

## Jindal Saw Limited

December 08, 2017

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Proposed Commercial Paper*	250	CARE A1+ (A One Plus)	Assigned
<b>Total</b>	<b>250</b> <b>(Rupees Two Hundred and Fifty crore only)</b>		

\*The said CP issue would be within the fund based working capital limits of the company.

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed commercial paper issue of Jindal Saw Limited (J SAW) derive strength from J SAW's strong management and resourceful promoter group, its dominant and established position in the steel pipes industry in India, diversified operations with a healthy order book position and captive availability of iron ore for its pellet plant. The rating also factors in the improvement in the financial risk profile of J SAW characterized by improvement in profitability, overall gearing and debt coverage indicators during FY17 (refers to the period April 1 to March 31) and H1FY18 (refers to the period April 1 to September 30). The rating also factors in stated support from promoter group entities towards the needs of overseas subsidiaries of J Saw and demerged entities where J Saw has extended corporate guarantees. The rating, however, is constrained by J SAW's working capital intensive nature of operations and exposure towards its subsidiaries /demerged entities. However, the promoters' group entities have demonstrated their continued support which has offset the exposure towards subsidiaries/demerged entities. The ratings also take cognizance of the favorable interim order of arbitral tribunal and High Court with respect to claim filed by one of its subsidiary.

Going forward, the ability of the company to achieve the envisaged revenue and profitability while improving its working capital cycle shall remain the key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Strong promoter group and continuous financial support**

J SAW 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 J SAW. The total cumulative support from the promoters in the form of unsecured loans stood at Rs.802cr as on March 31, 2017 (PY: Rs.730cr).

#### **Healthy order book position**

J SAW had a healthy order book of nearly USD 935 million (approximately Rs.6,077 crore) in terms of value and 1.12 million tonnes in terms of volume as on September 30, 2017 which comprised of orders of USD 602 million (Rs. 3,913 crore) of SAW pipes, USD 256 million (Rs. 1,664 crore) of DI pipes and USD 66 million (Rs.429 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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

***Diversified operations with healthy product portfolio***

J SAW has geographically diversified operations spread across Kosi Kalan (Uttar Pradesh), Mundra (Gujarat), Nashik (Maharashtra) and Bellary, (Karnataka). The company has further increased its 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***

J SAW has been allocated an ore 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 FY17. The pellets division reported sales of Rs. 788 crore in FY17 representing a growth of 47% over previous year. The captive availability of iron ore leads to competitive cost structure for the pellets manufactured by the company.

***Improvement in financial risk profile during FY17 and H1FY18***

J SAW has reported improvement in overall financial risk profile characterized by improvement in profitability, overall gearing and debt coverage indicators. The company has reported improvement in its PBILDT margins by 231 bps from 16.27% in FY16 to 18.58% in FY17 largely driven by better product mix with improved sales realizations for HSAW pipes, seamless pipes and pellets. The overall gearing of the company improved to 0.76x as on March 31, 2017 as against 0.96x as on March 31, 2016. The improvement was largely on account of scheduled repayments and accretion of profits to net worth. The coverage ratios of the company also improved with improved profitability with interest coverage and total debt to gross cash accruals at 2.89x and 5.74x respectively as on March 31, 2017 (PY: 2.08x and 7.57x respectively). During H1FY18 also the healthy performance continues with, company reporting a PAT of Rs.121 crore on total operating income of Rs.2,893 crore as against a PAT of Rs.112 crore on a total operating income of Rs.2,808 crore.

***Significant reduction in corporate guarantees towards group companies***

J SAW's commitments towards its subsidiaries in the form of corporate guarantee, shortfall undertakings, put options and letter of comfort reduced significantly from Rs.1,337cr as on March 31, 2017 (PY: Rs.1,480cr) to Rs.860 crore as on Sept 30, 2017. This is expected to reduce further with the refinancing of these guaranteed loans under group companies with new loans which would not carry J SAW corporate guarantee. Further there would be stated support from promoter group entities towards the needs of overseas subsidiaries of J Saw and demerged entities where J Saw has extended corporate guarantees.

***Key Rating Weaknesses******Working capital intensive nature of business***

J SAW has working capital intensive nature of operations as reflected by operating cycle of 209 days as on March 31, 2017 which elongated from 204 days as on March 31, 2016. The working capital cycle remains high largely on account of high inventory owing to diversified product portfolio. The inventory days stood at 146 days in FY17 as against 144 days in FY16 and collection period of close to 3 months which stood at 85 days in FY17.

***Exposure towards subsidiaries/group companies***

J SAW has investments of Rs.577cr (PY: Rs.550cr) as on March 31, 2017 in subsidiaries/JV/Associates and short term loans to related parties stood at Rs.704cr as on March 31, 2017 (PY: Rs.522cr). J SAW's commitments towards its subsidiaries in

the form of corporate guarantee, shortfall undertakings, put options and letter of comfort stood at Rs.1,337cr as on March 31, 2017 (PY: Rs.1,480cr). The quantum of guarantees has reduced considerably over the last review, but continues to be significant. Also, majority of these companies are not performing well, thus affecting the return on capital employed. Overall gearing adjusted for corporate guarantees stood moderate at 0.99x as on March 31, 2017 (PY 1.22x). Going forward, any increase in exposure towards group companies in the form of investment or loans & advances shall remain key monitorable from the credit perspective.

### 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. The lower crude oil prices have impacted the demand for drill pipes and LSAW pipes in the recent times. However, 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 J SAW being diversified player both geographically and vertically.

### Analytical Approach Followed – Standalone

#### Applicable Criteria

[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 1.1 million tonnes per annum (MTPA), 0.74 MTPA, 0.22 MTPA and 0.45 MTPA for manufacturing of LSAW pipes, HSAW pipes, seamless pipes and DI pipes, respectively as on March 31, 2017. Besides this, it also has an iron ore mine at Bhilwara (Rajasthan) with a beneficiation plant and pellet plant with an installed capacity of 1.20 MTPA as on March 31, 2017.

Particulars	FY16 (A)	FY17 (A)
Total operating income	6,336	5,918
PBILDT	1,031	1,100
PAT	219	301
Overall gearing (times)	0.96	0.76
Interest coverage (times)	2.08	2.89

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Instruments**

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	-	-	-	250.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	1750.00	CARE AA-; Positive	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)	1)CARE AA- (11-Aug-14)
2.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)	1)CARE AA- (11-Aug-14)
3.	Commercial Paper	ST	-	-	1)Withdrawn (01-Dec-17)	1)CARE A1+ (12-Sep-16)	1)CARE A1+ (16-Oct-15)	1)CARE A1+ (11-Aug-14)
4.	Fund-based - LT-Cash Credit	LT	1200.00	CARE AA-; Positive	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)	1)CARE AA- (11-Aug-14)
5.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Positive	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)	1)CARE AA- (11-Aug-14)
6.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA-; Positive	1)CARE AA-; Positive (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)	1)CARE AA- (11-Aug-14)
7.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (01-Dec-17)	1)CARE A+ (12-Sep-16)	1)CARE AA- (16-Oct-15)	1)CARE AA- (11-Aug-14)
8.	Non-fund-based - ST-BG/LC	ST	3800.00	CARE A1+	1)CARE A1+ (01-Dec-17)	1)CARE A1+ (12-Sep-16)	1)CARE A1+ (16-Oct-15)	1)CARE A1+ (11-Aug-14)
9.	Commercial Paper	ST	250.00	CARE A1+	-	-	-	-

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