



RATING RATIONALE

14 September 2022

Jindal Saw Ltd.

Brickwork Ratings reaffirms the ratings for the Non-Convertible Debentures amounting to Rs. 500 Crs of Jindal Saw Ltd.

Particulars:

Instrument	Previous Amt	Present Amt	ISIN No.	Tenure	Value Date	Maturity Date	Coupon (%)	Previous Ratings Sep 2021	Present Rating
NCDs	500	500	INE324 A07179	10 yrs	26.03.2021	26-03-2031	8.25%	BWR AA (Stable)** Reaffirmation	BWR AA (Stable) Reaffirmation
Total	500	500			Rs.Five Hundred Crores Only				

** Details of facilities/NCD are given in Annexure I and II.

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Rating Action/Outlook:

Brickwork Ratings (BWR) has reaffirmed the long-term rating to BWR AA with a Stable outlook for the Non-Convertible Debentures (NCDs) of Jindal Saw Ltd (JSL or the company). The ratings continue to reflect the company's strong business risk profile, supported by market leadership in the carbon steel pipes segment, diversified revenue and a healthy financial risk profile because of a low gearing and comfortable debt protection metrics. The ratings also derive comfort from the experienced promoters, an established long track record of around four decades with a demonstrated execution capability, healthy order book position, diversified customer base and a product portfolio that finds application in various end-user industries. However, these strengths are partially offset by exposure to subsidiaries and group companies, susceptibility to fluctuations in raw material prices and forex, and the inherent risk of the industry, along with intense competition.

OUTLOOK: STABLE

BWR believes that the business and financial risk profile of JSL will be maintained over the medium term. The Stable outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive in case revenue and profitability show a sustained and significant improvement, leading to an improvement in the financial and liquidity profile. The rating outlook may be revised to Negative in case the profitability generated is much lower than anticipated, there are aggressive debt-funded capex plans or there is a significant deterioration in the company's overall liquidity profile.



KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

- Secured listed NCD of Rs.500 Crs
- The issue was raised for normal capital expenditures, replacement of high cost long term debt and financing of long-term working capital and general corporate purposes.
- LIC is the investor in the instrument.
- The NCD has a tenure of 10 years from the deemed date of allotment.
- The Debenture Trustee is Axis Trustee Services Ltd.

KEY RATING DRIVERS

Credit Strengths:-

- **Established track record of operations and experienced management:** The company commenced its operations in 1984 and has a successful track record of operations of around four decades in the existing business line. JSL's long track record and the extensive experience of promoters have helped it establish relations with various stakeholders for its business. The company's board consists of seven independent directors, making it a professionally run company. Furthermore, the company's board is supported by an experienced and qualified management team that looks after the day-to-day operations.
- **Strong business risk profile supported by diversified revenues and geographically diversified operations:** JSL has a diversified product profile comprising SSTP (Stainless Steel tube Pipes) and carbon steel pipes, which are used in various end-user industries such as power, oil and gas, chemicals, water and refineries. The company enjoys a dominant position in the longitudinal and helical Submerged Arc Welded (SAW) steel pipe and ductile pipe segments on account of its large capacities and has established clientele, and strong technological competitiveness has led to an above industry-average profitability over the years. JSL has geographically diversified operations across the country at Kosi Kalan (Uttar Pradesh), Indore (Madhya Pradesh), Mundra (Gujarat), Bellary (Karnataka), Nasik, Nagothane and Tembhurni (Maharashtra). The company also has a presence in Bhilwara (Rajasthan), where apart from having a low-grade iron ore mine, it has implemented iron ore beneficiation and a pellet plant.
- **Strong order book:** The company has a diversified customer base, including PSUs, private sector players, EPC contractors and exports. The top ten customers contributed Rs.3241.48 Crs, representing 29% of the total revenues in FY22 (PY: 32.50%). JSL had a healthy order book of nearly USD 733 million as on 30 June 2022 (USD 654 million as on 31 May 2022) in terms of value, which included orders of USD 390 million of large DI (ductile iron) pipes, USD 219 million of DI pipes and USD 120 million of seamless pipes. The orders for SAW pipes are expected to be executed in the next 5-6 months. The current order book includes export orders of ~around 20% of the total order book as on 30 June 2022.
- **Comfortable financial risk profile:** The tangible net worth improved to Rs.7480.15 Crs in FY22 from Rs. 7129 Crs in FY21. The gearing continued to remain below unity post FY19



