September 12, 2022

Maharashtra Seamless Limited: Long-term rating upgraded to [ICRA]AA(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	15.00	185.00	[ICRA]AA(Stable); Upgraded from [ICRA]AA-(Stable)
Long-term Fund-based – Term Loan	720.0	621.72	[ICRA]AA(Stable); Upgraded from [ICRA]AA-(Stable)
Short-term Fund-based	60.00	-	-
Long-term/ Short-term Non-fund Based	1,100.00	999.00	[ICRA]AA(Stable)/ [ICRA]A1+; Long-term rating Upgraded from [ICRA]AA-(Stable)/ short-term rating reaffirmed
Long-term/ Short-term Unallocated Limits	305.0	394.28	[ICRA]AA(Stable)/ [ICRA]A1+; Long-term rating Upgraded from [ICRA]AA-(Stable)/ short-term rating reaffirmed
Issuer Rating	-	-	[ICRA]AA(Stable); Upgraded from [ICRA]AA-(Stable)
Total	**2,200.00**	**2,200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade factors in Maharashtra Seamless Limited's (MSL or company) better-than-expected performance in FY2022 coupled with an improvement in its liquidity position and expected deleveraging with the proposed prepayment of substantial debt in FY2023. The rating upgrade also factors in the company's reduced focus on non-core investments, as substantiated by the considerable reduction in investments in/ loans and advances to Group companies and corporate guarantees issued in favour of Group companies in the recent years.

Post the pandemic-induced business disruptions faced in FY2021, MSL's performance recovered at a healthy rate, with the company reporting all-time high revenues in FY2022, on a consolidated basis. Besides improved volumes and realisations in standalone operations, the performance in FY2022 had also been supported by a healthy turnaround of United Seamless Tubulaar Private Limited's (USTPL[1]; entity acquired under the Insolvency and Bankruptcy Code [IBC] proceedings in FY2019) operations, which became operational in October 2020. ICRA expects MSL to report healthy revenues and earnings in the medium term, supported by its leadership position in the domestic seamless pipes sector, healthy order book position, presence in the high value-added, large-diameter pipe segment, which faces relatively lower competition, and its status as a registered vendor for major domestic oil producers and refiners. The company also continues to benefit from the extension of anti-dumping duty on the imports of seamless pipes, for five years in October 2021.

The ratings, however, remain constrained by the vulnerability of the company's revenues and profitability to cyclicality associated with the oil and gas industry and exposure to volatility in input prices. Further, the ratings remain constrained by the company's investment exposure in related companies, which continues to constrain its return metrics. Nevertheless, while upgrading the company's long-term rating, ICRA has noted a considerable reduction in the company's exposure to related companies in the form of investments/ loans and advances (with all inter-corporate deposits expected to be realised by March 2024), as well as corporate guarantees. Corporate guarantees extended to the Group's overseas companies used to severely

[1] proposed to be merged with MSL [application for amalgamation submitted with NCLT, Mumbai

constrain the company's adjusted leverage metrics in the past. Further, ICRA has noted the company's stated intent to solely focus on its core operations (seamless pipes, ERW pipes and renewable energy) and not extend any incremental support to related companies.

The Stable outlook on the company's long-term rating reflects ICRA's expectation of strong liquidity position and healthy capitalisation and debt coverage metrics, supported by steady earnings growth from core operations, moderate capex plans, negligible debt-funding requirements and proposed prepayment of scheduled debt. Further, the outlook reflects ICRA's expectation of a continued reduction in the company's related party exposure, going forward.

Key rating drivers and their description

Credit strengths

Leadership position in the domestic seamless pipes sector, further strengthened by successful turnaround of USTPL's operations – MSL is the leading domestic manufacturer of seamless pipes with an estimated production capacity of 4,50,000 tonnes per annum (tpa) with a strong presence in the high value-added, large-diameter seamless pipes segment (outer diameter or OD >10 inch), which sees relatively lower competition. In the seamless pipes segment, MSL primarily caters to companies in the oil and gas sector, where it is a registered vendor for major domestic oil producers and refiners. In addition, it caters to other sectors, including power plants, boilers, general engineering, etc., and undertakes exports as well. MSL's capacity share in the domestic seamless pipe market got enhanced further with the acquisition of USTPL (having an installed production capacity of 2,00,000 TPA) in FY2019, and its successful turnaround by MSL post commissioning of operations in October 2020. At present, the company is estimated to have a market share of more than 50% in the domestic seamless pipes industry (including USTPL).

Strong financial risk profile, underpinned by low financial leverage – MSL's established market position in the seamless pipes business has supported healthy turnover, cash accruals and accumulation of sizeable net worth over the years. Post the pandemic-induced business disruptions in FY2021, MSL's performance recovered at a healthy pace in FY2022 in terms of revenues as well as profits. Together with scheduled amortisation of term debt (Rs. 1,139.9 crore as on March 31, 2020 to Rs. 708.6 crore as on March 31, 2022) and funding of working capital requirements, capital outlays and investments from internal accruals incrementally, this has kept the company's financial risk profile strong, corroborated by the Consolidated Total Debt/Tangible Net Worth of 0.2 time as on March 31, 2022 (0.3 time as on March 31, 2021) and (consolidated net debt + guaranteed debt)/ OPBIDTA of 0.6 time in FY2022 (1.2 times in FY2021). Further, the company's coverage metrics also reported an improvement, with DSCR of 2.3 times in FY2022 compared to 1.4 times in FY2021.

