

July 03, 2017

Maharashtra Seamless Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term fund-based bank facilities	140.00 (enhanced from 25.00)	[ICRA]AA- /reaffirmed Outlook revised to 'Stable' from 'Negative'
Long-term/Short-term non-fund based bank facilities ^	575.00 (reduced from 693.50)	[ICRA]AA- / [ICRA]A1+ /reaffirmed Outlook on long-term rating revised to 'Stable' from 'Negative'
Long-term/Short-term unallocated	3.50 (increased from 0.00)	[ICRA]AA- / [ICRA]A1+ /reaffirmed Outlook on long-term rating revised to 'Stable' from 'Negative'
Issuer rating	-	Reaffirmed at IrAA- Outlook revised to 'Stable' from 'Negative'

*Instrument Details are provided in Annexure-1;

^Non-fund based limits are interchangeable between Letter of Credit, Bank Guarantee and Buyer's Credit

Rating action

ICRA has reaffirmed the long-term and short-term ratings of [ICRA]AA- (pronounced ICRA double A minus)¹ and [ICRA]A1+ (pronounced ICRA A one plus) respectively for the Rs. 718.50-crore² bank facilities of Maharashtra Seamless Limited (MSL). ICRA has also reaffirmed the issuer rating of IrAA- (pronounced I R double A minus) for MSL. The outlook on the long-term rating and the issuer rating has been revised to Stable from Negative.

Detailed rationale

The revision in outlook on MSL's long-term rating factors in improvement in operating environment for the company, following imposition of a definitive anti-dumping duty by India on imports of seamless pipes from China for a period of five years. This is expected to support MSL's sales volumes and pricing ability, and hence profitability in the medium term. Further, ICRA draws comfort from MSL's ability to get orders from other segments like dealers, mechanical, and infrastructure projects, its market leadership position among the domestic seamless pipe manufacturers, and its presence in large-diameter seamless pipe segment which has relatively low competition. Further, the ratings continue to derive comfort from MSL's strong balance sheet and liquidity position characterised by negative net debt and large portfolio of liquid investments, which helped it sail through tough operating environment on account of subdued demand and intense competition from imports during FY2016.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million



The long term rating however continues to factor in the cyclical nature of the industry, volatility in the input prices as well as surplus capacities available, which have affected the company's return indicators. Besides, MSL's credit profile is also constrained by sizeable contingent liabilities (~\$287 million) on account of corporate guarantees extended for loans availed by its subsidiaries and associate concerns.

While ICRA expects MSL's liquidity position to remain comfortable over the medium term, the performance of entities to which it has given guarantees would remain key rating sensitivity besides the production level and profitability of core operations.

Key rating drivers

Credit strengths

- Leadership position in the domestic seamless pipes sector, supported by sizeable capacity, presence in high value-add large-diameter pipe segment and status as a registered vendor for major domestic oil producers and refiners
- Strong financial flexibility underpinned by low financial leverage (negative net debt at standalone level) and robust liquidity position
- Improved operating environment following the imposition of definitive anti-dumping duty on imports of seamless pipes and tubes into India from China for five years starting May 2016

Credit weaknesses

- Sizeable contingent liabilities on account of guarantees/SBLCs extended for loans of subsidiaries and associates
- Vulnerability to the cyclical nature associated with the seamless pipes industry besides the exposure to volatility in input prices due to fixed-price contracts and lack of backward integration; the company, however, takes orders with short tenure and stocks raw-material inventory to mitigate the risk

Description of key rating drivers:

MSL is the leading domestic manufacturer of seamless pipes with an installed capacity of 550,000 tonnes per annum (tpa). Besides, the company manufactures Electric Resistance Welded (ERW) pipes with an installed capacity of 200,000 tpa and has developed a modest renewable-energy asset portfolio of 32 megawatt (MW) over the years. Nonetheless, steel pipes and tube segment continues to be the major contributor to MSL's revenues and profits (>95% of operating income and >85% of operating profits), with seamless pipes alone accounting for more than three-fourths of its operating income.