and stood at 0.56x in FY22, compared to 0.52x in FY21 and 0.59x in FY20. The debt coverage indicators, Interest Service Coverage Ratio (ISCR) and Debt Service Coverage Ratio (DSCR) have been at an above average level at 3.02x and 1.21x, respectively in FY22 against an ISCR and DSCR of 2.29x and 1.53x, respectively in FY21. A presence across various sectors with a wide range of products in the pipe segment has helped the company maintain a comfortable financial profile over the years.

- **Q1FY23 financial performance:** Revenues marginally declined to the tune of 10% in Q1FY23 vis-a-vis Q4FY22. This was mainly on account of lower demand for the segment of large dia pipes, which are used in systems for transporting potable water, industrial water, irrigation water and pressure sewage. However, in Q1FY23, in comparison to Q1FY22 and Q1FY20, revenues witnessed a considerable increase of 22.80% vis-a-vis FY21 and three-digit growth vis-a-vis FY20. Due to a volatile environment with respect to price uncertainty of key raw materials, the company's profitability for Q1FY23 was impacted. The OPM declined to 7% in Q1FY23 (PQ:10%) from 15% in Q1FY22. Furthermore, driven by decline in the EBITDA and increased interest costs in Q1FY23 vis-a-vis Q1FY22, the company's ISCR deteriorated to 1.56x in Q1FY23 (PQ:3.48x) from 3.62x in Q1FY22.

Credit Risk:-

- **Exposure to subsidiaries/group companies:** JSL had investments in subsidiaries, joint ventures and associates, and loans and advances (short term and long term) extended to related parties/subsidiaries stood at Rs.1024.96Cr in FY22 (FY21: Rs.655.94Cr) and Rs.1434.76Cr in FY22 (PY: Rs.1617.72 Crs). JSL's commitments towards its subsidiaries in the form of performance guarantees and a letter of comfort stood at Rs.735.07 Cr in FY22 (PY:Rs.585.57Cr). The company has been consciously bringing down other off-B/s commitments in the past and is expected to continue this in future as well. The company has provided support to its subsidiary, JSL's 51% holding company Jindal ITF Ltd, which is in arbitration with a government entity, NTPC. Jindal ITF Ltd had won an arbitral award allowing various claims to the tune of Rs 1,891.08 Crs, of which the subsidiary had already received Rs 856.31 Crs in interim relief against the submission of a BG to the court. Presently, the matter is sub-judice with the High Court of Delhi, and the next hearing will now take place in Nov-22.
- **Working-capital-intensive operations:** Integral to the nature of the business undertaken, JSL's operations continue to remain working-capital-intensive. The Gross Current Assets (GCA) reduced to 171 days as on 31 March 2022, from 198 days as on 31 March 2021. The working capital cycle remains high largely on account of the high inventory owing to a diversified product portfolio with integrated operations with a captive pellet plant and coke oven to manufacture ductile pipes. The inventory days stood at 115 days in FY22 as against 125 days in FY21, and the collection period is close to 60 days, which stood at 56 days in FY22 (PY: 72 days). Besides this, high exposure towards group companies has impacted the company's return indicators.



- **Susceptibility to fluctuation in raw material prices and forex:** The two key raw material items for the company include steel and coking coal, and the prices of both have been highly volatile in the recent past; a sharp adverse movement in any of the commodity prices can have a bearing on the company's profitability. To mitigate the same, the company procures steel backed by the order book, avoiding large time lags between procuring the new order and booking for steel for the same. The company avoids speculations, which helps it stabilise profitability margins. The majority of the forex exposure for the company is naturally hedged, and the remaining exposure of the company is hedged by booking forward contracts.
- **Inherent risk of the industry and intense competition:** The industry is highly fragmented, with the presence of both organised and unorganised players providing similar products/services. Hence, the company faces competition from regional players, leading to intense competition and pricing pressures, which in turn affects the company's profitability margins.

