June 07, 2021

Maharashtra Seamless Limited: Ratings 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 – Cash Credit	15.00	15.00	[ICRA]AA-(Stable) reaffirmed; Outlook revised to Stable from Negative
Long-term Fund-based – Term Loan	812.5	720.0	[ICRA]AA-(Stable) reaffirmed; Outlook revised to Stable from Negative
Short-term Fund-based	45.00	60.00	[ICRA]A1+ reaffirmed
Long-term/ Short-term Non-fund Based	1,270.00	1,100.00	[ICRA]AA-(Stable)/ [ICRA]A1+ reaffirmed; Outlook revised to Stable from Negative
Long-term/ Short-term Unallocated Limits	57.5	305.0	[ICRA]AA-(Stable)/ [ICRA]A1+ reaffirmed; Outlook revised to Stable from Negative
Issuer Rating	-	-	[ICRA]AA-(Stable) reaffirmed; Outlook revised to Stable from Negative
Total	**2,200.00**	**2,200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Stable on the long-term and issuer ratings of Maharashtra Seamless Limited (MSL or the company) factors in the expectation of a steady operational and financial risk profile, backed by improved outlook on upstream capital spending and timely re-deployment of the acquired off-shore drilling rig. While the second wave of the pandemic is resulting in operational disruptions, similar to last year, these are expected to be temporary in nature. Comfortable order-book position, together with continued ramp up of operations at United Seamless Tubulaar Private Limited (USTPL) (entity acquired under the Insolvency and Bankruptcy Code (IBC) proceedings) are expected to support the company's revenues in the near term. Further, despite the performance pressures faced by the company in FY2021, owing to the pandemic impact in H1 FY2021, its financial profile remained strong underpinned by healthy and range-bound profit margins and low financial leverage at a consolidated level (estimated Total Debt/Tangible Net Worth) of 0.3 time as on March 31, 2021 (Estimated; E) and Net Debt/OPBDITA of 0.8 times for FY2021 E). Despite the low financial leverage, the ratings factor in the sizeable credit support extended by the company to its overseas associates in the form of corporate guarantees and stand-by letters of credit (SBLCs), adjusting for which the leverage ([net debt + guaranteed debt]/ operating profit) stands higher (estimated at ~1.6 times as on March 31, 2021 E). In this context, ICRA draws comfort from a gradual reduction in guaranteed debt obligations over the years, besides improved earnings visibility from the underlying assets following lease charter renewals over a past couple of years, which is expected to keep the reliance of these entities on incremental funding support low from MSL in the near to medium term, unlike the recent years.

The ratings also continue to draw strength from MSL's leadership position in the domestic seamless pipes sector, supported by its sizeable capacity, presence in the high value-added, large-diameter pipe segment, which faces relatively low competition, and its status as a registered vendor for major domestic oil producers and refiners. The ratings, however, remain constrained by the sizeable exposure to group companies, which continues to constrain its return metrics. Moreover, the impact of discontinuance of anti-dumping duty (ADD; valid till October 2021 at present) on the company's sales and profitability, if any, remains to be seen and, hence, remains a rating sensitivity. In this context, ICRA draws comfort from the protectionist measures adopted by the Government.

Key rating drivers and their description

Credit strengths

Leadership position in the domestic seamless pipes sector – MSL is the leading domestic manufacturer of seamless pipes with an installed production capacity of 550,000 tonne 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 low 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, automobile engineering, etc. MSL's capacity share in the domestic seamless pipe market stands enhanced further with the acquisition of USTPL (with an installed production capacity of 350,000 TPA) in FY2019.

Strong financial 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. Despite a moderation in turnover in FY2020 and FY2021, its profitability remained healthy. As a result, its credit profile has remained strong, corroborated by an estimated Consolidated Total Debt/Tangible Net Worth of 0.3 time as on March 31, 2021(E) and Net Debt/OPBDITA of 0.8 time in FY2021(E). This is despite sizeable incremental debt availed by the company in the recent years for acquiring a rig as well as USTPL. In addition, the company's working capital borrowings remain low vis-à-vis its net current assets, which provides it financial flexibility to avail enhancements when required. While sizeable repayments in international subsidiaries constrained the DSCR in FY2021 and are likely to keep it moderate in the near term, ICRA draws comfort from MSL's demonstrated refinancing track record and successful deployment of all rigs owned by the group.

