December 10, 2024

Maharashtra Seamless Limited: Long-term rating upgraded to [ICRA]AA+; short-term rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based limits	106.0	136.0	[ICRA]AA+ (Stable); rating upgraded from [ICRA]AA; outlook revised to Stable from Positive
Long term/Short term – Non-fund based limits	1,249.0	1,219.0	[ICRA]AA+ (Stable)/ [ICRA]A1+; long-term rating upgraded from [ICRA]AA; short-term rating reaffirmed; outlook revised to Stable from Positive
Long term/Short term – Unallocated limits	345.0	95.0	[ICRA]AA+ (Stable)/ [ICRA]A1+; long-term rating upgraded from [ICRA]AA; short-term rating reaffirmed; outlook revised to Stable from Positive
Long term – Term loan	-	250.0	[ICRA]AA+ (Stable); rating upgraded from [ICRA]AA; outlook revised to Stable from Positive
Issuer rating			[ICRA]AA+ (Stable); rating upgraded from [ICRA]AA; outlook revised to Stable from Positive
Total	**1,700.0**	**1,700.0**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating upgrade factors in the expectation of a sustained healthy financial risk profile of Maharashtra Seamless Limited (MSL or company), supported by a stable operating performance and continued domestic demand from the end-user industries, as reflected in company's healthy order book position of ~Rs. 1,700 crore as of October 2024. While the revenue and operating profitability moderated in H1 FY2025, the operating margin (OPM) is expected to improve in H2 FY2025, resulting in an OPM of 16-17% for the full fiscal year. While this remains below ICRA's earlier expectations, the profitability is expected to remain comfortable with a core return on capital employed (RoCE) of 19-20%. In addition, the entity continues to remain debt-free as on September 30, 2024, leading to a healthy capital structure and strong debt coverage indicators. The liquidity position of the entity also remained strong with a liquid and investment portfolio of ~Rs.2,387 crore as on September 30, 2024, and unutilised bank limits.

The ratings continue to consider MSL's leadership position in the domestic seamless pipes sector, supported by its sizeable capacity, presence in 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. MSL also continues to benefit from the anti-dumping duty (ADD) on the imports of seamless pipes, imposed till October 2026. In addition, the preference given by Indian PSUs to domestic manufacturers in line with Atmanirbhar Bharat policy has supported the operating performance of the entity in recent years.

While upgrading the long-term rating, ICRA also take a note of the ongoing capital expenditure of ~Rs. 852 crore to be concluded over the next two years. The capex would be towards increasing the downstream capacities, hot mill upgradation and other process improvement initiatives, which is expected to improve the operating profile of the entity, once commissioned. Given the healthy liquidity and cash generation, the capex is expected to be primarily funded through internal accruals.

The ratings, however, remain constrained by the cyclical nature of the industry, driven by MSL's high dependence on the oil and gas sector and the susceptibility of its profitability to volatility in input prices. Further, the ratings are constrained by the company's investment exposure in the non-core segment, which continues to put pressure on its return metrics. Nevertheless, ICRA has noted the company's sustained focus on reducing the non-core investments in the past 3-4 years, realisation of loans and advances and complete discharge of corporate guarantees. Also, 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 any company. Any sizeable investment which adversely impacts the company's liquidity and/ or credit metrics would remain a key rating monitorable.

The Stable outlook reflects ICRA' expectation that MSL's margins are expected to remain steady over the medium term and its credit profile will continue to benefit from its strong market position in the seamless pipe segment and the healthy debt-coverage indicators and liquidity position.

Key rating drivers and their description

Credit strengths

Leading position in domestic seamless pipes sector – MSL is the leading domestic manufacturer of seamless pipes with an estimated production capacity of 6,50,000 tonnes per annum (TPA) and 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. The company's capacity share in the domestic seamless pipe market was enhanced after the acquisition of United Seamless Tubulaar Private Limited (USTPL; having an installed production capacity of 2,00,000 TPA) and its subsequent amalgamation with the company. At present, the company is estimated to have a market share of more than 50% in the domestic seamless pipes industry.

Strong financial risk profile, underpinned by low financial leverage – MSL's established market position in the seamless pipes business has led to a large scale of operations, healthy profitability and accumulation of sizeable net worth over the years. Further, the company's financial risk profile has remained strong with no outstanding term debt, minimal dependence on working capital debt and the funding of capital outlays and investments from internal accruals. While the revenue and profitability moderated in H1 FY2025, the performance is expected to improve in H2 FY2025, resulting in an operating margin (OPM) of 16-17% for the full fiscal year. The debt coverage indicators remained strong and with nil gross debt, and these are expected to remain healthy in the near to medium term.

Operational support from anti-dumping duty (ADD) and preference given by PSUs to domestic seamless pipe manufacturers –India imposed ADD for five years, starting May 2016, to address the issue of dumping from China. The ADD was extended for another five years in October 2021. The operating environment for domestic seamless pipe manufacturers has been favourable, backed by the 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, thereby supporting their performance in recent years.

Credit challenges

Vulnerability to cyclicality in oil and gas industry – 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 the cyclicality in the oil and gas sector is also evident from the presence of an oil drilling rig, as the timely renewal of charter as well as the charter rates depend on the sector's prevailing scenario. In H1 FY2025, the OPBITDA/tonne from the pipes segment was impacted by the drop in realisations, causing the operating profitability (OPM) to contract to 15% in H1 FY2025 vis-a-vis ~21% in H1 FY2024. ICRA also notes the vulnerability of MSL's profitability to the volatility in input prices i.e. steel billets. MSL stocks raw material inventory, earmarked against each order to mitigate the risk of volatility of input prices.

