

Jindal Saw Limited
October 07, 2020

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---|---|--|-------------------|
| Long term Bank Facilities | 2606.21 (reduced from 2606.41) | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Short term Bank Facilities | 5000.00 | CARE A1+ (A One Plus) | Reaffirmed |
| Total Facilities | 7606.21 (Rupees seven thousand six hundred and six crore and twenty one lakh only) | | |
| Non-Convertible Debenture - II | 40.00 (Rs. Forty crore only) | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Non-Convertible Debenture - III | 250.00 (Rs. Two hundred fifty crore only) | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Non-Convertible Debenture - Proposed | 500.00 (Rs. Five hundred crore only) | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| Commercial Paper | 200.00 (Rs. Two hundred crore only) | CARE A1+ (A One Plus) | Reaffirmed |

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 the company's experienced promoters and management, its long track record of operations in the submerged arc welded (SAW) pipe business and its steady operational performance as reflected in consistent growth in operating profits, backed by healthy sales volumes and margins. The ratings also factor in JSAW's healthy order book position albeit with some moderation during FY20, its geographically diversified operations with a healthy product portfolio and competitive cost structure with captive availability of iron ore for its pellet plant. The ratings also take cognizance of the company's healthy financial risk profile marked by a comfortable gearing and moderate, albeit improving, debt coverage indicators and adequate liquidity position. However, the rating strengths are partially offset by a high exposure to subsidiaries/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.

Rating Sensitivities*Positive Factors*

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

Negative Factors

- 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 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 longitudinal and helical SAW steel pipe segment on account of its large capacities and established

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

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 to overseas subsidiaries of JSAW and demerged entities where JSAW had extended corporate guarantees in the past.

Diversified operations and healthy product portfolio pervading pipe segments

JSAW has geographically diversified operations spread across the country – at Kosi Kalan (Uttar Pradesh), Mundra (Gujarat), Nasik (Maharashtra) and Bellary, (Karnataka). The company has recently started operations at Nagothane and Timburni (Maharashtra), Indore and Mundra (Gujarat). The company also has a 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 (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 10% and 30% of total revenue 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 10 customers contribute to Rs.3,356 crore representing 33.10% of the total revenues in FY20.

Steady operational performance

The total operating income increased by 3.27% from Rs.9,829 crore in FY19 (refers to the period: April 1, to March 31) to Rs.10,129 crore in FY20 on account of increase in sales realizations for most of its products coupled with marginal increase in sales volume. The profitability margin improved on the back of an increase in blended PBILDT/tonne from Rs.12,270/tonne in FY19 to Rs.12,413/tonne during FY20, on account of which the PAT margin improved from 4.98% in FY19 to 5.76% in FY20. JSAW operates in five product segments. Despite fluctuations in individual PBILDT margins, PBILDT per tonne has remained steady over the years reflecting the benefits of product diversification. The increase in profitability can also be attributed to the decrease in raw material cost as a percentage of total operating income from 60.17% in FY19 to 56.42% in FY20. During Q1FY21 (refers to the period: April 1 to June 30) the company has reported sales of 1.87 lakh MT of pipes with total operating income of Rs.1,405 crore. The profitability decreased substantially during this period due to disruption in economic activities led by lockdown. However, the company has ramped up its production and is operating close to normal levels since August 2020.

Healthy financial risk profile

JSAW has a healthy financial risk profile characterised by healthy debt coverage indicators and comfortable overall gearing. The overall gearing of the company improved during FY20 and continued to be comfortable at 0.69 times as on March 31, 2020 (PY 0.81 times). The improvement in the overall gearing was on account of repayment of debt coupled with accretion of profits to net worth. The debt coverage ratios of the company also remained healthy marked by total debt to PBILDT which stood at 3.08 times as on March 31, 2020 (PY: 3.48 times).

Healthy order book volume

JSAW has a healthy order book of nearly USD 894 million as on June 30, 2020 in terms of value and 1.10 million tonne (MT) as on June 30, 2020 in terms of volume which comprised of orders of USD 473 million of SAW pipes, USD 386 million of DI pipes and USD 28 million of seamless pipes. During Q1FY21, the company was able to get new orders aggregating to almost USD 180 Million which includes product from different segments including oil, gas and water (both domestic and overseas). The orders for SAW pipes are expected to be executed in next 9-12 months and the DI pipes provide revenue visibility of over 12-15 months. The current order book includes export orders of ~35% of the total order book as on June 30, 2020 (PY: 25%).

Competitive cost structure with captive availability of iron ore for pellet plant

JSAW was allocated a mine in Bhilwara with estimated reserves of nearly 180 MT of low-grade iron ore and extracts about 6-7 million tonnes annually. The company installed an iron ore beneficiation plant and a pellet plant in FY14. The operations of these plants have stabilized and reported almost full capacity utilization over the past three years through FY20. The pellets division reported sales of Rs.1,135 crore in FY20 which is similar to the previous year sales of Rs.1,140 crore. The captive availability of iron ore leads to 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 which reduced to 9.68% during FY20 (PY: 10.97%) on account of capital intensive nature of business as reflected in low asset turnover ratios. The working capital cycle remained elongated, while improving to 114 days as on March 31, 2020 from 131 days as on March 31, 2019 largely on account of increase in average creditor days. It remains high largely on account of high inventory owing to diversified product portfolio with integrated operations with captive sinter

plant and coke oven to manufacture ductile pipes. The inventory days stood at 110 days in FY20 as against 106 days in FY19 and collection period is close to 2 months which stood at 61 days in FY20 (PY: 65 days).