Operational support from ADD and preference given by PSUs to domestic seamless pipe manufacturers – To address the issue of intense competition for domestic players due to imports from China, a 20% ad-valorem duty was imposed by India in August 2014 for one year, followed by a 10% duty in the second year. Further, an ADD was imposed for five years starting May 2016. Together with the preference given by PSUs to domestic manufacturers for their procurements and other protectionist measures of the Government, such as minimum quantum of value addition to be undertaken in the country and the 'Make in India' drive, this kept the operating environment for domestic seamless pipe manufacturers favourable, supporting their performance in recent years. With the ADD is scheduled to be over in October 2021, the sector remains exposed to the risk of surge in imports thereafter. Nonetheless, domestic manufacturers are expected to continue to benefit from other protectionist measures adopted by the Government.

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[1]) and Jindal Drilling Industries Limited (JDIL), among other key companies in its fold. Besides its presence in the steel pipes and tubes segment, the Group also owns six rigs through various Group companies. The drilling/rig management business is now undertaken by JDIL (which manages five rigs, one of which is owned by MSL) and another Group company, Dev Drilling Pte. Ltd. (which manages one rig).

Credit challenges

Sizeable contingent liabilities and increased leverage after acquisitions; but reduction in guaranteed amounts and deployment of rigs in international subsidiaries provide comfort - Over the years, MSL has extended sizeable credit support to its overseas associates in the form of corporate guarantees and SBLCs (aggregating to Rs. 922.0 crore as on March 31, 2020). With the acquisition of a rig owned by an associate company in FY2020, the guaranteed amount is estimated to have reduced significantly as on March 31, 2021(E), with the falling off of guarantee for the associate's debt. However, debt outstanding in the books of MSL increased correspondingly, with the debt availed to partly fund the acquisition consideration. Additionally, MSL raised debt during FY2019 to partly fund the acquisition of USTPL. Owing to funding support extended to Group companies, MSL's adjusted leverage ([consolidated net debt + guaranteed debt]/ OPBDITA) stands higher at 2.9 times and

1 *ICRA has [ICRA]A (Stable)/ [ICRA]A1 ratings outstanding for bank facilities of Jindal Pipes Limited. For detailed rating rationale on the company, please refer to ICRA's website: www.icra.in.*

~1.6 times in FY2020 and FY2021(E), respectively, vis-à-vis consolidated net debt/OPBDITA of 1.2 times and ~0.8 time, respectively. While the company's net debt position has improved in recent years supported by accumulation of sizeable liquid investments and cash balances, ICRA notes that it is yet to settle 50% consideration towards rig acquisition. While net cash outflows are likely to be limited, MSL's ability to continually maintain liquidity at this level, considering the track record of regular funding support to Group companies, remains to be seen. In this context, deployment of all rigs owned by the Group, debt-free status achieved by some rigs and the management's stated stance to provide only limited and need-based support to rig entities in the Group provide comfort.

Sizeable investment portfolio constrains return metrics - MSL has a sizeable investment portfolio (including amount extended as loans and advances), which stood at ~Rs. 1,169 crore as on March 31, 2021(E), equivalent to ~26% of its capital employed. Besides the Rs. 477 crore loans and advances given to USTPL, these were mainly investments in international Group entities owning offshore drilling rigs and mining assets. With most of these investments yet to generate any returns (investment in an international mining asset was fully impaired during FY2019-FY2020) for MSL, its return metrics remain modest, as reflected by a return on capital employed (ROCE) of ~8% in FY2021(E).

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 recent acquisition of an oil drilling rig from SDPL, as timeliness of renewal of charter as well as charter rates depend on the sector's prevailing scenario.

Risk appetite for inorganic growth opportunities – 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, previously a joint venture between the Hyderabad-based Kamineni Group and the Malaysian UMW Group, under CIRP, and an oil rig from its associate company, SDPL.

