



RATING RATIONALE

18 Oct 2023

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 Amount (Rs. Crs)	Present Amount (Rs. Crs)	Tenure	Previous Rating Sep 2022	Present Rating#
NCDs	500	500	Long Term	BWR AA (Stable) Reaffirmation	BWR AA (Stable) Reaffirmed
Total	500	500		Rupees 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 at 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.

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, established clientele, and strong technological competitiveness which 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 presence in Bhilwara (Rajasthan), where apart from having a low-grade iron ore mine, it has implemented iron ore beneficiation and a pellet plant. With acquisition of Sathavahana Ispat Limited (SIL), engaged in the manufacturing of DI pipes, pig iron and having its own coke oven and power plant, the company can now cater to Southern region of India. JSL has spent ₹1090 crore plus taxes for acquiring SIL's assets, which was funded through a debt of ₹1000 crores and balance through internal accruals. The said acquisition is likely to benefit JSL in terms of garnering the Southern DI pipes market where SIL has its manufacturing facilities.

Healthy Order Book Position: As on June 30, 2023, JSL had a healthy order book of nearly USD 1.4 billion in terms of value which consists of around 34% orders from global markets. The mix of order-book also remains healthy with Water and Irrigation sector accounting for around 73% of the orders followed by Oil & Gas sector with a share of ~21% and Industrial sector accounting for the rest. The order book is expected to be executed in the next 12-18 months. Furthermore, Brickwork Ratings expects that the government's push towards investment in the Water sector and renewed focus on investments in global Oil and Gas sector shall benefit the company in the medium term.

Growth in Total Operating Income and profit margins: JSL's total operating income (TOI) has shown a significant improvement in FY23 with a growth of around 40% from Rs. 11,022 crore to Rs. 15,282 crore on account of higher volumes and increased realisation. The net profit margins have also improved from 3.68% in FY22 to 4.64% in FY23.



Moderate financial risk profile: JSL has a moderate financial risk profile characterised by moderate debt coverage indicators and a comfortable standalone overall gearing. The overall gearing of the company, on a standalone basis, improved and continued to remain healthy at 0.39x as on March 31, 2023 (FY22: 0.57x). The total debt-to-EBITDA ratio of the company improved significantly to 2.76x as on March 31, 2023, from 3.74x in FY22. According to the company management, during FY23 and Q1FY24, no further incremental support was provided towards subsidiaries/group companies and the company has recovered ₹413 crore from the said exposure during April 2022 to September 2023 period. The debt service coverage ratio also improved from 1.21x in FY22 to 1.83x in FY23.

Competitive advantage in cost structure for Pellet Plant: JSL operates a captive mine in Bhilwara, Rajasthan, with estimated reserves of nearly 180 MMT of low-grade iron ore and extracts about 6-7 million tonnes annually. The pellets division reported sales of Rs. 1,601 crore in FY23, which is reduced in FY23 as compared to Rs. 2,101 crore in FY22 on account of reduction in iron ore and pellet prices. The captive availability of iron ore leads to competitive cost structure for the pellets manufactured by the company, and relatively stable operating profit margins for the company as a whole.

Credit Risks:-

Exposure to subsidiaries/group companies: JSL had investments of 1,270 crore as on March 31, 2023 (PY: ₹1,025 crore) in subsidiaries, joint ventures (JV), and associates. This increase is majorly the conversion of advances to equity in FY23, and loans and advances extended to related parties stood at ₹1,442 crore as on March 31, 2023 (FY22: ₹1,311 crore). Furthermore, JSL's commitments towards its subsidiaries in the form of corporate guarantees reduced to ₹680 crore as on March 31, 2023 (PY: ₹707 crore). The increase in investments is due to conversion of loans & advances of some group companies into equity. In line with the management's stated and demonstrated stance, no major cash support has been provided to any subsidiary in FY23 except for a newly formed JV entity namely Jindal Hunting Energy Services limited, in which the outflow of around ₹15 crore has been invested.

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.

KEY RATING SENSITIVITIES

Positive: A sustained and substantial improvement in revenue, profitability and debt coverage indicators.

Negative: A substantial deterioration in profitability and debt coverage indicators.

LIQUIDITY INDICATORS (Strong): Jindal Saw Limited has strong liquidity marked by healthy net cash accruals of Rs. 1100 Crs in FY23 against the annual debt repayment obligations aggregating to ~Rs. 250 crores in FY24. The company had unencumbered cash and cash equivalents of Rs. 40.52 crore as on March 31, 2023. The maintenance capex requirements of Rs. 250-300 crore are modular and will be funded through internal accruals. The overall gearing and the current ratio of the company is also comfortable at 0.39x and 1.39x respectively as on March 31, 2023.

COMPANY PROFILE

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

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 63.26% equity stake in the company as on 30 June 2023. 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 2023. It is an ISO-certified company. Recently, the company has also acquired Sathavahana Ispat Limited (SIL), which is engaged in the manufacturing of DI pipes, pig iron and having its own coke oven and power plant, which will help the company cater to its market in southern India.

KEY FINANCIAL INDICATORS

Rs. Crs	Standalone		
	FY22	FY23	Q1FY24
	Audited	Audited	UnAudited
Total Operating Income	11022.27	15282.31	3763
EBITDA	1115.40	1352.53	546
Net Profit	405.50	709.3	277
Total Debt	4172.58	3121.61	-
Tangible Net worth	7480.15	7986.83	-
Debt to Equity	0.57	0.39	-
Current Ratio	1.37	1.39	-

NON COOPERATION WITH PREVIOUS RATING AGENCY(IF ANY) - NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawn / suspended ratings)

S.No	Instrument /Facility	Current Rating (2023)			Rating History		
		Type (Long Term/ Short Term)	Amount (Rs. Crs)	October 2023	2022	2021	2020
1	NCD	Long Term	500	BWR AA (Stable) Reaffirmed	BWR AA (Stable) Reaffirmed (14 September)	BWR AA (Stable) Reaffirmed (03 September)	BWR AA (Stable) Assigned (19 August)
	Total		500	Rupees Five Hundred Crores Only			

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/References to Applicable Criteria

- [General Criteria](#)
- [Approach Financial Ratios](#)
- [Manufacturing Companies](#)

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Jindal Saw Ltd.
Annexure I

Details of Bank Loan Facilities Rated by BWR - NA

Annexure II

INSTRUMENT (NCDs) DETAILS

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

*Coupon payable semi-annually on March 26 and September 26 of every year.

**NCDs will be redeemed in 3 equal annual instalments payable on 26th March 2029, 26th March 2030 & 26th March 2031.

Annexure III

List of Consolidated Entities - NA



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