Within seamless pipes segment, MSL has a relatively strong position in domestic markets due to its balance-sheet strength and presence in the high value added large-diameter seamless pipes segment (outer diameter >10 inch) where other domestic manufacturers are not present. Notwithstanding MSL's leadership position in the domestic seamless pipes industry, its production levels have remained under pressure in the recent years as it witnessed intense competition due to imports from China, particularly after the US and European countries imposed anti-dumping duties on imports of seamless pipes from China in FY2011. To address this, a 20% ad-valorem duty was imposed by India on imports from China in August 2014 for one year, followed by a 10% duty in the second year. In May 2016, a provisional anti-dumping duty was imposed, which was subsequently made definitive in February 2017 for five years starting May 2016. This augurs well for the domestic manufacturers, given its positive impact on the sales volumes and pricing ability, and hence profitability. Supported by the improved operating environment, MSL has been reporting healthy sales volumes and profitability during the past few quarters. In FY2017, it achieved an operating income of Rs. 1,428 crore and operating profit of Rs. 220 crore compared to an operating income of Rs. 1,019 crore and operating profit of Rs. 33 crore in FY2016. Nevertheless, MSL's profitability remains exposed to volatility in input prices due to fixed-price contracts and lack of



backward integration; though the company takes orders with short tenure and stocks raw-material inventory to mitigate the risk.

While MSL's revenues and profits have remained volatile during the past few years due to the aforementioned factors, its credit profile has been supported by strong balance sheet and liquidity position characterised by negative net debt, large portfolio of liquid investments and sizeable unutilised working capital limits. Although MSL has marginal debt outstanding on its own books, it has extended credit support in the form of corporate guarantees and stand-by letters of credit (SBLCs) towards its subsidiaries and associates. Most of these guarantees are towards two associate concerns – Dev Drilling Pte. Ltd. (DDPL) and Star Drilling Pte. Ltd. (SDPL), which have developed off-shore jack-up rigs but have not been able to contract them due to weak demand for oil and gas exploration activities amid low crude oil prices. Apart from this, MSL through its subsidiary in the United Arab Emirates (UAE) has invested in an iron-ore mine in Amapa, Brazil. This has been part-funded by debt in the subsidiary and has been supported by corporate guarantee from MSL.

While the quantum of MSL's contingent liabilities is significant, ICRA continues to take comfort from its strong financial flexibility underpinned by low financial leverage and robust liquidity position. Nevertheless, timing of deployment of rigs and hence performance of the aforementioned associate concerns would determine the extent of the funding support required and hence would be a key rating sensitivity.

Analytical approach: Ratings are based on a detailed evaluation of the rated entity's business and financial risk profile. The ratings also factor in the explicit credit support extended by MSL to some group entities, in the form of corporate guarantees and SBLCs.

Links to applicable Criteria

- [Corporate Credit Rating Methodology](#)
- [Rating Methodology for Entities in the Ferrous Metals Industry](#)

About the company:

Incorporated in 1988, MSL belongs to the D. P. Jindal Group, which also has Jindal Pipes Limited and Jindal Drilling & Industries Limited in its fold. The company primarily manufactures seamless and Electric Resistance Welded (ERW) pipes with an installed capacity of 550,000 tonnes per annum (tpa) of seamless pipes, and 200,000 tpa of ERW pipes across its manufacturing facilities at Raigad in Maharashtra. It enjoys market leadership in the domestic seamless pipes market, and has 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 7-Megawatt (MW) wind power project at Satara in Maharashtra, a 5-MW solar power project at Pokharan in Rajasthan, and a 20-MW solar power project at Jodhpur in Rajasthan which was commissioned recently in Q1FY2018. It has also floated subsidiaries and invested in associate companies which have business interests in jack-up rigs, iron ore mines etc.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				July 2017	April 2016	March 2016	March 2015	September 2014
1	Long-term Fund based	Long Term	140.00	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA (Stable)	[ICRA]AA+ (Stable)
2	Non-fund based	Long-term/Short-term	575.00	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+
3	Unallocated	Long-term/Short-term	3.50	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-
4	Issuer Rating	-	-	IrAA-(Stable)	IrAA-(Negative)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in



Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating
Cash credit	-	-	-	50.00	[ICRA]AA-(Stable)
Term loan	-	-	FY2020	90.00	
Non-fund based limits	-	-	-	575.00	[ICRA]AA-(Stable)/ [ICRA]A1+
Unallocated	-	-	-	3.50	

^Non-fund based limits are interchangeable between Letter of Credit, Bank Guarantee and Buyer's Credit

Source: MSL



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