Liquidity position: Adequate

MSL has an **adequate** liquidity profile. The liquidity position improved during FY2021 (free cash and liquid investments improved to ~Rs. 600-650 crore as on March 31, 2021(E) from Rs. 505 crore as on March 31, 2020) supported by healthy surplus cash flow generation from core operations and release of funds from working capital. ICRA notes that the company is yet to settle 50% consideration towards rig acquisition. While net cash outflows towards this transaction are likely to be limited, its ability to continually maintain liquidity at this level, considering the track record of regular funding support to Group companies, remains to be seen. Nevertheless, ICRA expects the company's liquidity position to remain comfortable, supported 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 Group companies.

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 20% 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 (consol. net debt + guaranteed debt)/ OPBIDTA of more than 2.0 times, and inability to improve DSCR to more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Ferrous Metal Industry](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MSL. As on March 31, 2020, 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 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 installed production capacity of 550,000 TPA and ERW pipes with an installed capacity of 200,000 TPA across its manufacturing facilities at Raigad in Maharashtra. 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 power portfolio of 66MW capacity across Maharashtra and Rajasthan. It has also floated subsidiaries and invested in associate companies with business interests in developing jack-up rigs and iron ore mines.

Further, MSL acquired USTPL for a consideration of Rs. 477 crore, under IBC proceedings during FY2019, with possession getting handed over in February 2020. The Telangana-based USTPL, with a seamless pipe manufacturing capacity of 350,000 TPA, resumed its operations from October 2020.

Key financial indicators (audited)

MSL Consolidated	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	3,072.7	2,644.8	1,599.8
PAT (Rs. crore)	177.4	145.8	181.2
OPBDIT/OI (%)	21.8%	20.4%	19.8%
PAT/OI (%)	5.8%	5.5%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6	-
Total Debt/OPBDIT (times)	1.6	2.1	-
Interest Coverage (times)	17.2	8.5	7.2

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 (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Jun 07, 2021	Jul 08, 2020	Apr 24, 2020	Jan 07, 2020	Mar 29, 2019	Sep 24, 2018
1	Cash Credit	Long Term	15.00	--	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Term Loan	Long Term	720.0	720.0	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Short-term Loan/ Bill Discounting Facilities	Short Term	60.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Letter of Credit/ Buyer's Credit/ Bank Guarantee	Long Term/ Short Term	1,100.00	--	[ICRA]AA- (Stable)/ A1+	[ICRA]AA- (Negative)/ A1+	[ICRA]AA- (Negative)/ A1+	[ICRA]AA- (Stable)/ A1+	[ICRA]AA- (Stable)/ A1+	[ICRA]AA- (Stable)/ A1+
5	Unallocated	Long Term/ Short Term	305.0	--	[ICRA]AA- (Stable)/ A1+	[ICRA]AA- (Negative)/ A1+	-	-	[ICRA]AA- (Stable)/ A1+	[ICRA]AA- (Stable)/ A1+
6	Issuer Rating	Long Term	-	--	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)^

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Short-term Loan/ Bill Discounting Facilities	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]AA- (Stable)
NA	Term Loan I	FY2019	NA	FY2029	375.00	[ICRA]AA- (Stable)
NA	Term Loan II	FY2020	NA	FY2026	345.00	[ICRA]AA- (Stable)
NA	Short-term Loan/ Bill Discounting Facilities	NA	NA	NA	60.00	[ICRA]A1+
NA	Letter of Credit/ Buyer's Credit/ Bank Guarantee	NA	NA	NA	1,100.00	[ICRA]AA- (Stable)/ A1+
NA	Unallocated	NA	NA	NA	305.0	[ICRA]AA- (Stable)/ A1+
NA	Issuer Rating	NA	NA	NA	-	[ICRA]AA- (Stable)

Source: *Company*

Annexure-2: 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
United Seamless Tubulaar Private Limited	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 FY2020; *Including 51% stake owned by wholly-owned subsidiary – Discovery Oil & Mines Pte. Ltd.*

*** Wholly owned subsidiary of Internovia Natural Resources FZ LLC*

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 1100
jayanta@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

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

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

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
hivakumar@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