December 11, 2023

Maharashtra Seamless Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Cash credit	185.00	106.00	[ICRA]AA (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Long-term - Fund based – Term loans	621.72	-	-
Long-term/Short-term – Non-fund based	999.00	1249.00	[ICRA]AA (Positive)/[ICRA]A1+; Ratings reaffirmed and outlook revised to Positive from Stable
Long-term/Short-term – Unallocated limits	394.28	345.00	[ICRA]AA (Positive)/[ICRA]A1+; Ratings reaffirmed and outlook revised to Positive from Stable
Issuer rating	-	-	[ICRA]AA (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Total	**2200.00**	**1700.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on Maharashtra Seamless Limited's (MSL or company) long term rating to Positive from Stable reflects ICRA 's expectation of sustained healthy operating performance in the near to medium term following a better-than-expected performance in FY2023. On the back of sustained domestic demand, reflected in a healthy order book position in November 2023, MSL's revenues are expected to increase to ~Rs.5,900 crore in the current fiscal, following 36% YoY revenue growth in FY2023 from healthy domestic and export demand from upstream oil companies. This coupled with expectations of steady operating margins of more than ~19% from sustained healthy realisations in the current fiscal and prepayment of the entire outstanding long-term debt in June 2023 are expected to further strengthen the debt coverage metrics and liquidity position. ICRA expects MSL's revenue growth and sustained earnings in the medium term, to be 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 ratings continue to factor in the company's sustained focus on reducing non-core investments, as substantiated by the considerable reduction in non-core investments, loans and advances and corporate guarantees issued in the recent fiscals. The company also continues to benefit from the extension of anti-dumping duty (ADD) on the imports of seamless pipes, for five years till September 2026.

The ratings, however, remain constrained by the vulnerability of the company's revenues and profitability to cyclicality associated with the oil and gas industry. Further, the ratings remain constrained by the company's investment exposure in non-core segment, which continues to constrain its return metrics. Nevertheless, ICRA has noted the considerable reduction in the company's exposure to non-core segment in the form of investments, loans and advances and corporate guarantees (with all inter-corporate deposits expected to be realised by March 2024 and the only outstanding corporate guarantee to completely fall off by September 2024). 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 any company.

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 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 installed production capacity of 2,00,000 TPA) in FY2020. 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 supported healthy turnover, cash accruals and accumulation of sizeable net worth over the years. Following a healthy recovery in FY2022 from pandemic-induced business disruptions, MSL reported robust performance in FY2023 led by healthy export and domestic demand from upstream oil companies. Further, with prepayment of outstanding term debt in Q1 FY2024, minimal dependence on working capital facilities for working capital requirements and capital outlays and investments from internal accruals, kept the company's financial risk profile strong. Further, the company's coverage metrics reported an improvement, with DSCR of 5.2 times in FY2023 compared to 2.6 times in FY2022. With no outstanding debt in the company, from June 2023 onwards, the credit and coverage metrics will continue to be robust, going forward.

Considerable reduction in contingent liabilities and investments in non-core segment provide comfort – In the past, 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 past 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 non-core segment declined to Rs. 319 crore as on March 31, 2023 from the peak level of Rs. 1,561 crore as on March 31, 2019, the amount of corporate guarantee declined to Rs. 153 crore as on September 30, 2023 from the peak level of Rs. 2,577 crore as on March 31, 2015. This outstanding corporate guarantee will completely fall off in September 2024, providing further comfort to the financial risk profile. The Company has explicitly stated its intent to not extend any incremental support (in the form of funding as well as guarantees) to any company and shall not make 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 ADD for five years starting May 2016, which had 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.

Credit challenges

Vulnerability to cyclicality associated with the oil and gas industry– MSL takes orders with short tenures and stocks raw material inventory to mitigate the risk of volatility of input prices. 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. Further, ICRA also notes the vulnerability of MSL's profitability due to its exposure to volatility in input prices i.e. steel billets.

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, 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 entity, 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 and healthy surplus cash flow generation from the core businesses. The company's strong liquidity position is corroborated by its cash and bank balances and portfolio of liquid investments (including investments in bonds/FDs/mutual funds) of more than Rs. 1224 crore as on September 30, 2023, and nil utilisation against Rs. 106.00-crore sanctioned fund-based working capital limits. Further, with prepayment of entire outstanding term debt in June 2023, the company does not have any repayment obligations going forward. 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 – The long term rating could be upgraded in case the company strengthens its business risk profile by ensuring optimum utilisation of its available capacities, while maintaining robust profitability, strong credit metrics and liquidity position.

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 1.0 times, on sustained basis.

ESG risks

Environmental considerations:

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 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, but carbon emission related challenges could favour alternative energy products. Accordingly, a dampening of demand for oil in the long term because of environmental concerns could directly impact the demand for the company's products. Additionally, environmental risk arises for the company from its use of electricity to power its plants and use of water resources for processing and other purposes. In order to mitigate 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.

Social considerations:

Casualties/ accidents at operating units due to gaps in safety practices may not only lead to 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 expansion/modernisation plans.

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, 2023, the company had five subsidiaries, two step down subsidiaries, two associates and two joint ventures, which are all enlisted below.

About the company

Incorporated in 1988, Maharashtra Seamless Ltd (MSL) 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 TPA of seamless pipes, and 125,000 TPA of ERW pipes across its manufacturing facilities at Raigad in Maharashtra. It has 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	FY2022	FY2023	H1 FY2024*
Operating income	4,211.0	5,716.0	2,758.0
PAT	721.0	797.0	471.0
OPBDIT/OI	14.5%	18.5%	20.9%
PAT/OI	17.1%	13.9%	17.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.2	0.2
Total debt/OPBDIT (times)	1.2	0.2	0.0
Interest coverage (times)	13.6	27.6	78.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Dec 11, 2023	Sept 12, 2022	Jun 07, 2021	Jul 08, 2020	Apr 24, 2020
1	**Fund Based – Cash Credit**	Long term	106.00	-	**[ICRA]AA (Positive)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Negative)**
2	**Non-fund Based**	Long term and short term	1249.00	-	**[ICRA]AA (Positive)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Negative)/ [ICRA]A1+**	**[ICRA]AA- (Negative)/ [ICRA]A1+**
3	**Unallocated Limits**	Long term and short term	345.00	-	**[ICRA]AA (Positive)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Negative)/ [ICRA]A1+**	-
4	**Issuer Rating**	Long term	-	-	**[ICRA]AA (Positive)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Negative)**
5	**Fund Based – Term Loans**	Long term	-	-	-	**[ICRA]AA (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Negative)**
6	**Short-term Loan/Bill Discounting Facilities**	Short Term	-	-	-	-	**[ICRA]A1+**	**[ICRA]A1+**	**[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

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	106.00	[ICRA]AA (Positive)
NA	Non-Fund Based Limits	NA	NA	NA	1249.00	[ICRA]AA (Positive)/[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	345.00	[ICRA]AA (Positive)/[ICRA]A1+
NA	Issuer Rating	NA	NA	NA	-	[ICRA]AA (Positive)

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 FY2023

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About ICRA Limited:

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