31) 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 ten customers contribute to Rs.2,805 crore representing 31% of the total revenues in FY21 (PY: 33%).

Steady operational performance: The operational performance of J SAW has been steadily improving from FY17 on the back of strong demand driven by the government's investment in various projects for oil and gas transportation and exploration, city gas distribution, and increased focus in water management. However, the total operating income of the company declined by 14% in FY21 due to muted demand in Q1FY21 due to covid-19 pandemic-induced lockdown. The profitability margins moderated marginally marked by a decline in PBILDT margin from 14.79% in FY20 to 13.79% in FY21 and PAT margin from 5.73% in FY20 to 3.68% in FY21. The decline in profitability is mainly because the operations of the company were disrupted during Q1FY21 due to Covid-19-enforced lockdown. JSAW operates in five product segments and 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 total operating income increased by 76%y-o-y from Rs.1,405 crore in Q1FY21 (refers to the period April 1 to June 30) to Rs.2,474 crore in Q1FY22. The profitability of the company improved during Q1FY22 marked by PBILDT margin of 16.65% (PY: 15.02%) and PAT margin of 5.98% (PY:0.71%).

Healthy financial risk profile: JSAW has a healthy financial risk profile characterized by healthy debt coverage indicators and a comfortable overall gearing. The overall gearing of the company, on a standalone basis, continued to remain comfortable at 0.69x as on March 31, 2021 (PY: 0.69x) which further improved to 0.59x as on June 30, 2021, owing to reduction a reduction in total debt and accretion of profits to net worth. The interest coverage ratio and the total debt-to-PBILDT ratio of the company stood at 3.05x and 3.99x as on March 31, 2021 (PY: 2.98x and 3.08x, respectively).

Healthy order book position: JSAW has a healthy order book of nearly USD 803 million as on June 30, 2021 (USD 894 million as on June 30, 2020) in terms of value and 0.98 Million Tonne (MT) as on June 30, 2021 (1.10 million tonne as on June 30, 2020) in terms of volume, which included orders of USD 232 million of SAW pipes, USD 448 million of DI pipes and USD 94 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 current order book includes export orders of ~around 18% of the total order book as on June 30, 2021 (~around 22.46% as on March 31, 2021). The current order book with 0.85 MT orders of pipes is ~around 0.77x in terms of sales volume of pipes during FY21.

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, these plants reported almost full capacity utilization over the years. The pellets division reported sales of Rs.1,263 crore in FY21 which is slightly higher than the previous year sale of Rs.1,135 crore due to higher pellet prices. The captive availability of iron ore leads to a 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 of 8.15% during FY21 (PY: 9.68%) on account of the capital-intensive nature of business as reflected in low asset turnover ratios. The working capital cycle remained elongated at 120 days as on March 31, 2021 from 114 days as on March 31, 2020, mainly due to lower total revenue in FY21 resulting in an increase in the collection and inventory days. The working capital cycle remains high 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 120 days in FY21 as against 110 days in FY20 and the collection period is close to 2 months which stood at 69 days in FY21 (PY: 57 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.655 crore as on March 31, 2021 (PY: Rs.638 crore) in subsidiaries, joint ventures, and associates, and loans and advances extended to related parties stood at Rs.1,618 crore as on March 31, 2021 (PY: Rs.1,410 crore). JSAW's commitments towards its subsidiaries in the form of corporate guarantees, shortfall undertakings, put options and letter of comfort stood at Rs.549 crore as on March 31, 2021 (PY: Rs.645 crore). 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 is under litigation with NTPC for which JITF is in receipt of a favorable award from the Arbitral Tribunal. On January 27, 2019, JITF had received a favourable award from the arbitral tribunal which had directed NTPC to pay an amount of Rs.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 court-ordered NTPC to pay Rs. 356 crore and another Rs. 500 crore on an interim basis backed by a bank guarantee to be provided by JITF. Subsequently, the guarantees were arranged through pledge of shares of PR Jindal group investment holding companies and money was received by JITF.

Further 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.

Liquidity: Adequate
JSAW has adequate liquidity marked by healthy gross cash accruals of Rs.922 crore projected in FY22 against which it has repayment obligations aggregating to Rs.585 crore in FY22, a part of it is refinanced through the NCDs raised in March 2021. The company had free cash and bank balances of around Rs.430 crore as on March 31, 2021 (PY: Rs.130 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 43% provide the company with the cushion to meet any fluctuations in cash flows in adverse market situations.

Analytical approach: Standalone. JSAW's management has stated that the cash flows of JSAW will not be 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 JITF, until the actual receipt of funds against the arbitration award in the ongoing legal proceedings against NTPC. The same has been demonstrated over the last few years.

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non - Financial Sector Entities

About the Company
JSAW, the flagship company of the 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), 0.79 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, 2021. 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, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	10,372	8,940
PBILDT	1534	1233
PAT	594	329
Overall gearing (times)	0.69	0.69
Interest coverage (times)	2.98	3.05

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	1044.82	CARE AA; Negative
Fund-based - LT-Cash Credit	-	-	-	-	1200.00	CARE AA; Negative
Non-fund-based - ST-BG/LC	-	-	-	-	5000.00	CARE A1+

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AA (Is); Negative
Debentures-Non Convertible Debentures	INE 324A07179	March 26, 2021	8.25	NA	500.00	CARE AA; Negative
Commercial Paper-Commercial Paper (Carved out)	-	-	-	-	400.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	1044.82	CARE AA; Negative	-	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA; Stable (18-Mar-19)
2.	Fund-based - LT-Cash Credit	LT	1200.00	CARE AA; Negative	-	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA; Stable (18-Mar-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)	1)CARE AA; Stable (18-Mar-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)	1)CARE AA; Stable (18-Mar-19)
5.	Non-fund-based - ST-BG/LC	ST	5000.00	CARE A1+	-	1)CARE A1+ (11-Mar-21) 2)CARE A1+ (07-Oct-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (18-Mar-19)
6.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (18-Mar-19)
7.	Commercial Paper-Commercial Paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (11-Mar-21) 2)CARE A1+ (07-Oct-20)	1)CARE A1+ (06-Mar-20)	-
8.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Negative	-	1)CARE AA; Negative (11-Mar-21) 2)CARE AA; Stable (07-Oct-20)	1)CARE AA; Stable (19-Mar-20)	-
9.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA (Is); Negative	-	1)CARE AA (Is); Negative (11-Mar-21) 2)CARE AA (Is); Stable (09-Nov-20)	-	-

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

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

Annexure 5: Bank Lender Details
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *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@careratings.com for any clarifications.*

.Contact us

Media Contact
Name – Mr. Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr. Ajay Dhaka
Group Head Contact no.- +91-11-45333218
Group Head Email ID- ajay.dhaka@careratings.com

Relationship Contact
Name: Ms. Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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