Considerable reduction in contingent liabilities and investments in related companies provide comfort – Over the years, MSL had extended sizeable credit support to its overseas entities in the form of investments as well as corporate guarantees and SBLCs. However, these have reduced substantially in the recent years following the company's reduced focus on non-core investments and a decline in debt outstanding in the books of such entities. While investments and loans and advances to related companies declined to Rs. 337.2 crore as on March 31, 2022 from the peak level of Rs. 1,561.4 crore as on March 31, 2019, the amount of corporate guarantee declined to Rs. 294.1 crore as on March 31, 2022 from the peak level of Rs. 2,576.9 crore as on March 31, 2015. Besides recovery against some investments/ advances, the company has impaired/ written off some non-moving investments, while explicitly stating its intent to not extend any incremental support (in the form of funding as well as guarantees) to the related companies and not making any investments in non-core operations (i.e. segments other than seamless/ ERW pipes and renewable energy).

Operational support from anti-dumping duty and preference given by PSUs to domestic seamless pipe manufacturers – To address the issue of dumping from China India imposed an ADD for five years starting May 2016, which has been extended for another five years in October 2021. Along with PSUs' preference for domestic manufacturers for procurement and other domestic industry friendly measures of the Government, such as the minimum quantum of value addition to be undertaken in the country under the 'Atmanirbhar Bharat' drive, this has kept the operating environment for domestic seamless pipe manufacturers favourable, supporting their performance in the recent years.

Healthy financial flexibility underpinned by parentage of DP Jindal Group – MSL is the flagship company of the DP Jindal Group, which also includes Jindal Pipes Limited (JPL) and Jindal Drilling Industries Limited (JDIL), among other key companies in its fold.

Credit challenges

Sizeable investment portfolio constrains return metrics – Despite the YoY reduction in the recent years, MSL has investments in related companies (including amount extended as loans and advances) aggregating to ~Rs. 337 crore as on March 31, 2022, equivalent to ~7% of its capital employed. Most of these investments are yet to generate any meaningful returns for MSL. Together with sizeable Rs. 730-crore investment made by MSL in an oil rig in FY2020, which generates lower return than the company's core operations, this constrains the company's return metrics and keeps them moderate, as reflected in a return on capital employed (ROCE) of 12.8% in FY2022. Adjusted for the investments (i.e. excluding the investment portfolio, but including the rig owned by the company), the company's ROCE stood at ~18% in FY2022.

Vulnerability to cyclicality associated with the oil and gas industry, besides its exposure to volatility in input prices – MSL's profitability remains exposed to volatility in input prices due to the fixed-price nature of its contracts and lack of backward integration although it takes orders with short tenures and stocks raw material inventory to mitigate the risk. Further, most of the demand for seamless pipes comes from exploration and production (E&P) activities in the oil and gas sector, which is cyclical in nature and depends on oil prices. The company's exposure to cyclicality in the oil and gas sector stands increased with its acquisition of an oil drilling rig, as timeliness of renewal of charter as well as charter rates depend on the sector's prevailing scenario.

Risk appetite for inorganic growth opportunities though the company has stated its intent to focus on core operations, going forward – MSL has a track record of inorganic growth through acquisitions in the pipes as well as other segments, such as mines and oil rigs. The most recent investments by the company were towards the acquisition of USTPL in FY2019, previously a joint venture between the Hyderabad-based Kamineni Group and the Malaysian UMW Group, under Corporate Insolvency Resolution Process (CIRP), and an oil rig from its associate company. In this context, ICRA has factored in the management's stated stance to not provide any incremental credit support to any of the related entities, in the form of investments or incremental corporate guarantees, going forward. Further, ICRA has noted the company's intent to focus only on core operations under the seamless/ ERW pipes and renewable energy segments. Any sizeable investments which adversely impact the company's liquidity and/ or adjusted credit metrics, would remain a key rating monitorable.

Liquidity position: Strong

MSL's liquidity position is expected to remain strong, backed by its portfolio of liquid investments, healthy surplus cash flow generation from the core businesses as well as expected reduction in incremental financial support to related companies. The company's strong liquidity position is corroborated by its cash and bank balances and portfolio of liquid investments of more than Rs. 530 crore as on March 31, 2022, and nil utilisation against Rs. 185.00-crore sanctioned fund-based working capital limits by the company in the recent past, compared to scheduled repayment obligations of Rs. 192.6 crore and planned capex outlay of ~Rs. 150.0 crore in FY2023. Further, ICRA expects the company's free cash flows to be adequate to fund its capex requirements as well as scheduled repayment obligations.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company strengthens its business risk profile by ensuring optimum utilisation of its available capacities, while maintaining robust profitability, which results in a material and healthy improvement in its return metrics, with a ROCE of more than 22% on a sustained basis.

