

Jindal Saw Limited

March 18, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	2,743.44 (reduced from Rs.2,950 crore)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Positive (Double A Minus; Outlook: Positive)
Short-term Bank Facilities	4,450 (enhanced from Rs.3,800 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	7,193.44 (Rupees Seven Thousand One Hundred Ninety Three crore and Forty Four Lakh only)		
Non-Convertible Debentures-II	70 (reduced from Rs. 100 crore)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Positive (Double A Minus; Outlook: Positive)
Non-Convertible Debentures-III	250	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Positive (Double A Minus; Outlook: Positive)
Total	7,513.44 (Rupees Seven Thousand Five Hundred Thirteen crore and Forty Four lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long term rating of Jindal Saw Limited (JSAW) factors in the improvement in financial risk profile characterized by growth in income and profitability during FY18 (refers to period April 1 to March 31) and 9MFY19 (refers to period April 1 to December 31). The ratings also derive comfort from the healthy debt coverage indicators and comfortable overall gearing of JSAW. The ratings also continue to factor in stated and demonstrated support by promoter group entities towards the needs of overseas subsidiaries of JSAW and demerged entities where JSAW has extended corporate guarantees in the past.

The ratings continue to derive strength from JSAW's strong management and resourceful promoter group, its dominant and established position in the steel pipes industry in India across multiple product segments, diversified revenue profile with a healthy order book position and captive availability of iron ore for its pellet plant. The ratings also take cognizance of the receipt of favorable final award from arbitral tribunal in one of its subsidiaries Jindal ITF Limited (JITF), substantial part of which will be used for debt reduction at JSAW. The said final award is further to two orders received in last 12 months from the tribunal against the 1st and 2nd year Minimum Guaranteed Quantity (MGQ) aggregating Rs 356.31 crore. The ratings, however, continue to remain constrained by JSAW's working capital intensive nature of operations and exposure towards its subsidiaries /demerged entities. However, JSAW has been shielded from incremental exposure to its overseas subsidiaries and demerged entities by virtue of the support provided by the promoters' group to these entities. Going forward, ability of the company to achieve the envisaged revenue and profitability while improving its working capital cycle and reduce its exposure towards its subsidiaries shall remain key rating sensitivities. Further, reduction in overall indebtedness of JSAW after receipt of arbitration proceeds by JITF shall remain a key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in standalone financial risk profile during FY18 and 9MFY19

JSAW has reported improvement in financial risk profile during FY18 and 9MFY19 characterized by growth in total operating income and profitability. The company reported healthy growth of 22.87% in total operating income and 6.32% in PBILDT during FY18. The growth was a result of improvement in both volume sales and realizations. The company sold pipes aggregating 11.18 lakh MT and pellets 13.87 lakh MT during FY18 as against 8.51 lakh MT and 12.49 lakh MT respectively during FY17. The growth continued during 9MFY19 also with the company reporting a PBILDT of Rs.1,075

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

crore on total operating income of Rs.7,146 crore as against a PBILDT of Rs.824 crore on a total operating income of Rs.5,067 crore representing a healthy growth of 30.53% and 41.03% respectively. The growth was on account of higher volumes of production and sales of DI pipes, seamless pipes and pellets.

The overall gearing of the company continued to remain comfortable at 0.77x as on March 31, 2018 (PY 0.76x). The coverage ratios of the company also remained healthy with interest coverage and total debt to PBILDT at 2.99x and 3.66x respectively as on March 31, 2018.

Favourable award from arbitral tribunal in subsidiary JITF

JSAW has provided substantial amount of financial support by way of loans and advances as well as equity investment in one of its subsidiaries, JITF, which was under litigation with NTPC against which the Arbitral Tribunal has published and pronounced the final award in the favour of JITF. The aggregate amount of various claims under the award adds up to in excess of Rs 2,000 crore plus interest as per award (including the earlier interim orders of Rs 158.50 crore and Rs 197.81 crore). JSAW is likely to recoup loans and advances from JITF which would be utilized to reduce its indebtedness leading to further improvement in its debt metrics and an improved liquidity position.

Strong promoter group and continuous financial support

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. The total cumulative support from the promoters to subsidiaries in the form of unsecured loans stood at Rs.941cr as on March 31, 2018 (PY: Rs.802cr). 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. Also, JSAW management has stated not to provide any additional financial support to its overseas/domestic subsidiaries/associates except to the limited extent of operational/debt service requirement of one of its subsidiaries, JITF, until the actual receipt of funds against the arbitration award. Further, JSAW management has also stated to meet its normal capex requirements through internal cash generation.