Exposure towards subsidiaries/group companies

JSAW has investments of Rs.638 cr as on March 31, 2020 (PY: Rs.655 cr) in subsidiaries, joint ventures and associates and loans and advances extended to related parties stood at Rs.1,410 cr as on March 31, 2020 (PY: Rs.1,248 cr). JSAW's commitments towards its subsidiaries in the form of corporate guarantees, shortfall undertakings, put options and letter of comfort stood at Rs.645 cr as on March 31, 2020 (PY: Rs.714 cr). The increase in loan and advances is due to accrued interest and forex fluctuations although no cash support is being extended to any subsidiary except Jindal ITF Limited (JITF).

Jindal ITF Limited (JITF), which is under litigation with NTPC, the Arbitral Tribunal has pronounced the final award in the favour of JITF. On January 27, 2019 JITF had received favourable award from the 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. Till June 30, 2020, JITF has received Rs.856.31 crore as interim relief against submission of bank guarantees. Further developments will remain a key monitorable.

Liquidity: Adequate

JSAW has adequate liquidity marked by sufficient gross cash accruals of Rs.715 crore projected in FY21 against which it has repayment obligations aggregating to Rs.334 crore in FY21. The company had free cash and bank balances of around Rs.133 crore as on March 31, 2020 (PY: Rs.61 crore). Its maintenance/sustenance capex requirements of Rs.150 crore are modular and are expected to be funded through internal accruals. Its unutilized bank lines to the extent of 27% enable the company to meet any fluctuations in cash flows in adverse market situations. Furthermore, the average utilization of non-fund-based limits for the trailing 12 months ended June 2020 stood at 80.48% (PY: 88.09%). Its current ratio has improved and stood at 1.43 times as on March 31, 2020 (PY: 1.37 times). The company had availed moratorium till June 2020 extended by banks on its term loans and working capital facilities.

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 (Jindal ITF Limited), until the actual receipt of funds against the arbitration award in the ongoing legal proceedings against NTPC (National Thermal Power Corporation), as stated and demonstrated by the management.

Applicable Criteria

[CARE's 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](#)

[Rating Methodology Steel](#)

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, 0.25 MTPA and 0.50 MTPA for manufacturing of LSAW pipes, HSAW pipes, seamless pipes and DI pipes, respectively as on March 31, 2020. 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, 2020.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income | 10091.83 | 10371.96 |
| PBILDT | 1483.08 | 1534.00 |
| PAT | 498.09 | 594.46 |
| Overall gearing (times) | 0.81 | 0.69 |
| Interest coverage (times) | 2.99 | 2.98 |

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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|-------------------|-------------|--------------------|-------------------------------|---|
| Fund-based - LT-Term Loan | - | - | - | 1406.21 | CARE AA; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 1200.00 | CARE AA; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 5000.00 | CARE A1+ |
| Debentures-Non Convertible Debentures (Proposed) | - | - | - | 500.00 | CARE AA; Stable |
| Debentures-Non Convertible Debentures | July 09, 2012 | 10.50 | September 12, 2020 | 40.00 | CARE AA; Stable |
| Debentures-Non Convertible Debentures | December 24, 2012 | 10.38-10.73 | Decemembr 26, 2021 | 250.00 | CARE AA; Stable |
| 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 1406.21 | CARE AA; Stable | - | 1)CARE AA; Stable (09-Oct-19) | 1)CARE AA; Stable (18-Mar-19) | 1)CARE AA-; Positive (08-Dec-17) |
| 2. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (08-Dec-17) |
| 3. | Commercial Paper | ST | - | - | - | - | - | 1)Withdrawn (08-Dec-17) |
| 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) |
| 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) |
| 6. | Debentures-Non | LT | 250.00 | CARE | - | 1)CARE AA; | 1)CARE AA; | 1)CARE AA-; |

| | | | | | | | | |
|-----|--|----|---------|-----------------------|---|-------------------------------------|----------------------------|----------------------------|
| | Convertible Debentures | | | AA; Stable | | Stable (09-Oct-19) | Stable (18-Mar-19) | Positive (08-Dec-17) |
| 7. | Debentures-Non Convertible Debentures | LT | - | - | - | - | - | 1)Withdrawn (08-Dec-17) |
| 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) |
| 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+ | - | 1)CARE A1+ (06-Mar-20) | - | - |
| 11. | Debentures-Non Convertible Debentures | LT | 500.00 | CARE AA; Stable | - | 1)CARE AA; Stable (19-Mar-20) | - | - |

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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 |

Note on complexity levels of the rated instrument: CARE 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

Mradul Mishra

Contact no. – +91-22-6754 3573

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – 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. : +91-11-45333200

Email ID: swati.agarwal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**