Negative factors – The ratings could be downgraded if MSL's operating performance weakens materially, or if any aggressive investments/ acquisitions (debt-funded or otherwise), or a significant stretch in the working capital cycle, weakens the company's liquidity profile and/or results in an increase in its leverage. Specific metric that could trigger a downgrade include (consolidated net debt + guaranteed debt)/ OPBIDTA of more than 1.0 time on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MSL. As on March 31, 2022, the company had five subsidiaries, two stepdown subsidiaries, two associates and two joint ventures, which are all enlisted in Annexure-2.

About the company

Incorporated in 1988, MSL is a part of the DP Jindal Group, which also includes Jindal Pipes Limited and Jindal Drilling Industries Limited. The company primarily manufactures seamless pipes with an estimated production capacity of 4,50,000 TPA[2] and ERW pipes with an estimated capacity of 1,25,000 TPA[1] across its manufacturing facilities at Raigad in Maharashtra. Further, the entity acquired under the Insolvency and Bankruptcy Code (IBC) proceedings in FY2019, USTPL, has a seamless pipe manufacturing capacity of 2,00,000 TPA. It enjoys market leadership in the domestic seamless pipes market and has the capacity to manufacture seamless pipes with outside diameter (OD) of up to 20 inches.

Apart from the seamless and ERW pipes business, MSL has developed a renewable (solar/ wind) power portfolio of 59.5 MW capacity across Maharashtra and Rajasthan. In the past, it also floated subsidiaries and invested in associate companies with business interests in developing jack-up rigs and iron ore mines. However, the company has materially reduced its exposure in these businesses in the recent past and intends to focus on its core segments of pipes and renewable energy, going forward.

Key financial indicators (audited)

MSL Consolidated	FY2021	FY2022
Operating income	2,308.3	4,200.3
PAT	147.8	433.3
OPBDIT/OI	20.2%	14.6%
PAT/OI	6.4%	10.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	2.0	1.2
Interest coverage (times)	8.3	12.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[2] It is noted that MSL has restated its installed capacities for seamless pipes (from 550,000 TPA previously to 450,000 TPA now) and ERW pipes (from 200,000 TPA previously to 125,000 TPA now) based on achievable capacity, adjusted for change-over times etc.

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Sep 12, 2022	Jun 07, 2021	Jul 08, 2020	Apr 24, 2020	Jan 07, 2020
1	Cash Credit	Long Term	185.00	--	**[ICRA]AA (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	621.72	615.0	**[ICRA]AA (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)
3	Short-term Loan/ Bill Discounting Facilities	Short Term	-	--	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Letter of Credit/ Buyer's Credit/ Bank Guarantee	Long Term/ Short Term	999.00	--	**[ICRA]AA (Stable)/ [ICRA]A1+**	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Negative)/ [ICRA] A1+	[ICRA]AA- (Negative)/ [ICRA] A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
5	Unallocated	Long Term/ Short Term	394.28	--	**[ICRA]AA (Stable)/ [ICRA]A1+**	[ICRA]AA- (Stable)/ [ICRA] A1+	[ICRA]AA- (Negative)/[ICRA] A1+	-	-
6	Issuer Rating	Long Term	-	--	**[ICRA]AA (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Letter of Credit/ Buyer's Credit/ Bank Guarantee	Very Simple
Unallocated	Not applicable
Issuer Rating	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	185.00	[ICRA]AA (Stable)
NA	Term Loan	FY2019-FY2020	NA	FY2029	621.72	[ICRA]AA (Stable)
NA	Letter of Credit/ Buyer's Credit/ Bank Guarantee	NA	NA	NA	999.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	394.28	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Issuer Rating	NA	NA	NA	-	[ICRA]AA (Stable)

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Maharashtra Seamless (Singapore) Pte. Ltd.	100%	Full Consolidation
Maharashtra Seamless Finance Ltd.	100%	Full Consolidation
Discovery Oil And Mines Pte. Ltd.	100%	Full Consolidation
Jindal Premium Connections Pvt. Ltd.	100%	Full Consolidation
United Seamless Tubulaar Private Limited	100%^	Full Consolidation
Internovia Natural Resources FZ LLC	56%*	Full Consolidation
Zircon Drilling Supplies And Trading FZE**	100%	Full Consolidation
Jindal Pipes (Singapore) Pte. Ltd.	30%	Equity method
Star Drilling Pte. Ltd.	25%	Equity method
Dev Drilling Pte. Ltd.	25%	Equity method
Gondkhari Coal Mining Ltd.	30.3%	Equity method

*Source: Company and ICRA Research; *Including 51% stake owned by wholly-owned subsidiary – Discovery Oil & Mines Pte. Ltd.*

*** Wholly owned subsidiary of Internovia Natural Resources FZ LLC; ^as per the investor presentation dated July 25, 2022*

Note: *ICRA has taken a consolidated view of the parent (MSL), its subsidiaries and associates while assigning the ratings.*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Nidhi Marwaha
+91 124 4545 337
nidhim@icraindia.com

Pratika Jain
+91 124 4545 321
pratika.bhandari@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches