

Welspun India Limited

January 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	
Long term Bank Facilities	2,023.81 (Reduced from 2,166.82)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	383.17 (Reduced from 404.17)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	2,406.98 (Rs. Two Thousand Four Hundred Six Crore and Ninety- Eight Lakhs Only)		
Commercial Paper*	300.00	CARE A1+ (A One Plus)	Reaffirmed

*Standalone

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Welspun India Limited (WIL) take into account resourceful promoters group (i.e. Welspun group), extensive experience of the management, WIL's leading position in home textiles segment with global reach and integrated operations, strong relationship with leading global retailers, well-diversified product portfolio, improved profitability in FY20 and H1FY21, moderate capital structure and healthy debt coverage indicators.

The rating continues to remain constrained by lower than expected performance of the flooring business (Welspun Flooring Limited), high working capital utilisation, exposure to inherent industry risks such as volatility in raw material prices and fluctuations in foreign currency and competitive nature of business.

Rating Sensitivities

Positive Factors:

- EBIDTA margins of above 21% on a sustained basis
- Total Debt/GCA improving to 2.5x

Negative Factors:

- Increase in gearing beyond 1.50x on a sustained basis
- Any further decline in ROCE from current level of 8.02%
- Lower than anticipated performance of Welspun Flooring Limited

Detailed description of the key rating drivers

Key Rating Strengths

Resourceful promoters; experienced management: WIL is a prominent company of the Welspun group, a USD 2.7 billion diversified conglomerate with established track record in fields such as line pipes, steel and textiles. By virtue of being a part Welspun group, the company draws strength from the experience and competence of the management. The Company is promoted by Mr. BK Goenka-[Chairman of the Welspun Group]and Mr. Rajesh Mandawewala,[Group Managing Director]. Mr. Mandawawala is also the MD of the textile business and ably supported by Ms. Dipali Goenka- CEO & Joint MD of WIL.

Diversified product portfolio: WIL's product portfolio comprises wide range of bath and bed linen products such as towels, bed sheets, bath rugs, bath robes etc. The Company has over 30 global patents (including pending patents)and contribution from innovative products has been 41% in FY 20 About 20% of its revenues is contributed by its own brands such as Christy, Spaces etc. The Company entered flooring business through its subsidiary Welspun Flooring Limited.

Leading position in home textiles segment with global reach: WIL is among the largest home textiles company in Asia and among the dominant home textiles manufacturers in the world. The company is the largest exporter of home textile products from India with presence in over 50 countries and supplies to the top global retailers. Around 65% of its revenues come from USA where it is leading player in the home textiles segment, followed by Europe with 17-18% of revenue coming from there. Indian operations contribute 7% to the revenue.

Established relationship with the large global retail chains: WIL has been a regular supplier over many years to leading retail chains such as Walmart Stores, CostCo, Kohls, Bed Bath & Beyond, Ikea , Macy's etc, which provides revenue stability.

Integrated nature of operations WIL is vertically integrated and converts cotton into made-ups like bed and bath products (bed linen, pillow covers, duvets, comforters, quilts, mattress pads, bath towels, bath rugs, bath robes, etc.) through

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

spinning, weaving, processing, printing, washing, cutting & sewing. Current backward Integration is 70% of its yarn and fabric requirements

Moderate capital structure: The capital structure of the company has improved continually over the past few years though continues to remain moderate. Long term Debt to equity ratio of the company has come down from 0.73 x as on March 31st 2019 to 0.62x as on March 31st 2020. The overall gearing remained stable at 1.24x as on March 31st 2020. This is largely on account of reduction in debt and accretion of profits to reserves. The Company prepaid some of its high cost long term loans of around Rs.284.17 crore in September 2019. As a result other debt coverage indicators have also improved. In absence of any large debt funded capex overall gearing is expected to improve going forward. Any large debt funded capex not factored in will remain a key rating sensitivity.

Key Rating Weaknesses

Support extended to Subsidiaries: The Flooring business is taking longer than anticipated to turnaround; requiring funding support from WIL. Welspun Flooring Limited(WFL) reported a net loss of Rs. 84 crore in FY20. Any further deterioration in the financial parameters of WFL remains a key rating monitorable. During FY20, a new subsidiary called Welspun Advanced Materials (India) Limited, has been incorporated in India, with an objective to explore undertaking advanced textile projects such as wet wipes etc which are seeing a surge in demand. During the year 2019-20, WIL entered into joint venture with Sense Organics Import & Trading GmbH, Germany ("SOIT") and acquired 51% of the share capital, at par, of Pure Sense Organics Myanmar Limited ("PSOML"), as a part of the Company's sustainable sourcing strategy for its textile business. The Company has so far invested 0.75 crs in the share capital of PSOML with combination of equity and preference shares.

WIL's exposure to inherent industry risks : The Company's margins are susceptible to volatility in raw material prices and currency fluctuation risk. In FY20, PBILDT margins improved to 18.71% from 17.20% in FY19. This has been primarily due to decline in input costs as a result of depreciation of USD. In H1FY21, PBILDT margins stood at 20% as against 21% in H1 FY20. Further, over 95% of WIL's revenue is derived from export sales and hence, the company is exposed to fluctuations in foreign exchange rates. WIL hedges around 60-65% of its net receivables which mitigates forex risk to an extent. As at March 31st 2020, WIL hedged 65.04% (31 March 2019: 59.83%), for 12 months, of its expected foreign currency sales.