While this results in higher working capital requirements, the entity's debt-free status and strong liquidity position provides comfort.

Risks associated with inorganic growth through acquisitions – 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 company's last major investments were the acquisition of USTPL 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 entity in the form of investments or 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 credit metrics would remain a key rating monitorable.

ESG risks

MSL has a relatively low exposure to environmental risk because the company's principal operations include manufacturing seamless steel pipes, which have a significantly lower environmental impact than steelmaking. The primary environmental impact for the company arises from its dependence on the oil and gas sector. While the company has diversified presence across segments, it derives a sizeable proportion of its revenues from the oil & gas sector. Oil companies face high carbon transition risk and are subject to environmental regulations for emissions and water shortages. Global efforts towards a transition to low-carbon energy will gradually lower the demand for petroleum products in the coming decades. While a meaningful product substitution is not expected in the medium term, carbon emission related challenges could favour alternative energy products. Accordingly, the demand for oil may dampen in the long term, directly impacting the demand for MSL's products.

Additionally, environmental risk arises for the company from its use of electricity to power its plants and the use of water resources for processing and other purposes. In order to mitigate the risk emerging out of its reliance on power usage, the company has set up captive renewable (solar and wind) power capacities, which can fulfill most of its power requirements.

Casualties/accidents at operating units due to gaps in safety practices may not only result in production outages, but also invite penal actions from regulatory bodies. Further, the company is exposed to labour related risks and risks of protests/social issues with local communities, which might impact the expansion/modernisation plans.

Liquidity position: Strong

MSL's liquidity position is expected to remain strong, backed by its portfolio of liquid investments and healthy surplus cash flow generation from the core businesses. The company's strong liquidity position is corroborated by its cash and bank balances, liquid investments and portfolio of investments in bonds/FDs/mutual funds of ~Rs. 2,387 crore as on September 30, 2024, and nil utilisation against Rs. 106.00-crore sanctioned fund-based working capital limits. ICRA expects the company's free cash flows to be sufficient to fund its capex requirements, in the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if it demonstrates a significant growth in its operating income and profitability, along with strong liquidity and coverage metrics.

Negative factors – The ratings could be downgraded in case of a sustained weakening of operating profitability, and/or if there are any aggressive investments/acquisitions (large debt-funded or otherwise), or if there is a significant stretch in the working capital cycle that would weaken the company's liquidity position and increase its leverage. A specific metric for downgrade includes total debt/ OPBIDTA of more than 0.75 times 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. The list of entities considered for consolidation are enlisted in Annexure II

About the company

Maharashtra Seamless Ltd (MSL), incorporated in 1988, belongs to the D. P. Jindal Group, which also has Jindal Pipes Limited and Jindal Drilling & Industries Limited. The company primarily manufactures seamless and electric resistance welded (ERW) pipes with an installed capacity of 650,000 tonnes per annum (TPA) of seamless pipes, and 125,000 TPA of ERW pipes across its manufacturing facilities at Raigad in Maharashtra. It has the capacity to manufacture seamless pipes with outside diameter (OD) up to 20 inches. MSL had acquired USTPL, having a seamless pipe manufacturing unit of 200,000 TPA in Telangana, under IBC proceedings. USTPL was amalgamated with MSL under the Corporate Insolvency Resolution Process (CIRP) as ordered by the National Law Tribunal (NCLT), on March 03, 2023.
Apart from the seamless and ERW pipes business, MSL has developed a renewable power portfolio aggregating 59.5 MW capacity across Maharashtra and Rajasthan. The company has materially reduced its exposure in non-core 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	FY2023	FY2024	H1 FY2025*
Operating income	5,716.0	5,404.0	2,443
PAT	797.1	974.3	358.5
OPBDIT/OI	18.5%	22.6%	14.6%
PAT/OI	13.9%	18.0%	14.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.1	0.1
Total debt/OPBDIT (times)	0.2	0.0	0.0
Interest coverage (times)	27.6	144.4	204.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Dec 10, 2024	Dec 11, 2023	Sept 12, 2022	Jun 07, 2021
1	Fund based – Cash credit	Long term	136.0	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)
2	Non-fund based	Long/short term	1219.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
3	Unallocated limits	Long/short term	95.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
4	Issuer rating	Long term	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)
5	Fund based – Term loans	Long term	250.0	[ICRA]AA+ (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA-(Stable)
6	Short-term loan/Bill discounting facilities	Short Term	-	-	-	-	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple
Non-fund based limits	Very Simple
Unallocated limits	Not Applicable
Issuer rating	Not Applicable
Long-term fund-based – Term loan	Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based – Cash credit**	NA	NA	NA	136.0	[ICRA]AA+ (Stable)
NA	**Non-fund based limits**	NA	NA	NA	1219.00	[ICRA]AA+ (Stable)/[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	95.00	[ICRA]AA+ (Stable)/[ICRA]A1+
NA	**Issuer rating**	NA	NA	NA	-	[ICRA]AA+ (Stable)
NA	**Term loans**	NA	NA	NA	250.0	[ICRA]AA+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	MSL 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
Internovia Natural Resources FZ LLC	56%	Full Consolidation
Zircon Drilling Supplies and Trading FZE	56%	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: MSL annual report FY2024

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