# Jindal Saw Limited

**March 06, 2020**

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Commercial Paper | 200.00 | **CARE A1+ (A One Plus)** | Assigned |
| **Total** | **200.00 (Two hundred crore only)** | | |

*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 experienced promoters and management with a long track record of operations, steadily growing total operating income with healthy operating margins backed by a healthy order book position. The ratings also factor in diversified operations with healthy product portfolio, competitive cost structure with captive availability of iron ore for pellet plant and comfortable financial risk profile marked by moderate gearing as well as debt coverage indicators and adequate liquidity position. However, ratings remain constrained due to the high (albeit reducing) exposure towards subsidiaries/group companies and working capital intensive nature of operations.*

**Rating Sensitivities**

**Positive:**

- Improvement in ROCE above 15% on sustained basis
- Improvement in gearing below 0.50x
- Substantial improvement in liquidity position
- Reduction in exposure towards subsidiaries/ group companies

**Negative:**

- Any incremental support towards subsidiaries/ group companies
- Reduction in order book position
- Any sizeable debt funded capex or acquisition resulting in deterioration in gearing beyond 1 times

**Detailed description of key rating drivers**

**Key Rating Strengths**

***Experienced promoters with long track record:*** JSAW is part of diversified PR Jindal group. The company has a rich business vintage of over 30 years. It enjoys a dominant position in longitudinal and helical SAW steel pipe segment owing to 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 towards the needs of overseas subsidiaries of JSAW and demerged entities where JSAW has extended corporate guarantees in the past.

***Growing total operating income and healthy margins:*** The total operating income increased by 33% during FY19 (refers to period: April 01 to March 31) and stood at Rs 10091.83 cr (PY: Rs 7557.42 cr) on account of increase in sales volumes as well as realizations. PBILDT margin moderated but stood healthy during FY19 due to higher raw material prices. However, blended PBILDT per ton improved during FY19. JSAW operates in five product segments and despite fluctuation in individual PBILDT margins; PBILDT per ton has remained steady over the years reflecting the benefits of product diversification. During 9MFY20 (refers to period: April 01 to December 31), JSAW reported stable PBILDT margin at 15.17% (PY: 15.17%) while total income grew to Rs.7776.32 crore during 9MFY20 (PY: Rs.7146.37 crore).

***Comfortable financial risk profile:*** The overall gearing of the company continued to remain comfortable at 0.81x as on March 31, 2019 (PY 0.77x). The slight deterioration in gearing is attributable to higher LC utilization at year end. The interest coverage ratio remained healthy at 2.99x during FY19 (PY: 2.99x) while total debt to GCA stood moderate at 6.44x as on March 31, 2019 (PY: 6.33x).

***Healthy order book position:*** JSAW continues to have a healthy order book of nearly USD 1 billion in terms of value and 1.24 million tonnes in terms of volume as on December 31, 2019 which comprised of orders of USD 589 million of SAW pipes, USD 369 million of DI pipes and USD 31 million of seamless pipes. The orders in SAW pipe segment are expected to be executed within 9 to 12 months whereas the timeline for execution of orders in DI pipes segment ranges from 12 to 15 months. Also, the current order book includes exports orders of 30%.

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

***Diversified operations with healthy product portfolio:*** JSAW has geographically diversified operations spread across Kosi Kalan (Uttar Pradesh), Mundra (Gujarat), Nasik (Maharashtra) and Bellary, (Karnataka). The company also has 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 pipes, HSAW pipes, DI pipes, seamless pipes, SS pipes, anti-corrosion coated pipes, hot-pulled induction bends etc. All the products contributed between 10% to ~30% of total revenue providing diversification to the cash flows and hedge against market volatility related to any single product.

***Competitive cost structure with captive availability of iron ore for pellet plant:*** JSAW has been allocated a mine in Bhilwara with estimated reserves of nearly 180 million tons of low-grade iron ore and extracts about 6-7 million tons annually. The company installed an iron ore beneficiation plant and a pellet plant in FY14. The operations of these plants have stabilized and reported 100% capacity utilization over the past three years through FY19. The pellets division reported sales of Rs. 1,141 crore in FY19 representing a growth of 28% over previous year. The captive availability of iron ore leads to competitive cost structure for the pellets manufactured by the company.

**Key Rating Weakness**

***Working capital intensive nature of business:*** JSAW has working capital intensive nature of operations as reflected by operating cycle of 131 days as on March 31, 2019 which improved from 169 days as on March 31, 2018 largely on account of Increase in average creditor days. The working capital cycle remains high largely on account of high inventory owing to diversified product portfolio. The inventory days stood at 106 days in FY19 as against 118 days in FY18 and collection period of close to 2 months which stood at 65 days in FY19 (PY: 71 days).

***Exposure towards subsidiaries/group companies:*** JSAW has investments of Rs.665 cr as on March 31, 2019 (PY: Rs 648 cr) in subsidiaries/JV/Associates and loans and advances extended to related parties stood at Rs.1,248 cr as on March 31, 2019 (PY: Rs.1,059 cr). JSAW's commitments towards its subsidiaries in the form of corporate guarantee, shortfall undertakings, put options and letter of comfort stood at Rs.714 cr as on March 31, 2019 (PY: Rs.793 cr). The exposure is expected to remain restricted in the future as JSAW is monetizing its subsidiaries and non-core businesses. During FY19, the company has divested its 81% shareholding in Jindal Saw Italia S.p.A.
Also, JSAW has provided substantial amount of financial support by way of loans and advances as well as equity investment in one of its subsidiaries, Jindal ITF Limited (JITF), which is under litigation with NTPC against which the Arbitral Tribunal has pronounced the final award in the favor of JITF. On January 27, 2019 JITF had received favorable award from 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. On September 23, 2019, matter was heard before the court and court ordered NTPC to make interim payment of Rs 500 cr backed by bank guarantee to be provided by JITF. The matter is expected to remain sub judice as NTPC and JSAW may appeal against single bench order. Further developments will remain a key monitorable.

**Adequate Liquidity:-** During FY20, CARE expects JSAW to report a GCA of about Rs 892 cr with a debt repayment of 236 cr in the same year. Also, JSAW is meeting its capital expenditure via internal accruals only. The average fund based and non-fund based working capital utilization for the trailing 12 months ended December, 2019 stood at 79% and 88% respectively. Also, as on March 31, 2019, JSAW has unused line of credit of Rs 790 cr apart from free cash and cash equivalents of Rs 61.27 cr (PY: Rs 9.26 cr).

**Industry outlook and prospects:** The company manufactures SAW Pipes which are primarily used for transportation of oil & gas, water and slurry, Ductile Iron Pipes which are commonly used for transportation of potable water and waste-water and seamless pipes which are used in the automobiles, bearings, drilling and extraction of on-shore and off-shore oil and gas. Demand for steel pipes used in oil and natural gas production is recovering backed by stable energy prices. The long-term demand outlook for the Indian pipe industry is expected to remain steady on the back of increasing demand from the infrastructure development, water supply and sanitation projects which augurs well for JSAW being diversified players both geographically and vertically.

**Analytical approach:** Standalone, considering that the cash flows of JSAW shall not be utilized to provide additional financial support to any demerged entities, domestic/overseas subsidiaries/associates except to the limited extent of operational/debt servicing requirement 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 by the management.

**Applicable criteria:**
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios - Non-Financial Sector

**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 include Longitudinal Submerged Arc Welded (LSAW) pipes, Helical SAW (HSAW) pipes, Ductile Iron (DI) pipes, seamless pipes and pellets. The company has five manufacturing facilities on the standalone basis at Kosi Kalan (UP), Mundra (Gujarat), Nashik (Maharashtra), Bellary (Karnataka) and Bhilwara (Rajasthan) respectively. JSAW has an installed capacity of 0.85 million tonnes per annum (MTPA), 0.74 MTPA, 0.22 MTPA and 0.48 MTPA for manufacturing of LSAW pipes, HSAW pipes, seamless pipes and DI pipes, respectively as on March 31, 2019. 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, 2019.

| Brief Financials(Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 7757.42 | 10091.83 |
| PBILDT | 1234.00 | 1483.08 |
| PAT | 394.31 | 498.09 |
| Overall gearing (times) | 0.77 | 0.81 |
| Interest coverage (times) | 2.99 | 2.99 |

*A: Audited;*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

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

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

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | 1406.40 | CARE AA; Stable | 1)CARE AA; Stable (09-Oct-19) | 1)CARE AA; Stable (18-Mar-19) | 1)CARE AA-; Positive (08-Dec-17) | 1)CARE A+ (12-Sep-16) |
| 2. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (08-Dec-17) | 1)CARE A+ (12-Sep-16) |
| 3. | Commercial Paper | ST | - | - | - | - | 1)Withdrawn (08-Dec-17) | 1)CARE A1+ (12-Sep-16) |
| 4. | Fund-based - LT-Cash Credit | LT | 1200.00 | CARE AA; Stable | 1)CARE AA; Stable (09-Oct-19) | 1)CARE AA; Stable (18-Mar-19) | 1)CARE AA-; Positive (08-Dec-17) | 1)CARE A+ (12-Sep-16) |
| 5. | Debentures-Non Convertible Debentures | LT | 40.00 | CARE AA; Stable | 1)CARE AA; Stable (09-Oct-19) | 1)CARE AA; Stable (18-Mar-19) | 1)CARE AA-; Positive (08-Dec-17) | 1)CARE A+ (12-Sep-16) |
| 6. | Debentures-Non Convertible Debentures | LT | 250.00 | CARE AA; Stable | 1)CARE AA; Stable (09-Oct-19) | 1)CARE AA; Stable (18-Mar-19) | 1)CARE AA-; Positive (08-Dec-17) | 1)CARE A+ (12-Sep-16) |
| 7. | Debentures-Non Convertible Debentures | LT | - | - | - | - | 1)Withdrawn (08-Dec-17) | 1)CARE A+ (12-Sep-16) |
| 8. | Non-fund-based - ST-BG/LC | ST | 5000.00 | CARE A1+ | 1)CARE A1+ (09-Oct-19) | 1)CARE A1+ (18-Mar-19) | 1)CARE A1+ (08-Dec-17) | 1)CARE A1+ (12-Sep-16) |
| 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+ | - | - | - | - |

**Annexure-3: NA**

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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