Healthy order book position

JSAW continues to have a healthy order book of nearly USD 1.1 billion (approximately Rs.7,700 crore) in terms of value and 1.18 million tonnes in terms of volume as on December 31, 2018 which comprised of orders of USD 580 million (Rs. 4,060 crore) of SAW pipes, USD 440 million (Rs. 3,080 crore) of DI pipes and USD 75 million (Rs.525 crore) of seamless pipes. The orders in SAW pipe segment are expected to be executed within 12 to 15 months whereas the timeline for execution of orders in DI pipes segment ranges from 12 to 18 months.

Diversified operations with healthy product portfolio

J SAW 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 an 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, anti-corrosion coated pipes, hot-pulled induction bends etc. All the products contributed between 10% to ~30% of total revenue providing diversification to the cashflows 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. The company constructed 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 FY18. The pellets division reported sales of Rs. 891 crore in FY18 representing a growth of 13% over previous year. The captive availability of iron ore leads to competitive cost structure for the pellets manufactured by the company.

Liquidity

The company had generated gross cash accruals of Rs. 550 crore during 9MFY19. The company is expected to have accruals of around Rs.800 crore during FY19 against which it has repayment obligation of Rs. 226.30 crore. The working capital utilization stood at 72% over the trailing 12 months ended January 2019. Also the liquidity position is supported by free cash and cash equivalents of Rs.62 crore as on December 31, 2018.

Key Rating Weaknesses

Working capital intensive nature of business

JSAW has working capital intensive nature of operations as reflected by operating cycle of 169 days as on March 31, 2018 which improved from 204 days as on March 31, 2017 largely on account of improvement in inventory days. The working capital cycle remains high largely on account of high inventory owing to diversified product portfolio. The inventory days

stood at 118 days in FY18 as against 140 days in FY17 and collection period of close to 3 months which stood at 71 days in FY18.

Exposure towards subsidiaries/group companies

JSAW has investments of Rs.648cr (PY: Rs.591cr) as on March 31, 2018 in subsidiaries/JV/Associates and short term loans to related parties stood at Rs.1,059cr as on March 31, 2018 (PY: Rs.704cr). JSAW's commitments towards its subsidiaries in the form of corporate guarantee, shortfall undertakings, put options and letter of comfort stood at Rs.793cr as on March 31, 2018 (PY: Rs.1,337cr). During FY18, JSAW has not extended any additional support to its foreign subsidiaries. It has supported only two Indian subsidiaries JITF and Jindal Quality Tubular Ltd (JQTL). Overall gearing adjusted for investments, loans & advances and corporate guarantees were moderate at 1.27x as on March 31, 2018 (PY 1.31x). Going forward, no further increase in exposure towards group companies in the form of investments or loans & advances is expected except for limited support towards JITF till the actual receipt of arbitration proceeds.

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 to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

J SAW, 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 J SAW 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. J SAW 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, 2018. 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, 2018.

Brief Financials (Rs.Crore)	FY17 (A)	FY18 (A)
Total operating income	6,151	7,557
PBILDT	1,169	1,243
PAT	386	394
Overall gearing (times)	0.76	0.77
Interest coverage (times)	3.08	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

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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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	
Fund-based - LT-Cash Credit	-	-	-	1200.00	CARE AA; Stable	
Fund-based - LT-Term Loan	-	-	Dec 2025	1543.44	CARE AA; Stable	
Non-fund-based - ST-BG/LC	-	-	-	4450.00	CARE A1+	
Name of the Instrument with ISIN No.(NCD)	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	O/s (Rs.crore)	Rating assigned along with Rating Outlook
INE324A07146	Sept 7, 2012	10.50%	Sept 12, 2019	30.00	30.00	CARE AA; Stable
INE324A07153	Sept 7, 2012	10.50%	Sept 12, 2020	40.00	40.00	CARE AA; Stable
INE324A07120	Dec 24, 2012	10.38%	Dec 26, 2021	125.00	125.00	CARE AA; Stable
INE324A07161	Dec 24, 2012	10.73%	Dec 26, 2021	125.00	125.00	CARE AA; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1543.44	CARE AA; Stable	-	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)
3.	Commercial Paper	ST	-	-	-	1)Withdrawn (01-Dec-17)	1)CARE A1+ (12-Sep-16)	1)CARE A1+ (16-Oct-15)
4.	Fund-based - LT-Cash Credit	LT	1200.00	CARE AA; Stable	-	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)
5.	Debentures-Non Convertible Debentures	LT	70.00	CARE AA; Stable	-	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA; Stable	-	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)
8.	Non-fund-based - ST-BG/LC	ST	4450.00	CARE A1+	-	1)CARE A1+ (01-Dec-17)	1)CARE A1+ (12-Sep-16)	1)CARE A1+ (16-Oct-15)
9.	Commercial Paper	ST	-	-	1)Withdrawn (13-Mar-19)	1)CARE A1+ (08-Dec-17)	-	-

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