Competition in home textile business:

The global Home Textile market is mainly driven by demand from USA and Europe constituting 60% of the home textile imports. This demand is catered by countries like China, India, Pakistan, etc. The Indian export Home Textile market is dominated by few large players such as Welspun India, Indo Count, Himatsingka Siede, Trident, etc. These organised and larger players mainly cater to export demand from large global retailers and face competition from countries like China, Pakistan, Vietnam, etc.

Covid-19 pandemic led to disruption in operations of the manufacturers and also slowdown in demand, in both Indian and export markets. Lockdown affected the operations of the manufacturers and also their supply chains. Though orders/ sales started to pick up by the end of Q1FY21, demand, in the bed linen, in the near term is likely to be impacted because of the slowdown in the global economy and overall reduction in discretionary spending by the public at large. Post Q2FY21, WIL's plants have been running on full capacity. However, discretionary consumer spending has been impacted by the slowing economic growth rates, job losses and salary cuts. The exact impact of pandemic will depend on the pace of recovery in the global economy. Since Indian bed linen players derive a substantial portion of their incomes from exports (majorly to the U.S. and E.U.), the economic recovery in these two destinations will be closely looked at.

Liquidity: Adequate – The company's current ratio is 1.29x as on March 31st 2020. The liquidity is marked by cash and liquid investments(in, bonds and MFs) to the tune of approx.. Rs.599 crore as on September 30,2020. Against this the company has scheduled term debt repayment obligations of Rs.263.14 crore (of which Rs. 151 crore has been repaid till November 30, 2020) and short term loan repayments of Rs.70.0 crore. The company's fund based limits remained utilised at around 93% for 12 months ended Oct.20.

Analytical approach: Consolidated. Welspun India Limited has strong operational linkages with its subsidiaries.

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Welspun India Limited (WIL) is a flagship company of the Welspun group and is promoted by Late Mr. G.R. Goenka, Mr. B.K. Goenka and Mr. R.R. Mandawewala. With global reach of more than 50 countries, the company is the largest exporter of home textile products from India. The Company supplies to some of the top global retailers from its manufacturing facilities at Anjar and Vapi, both in Gujarat, India.

WIL's portfolio comprises wide range of products such as terry towels (cotton and blended yarn), bed linen (basic bedding and decorative bedding), bath rugs (cotton, nylon or micro fiber) and flooring products.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	6580.34	6767.20
PBILDT	1131.89	1266.38
PAT	226.18	524.36
Overall gearing (times)	1.27	1.24
Interest coverage (times)	7.11	7.13

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure -2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2024	831.98	CARE AA; Stable
Fund-based-Long Term	-	-	-	1191.83	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	383.17	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	9-364 days	300.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	831.98	CARE AA; Stable	-	1)CARE AA; Stable (02-Jan-20) 2)CARE AA; Stable (07-Oct-19)	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (25-Sep-17)
2.	Fund-based-Long Term	LT	1191.83	CARE AA; Stable	-	1)CARE AA; Stable (02-Jan-20) 2)CARE AA; Stable (07-Oct-19)	1)CARE AA; Stable (04-Oct-18)	1)CARE AA; Stable (25-Sep-17)

3.	Non-fund-based - ST-BG/LC	ST	383.17	CARE A1+	-	1)CARE A1+ (02-Jan-20) 2)CARE A1+ (07-Oct-19)	1)CARE A1+ (04-Oct-18)	1)CARE A1+ (25-Sep-17)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (11-Dec-20)	1)CARE A1+ (07-Oct-19)	1)CARE A1+ (04-Oct-18)	1)CARE A1+ (25-Sep-17)

Annexure -3 : Subsidiaries consolidated

S.No	Name of companies/ Entities	% of holding
1.	Anjar Integrated Textile Park Developers Private Limited (AITP)	100.00
2.	Welspun Anjar SEZ Limited(WASEZ)	100.00
3.	Besa Developers and Infrastructure Private Limited(BDI)	100.00
4.	Welspun Global Brands Limited (WGBL)	98.03
5.	Welspun USA Inc. (WUSA)	98.68
6.	Welspun Captive Power Generation Limited (WCPGL)	77.00
7.	Welspun Holdings Private Limited (WHPL)	98.11
8.	Welspun Home Textiles UK Limited (WHTUKL)	98.11
9.	CHT Holdings Limited (CHL)	98.11
10.	Christy Home Textiles Limited (CHTL)	98.11
11.	Christy Welspun GmbH (CWG)	98.11
12.	Welspun UK Limited (WUL)	98.11
13.	Christy 2004 Limited (CL)	98.11
14.	Christy Lifestyle LLC (CLL)	98.11
15.	Christy UK Limited (CUL)	98.11
16.	ER Kingsley (Textiles) Limited(ERK)	98.11
17.	Welspun Mauritius Enterprises Limited (WMEL)	98.03
18.	Novelty Home Textiles Limited (NHT)	98.03
19.	Welspun Zucchi Textiles Limited(WZTL)	100.00
20.	Welspun Flooring Limited (WFL)	100.00
21.	Welspun Innovation Products Limited	100.00
22.	Welspun Nexgen Inc. (WNEX)	100.00
23.	TILT Innovations Inc. (TILT)	98.68
24.	Welspun Advanced Materials (India) Limited(WAMIL)	100.00
25.	Pure Sense Organics Mynamar Limited (PSOML)	51.00

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based-Long Term	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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