Analytical Approach

To arrive at its ratings, BWR has applied its rating methodology as detailed in the rating criteria below (hyperlinks provided at the end of this rationale). BWR has used a standalone approach while arriving at the ratings.

RATING SENSITIVITIES

Upward: BWR may revise the ratings upward in the case of a substantial improvement in the scale of operations and profitability, along with the sustenance of the analysed gearing below 0.4x and an ISCR above 3.7x .

Downward: BWR may revise the rating downward in the case of a significant reduction in the scale of operations, operating margins, and/or a deterioration in debt protection metrics.

Liquidity (Strong): The company has a strong liquidity position. The company's average working capital utilisation stood at ~75% for the last 11 months ending July 2022 (last three months' utilisation ~65% ending July 2022). The company had a repayment obligation of Rs.578 Crs. in FY22, which was met through internal accruals. Furthermore, the repayment obligation of the long-term debt in FY23 stood at Rs.352.20 Crs, against which the company is projected to generate cash accruals of ~Rs.850 Crs. in FY23, thereby indicating a strong liquidity position. Free cash balance stood at Rs.516.71 Crs in FY22 and Rs.356 Crs as on 30 June 2022.

About the entity

Jindal Saw Ltd (JSL), the flagship company of PR Jindal group, was incorporated as Saw Pipes Ltd in 1984, and the name of the company was changed to Jindal Saw Ltd in February 2005. It manufactures LSAW pipes, HSAW pipes, DI pipes, seamless pipes and pellets. The promoter group held a 63.02% equity stake in the company as on 30 June 2022. It is listed on both the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). It has five manufacturing units in India with a capacity of 22,40,000 metric tonne per annum, in Kosi Kalan (UP), Mundra



(Gujarat), Nashik (Maharashtra), Bellary (Karnataka) and Bhilwara (Rajasthan). Besides this, it had an iron ore mine at Bhilwara (Rajasthan) with a beneficiation plant and pellet plant with an installed capacity of 15,00,000 MTPA, as on 31 March 2022. It is an ISO-certified company.

Key Financial Indicators (Standalone)

Key Financial Indicators			
Result Type	Units	31/Mar/2021	31/Mar/2022
		Audited	Audited
Total Operating Income	Rs.Crs	8631.81	11022.27
OPBDIT	Rs.Crs	924.69	1115.40
PAT	Rs.Crs	329.05	405.50
Total Debt/TNW	Times	0.49	0.56
Net Profit Margin	%	3.81	3.68
Operating Profit Margin	%	10.71	10.12
Current Ratio	Times	1.47	1.38

- Key covenants of the instrument/facility rated: Not Applicable (NA)
- Status of non-cooperation with previous CRA (if applicable): (NA)
- Reason and comments: NA
- Any other information: NA

Rating History for the last three years: (Including suspended/withdrawn ratings)

Facilities Available	Rating Assigned (2022)			Rating History						
				03 Sep 2021			19 Aug 2020			2021
NCD	FB - NCD	500	BWR AA/Stable (Reaffirmation)	FB - NCD	500	BWR AA/Stable (Reaffirmation)	FB - NCD	500	BWR AA/Stable (Reaffirmation)	NA
Total	Rs.500Crs			Rs. Five Hundred Crores Only						



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Jindal Saw Ltd.
ANNEXURE II

INSTRUMENT (NCDs) DETAILS

Instrument	Issue Date	Amount	Coupon(%)	Maturity Date	ISIN No.
NCDs (Issued)	26 Mar 2021	500	8.25%	31 Mar 2031	INE324A07179

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple (NCDs with fixed rate of return and no put/call option). BWR complexity levels are meant for educating investors. For more information, visit, www.brickworkratings.com/download/ComplexityLevels.pdf. Investors' queries can be sent to info@brickworkratings.com.

Hyperlink/Reference to Applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Rating Criteria - Manufacturing Companies.**



For print and digital media

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