Welspun Pipes Inc

January 08, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities	367.54^	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Positive
Total Bank Facilities	**367.54 (Rs. Three Hundred Sixty-Seven Crore and Fifty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

^USD 50 Million @ Rs. 73.5083/USD

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Welspun Pipes Inc (WPI) continues to derive strength from its strong parentage (Welspun Corp Limited, WCL, rated CARE AA; Stable/ CARE A1+) having an established track record in the global large diameter welded pipe industry, significant strategic linkages with WCL and comfortable debt coverage metrics. While in FY20, WPI reported a significant improvement in operational and financial performance on the back of execution of higher order-book position, the effect of the pandemic and the US Presidential elections resulted into a rather subdued performance during H1 FY21, largely on account of re-scheduling/materialization of new orders which impacted the dispatches during Q2 FY21. Nevertheless, the performance is expected to improve in H2FY21 on the back of scheduled deliveries until April-May 2021. The rating strengths are, however, constrained by inherent cyclicality of the steel pipe industry as well as risk of change in government policies in the U.S.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in order-book position and operating profitability
- Maintenance of its low-leveraged capital structure with overall gearing (including acceptances) not more than 0.60x
- Sustained improvement in ROCE to more than 15% and sustenance of interest coverage ratio above 5x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in inflow of orders and operating profitability for a prolonged period
- Deterioration in overall gearing to more than 1.00x and Total Debt/GCA to more than 3x
- Deterioration in financial profile of parent company (Welspun Corp Limited)
- Any significant increase in working capital requirement or any unforeseen debt funded capex/acquisition

Outlook: Stable

The outlook is revised to ‘Stable’ from ‘Positive’ on account of moderation in the order-book position, which provides only short-term visibility. The inflow of new orders is expected to pick up only gradually, given the US Presidential transition period and resultant change in regulatory policies that might follow.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoter Company with dominant position in steel pipe segment

Welspun Pipes Inc. (WPI) is a wholly-owned subsidiary of Welspun Corp Limited. (WCL, rated CARE AA, Outlook: Stable /CARE A1+, reaffirmed in August 2020). WCL is the flagship company of the Welspun group which has an established track record in line pipes and home textiles apart from presence in Steel, Infrastructure and Energy. Established in 1995, WCL is engaged in manufacturing of LSAW (Longitudinal Submerged Arc Welded), HSAW (Helically Submerged Arc Welded) and ERW (Electric Resistance Welded Pipe) pipes ranging from half inch to 140 inches, along with specialized coating, double jointing and bending. WCL has an aggregate pipe manufacturing capacity of 1.655 MTPA (Million Tonnes Per Annum) at four locations in India. In addition, WCL’s wholly-owned subsidiaries in USA (WPI – consolidated) have manufacturing facility with an installed capacity of 0.525 MTPA and its Joint Venture in Kingdom of Saudi Arabia (KSA) have manufacturing facility with an installed capacity of 0.375 MTPA. The group enjoys a dominant position amongst global large diameter welded pipe manufacturers and has gathered several accreditations from major oil and gas companies worldwide.

The manufacturing facility was set up in North America as a part of Welspun Group’s strategy for increasing local presence in every market that the group is active in, which has brought cost saving benefits (mainly savings in freight cost) as well as

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

gives a competitive advantage in bidding for pipe orders due to increasing preference for local suppliers. Bidding for pipe orders as well as negotiation for procurement of raw materials is done at the group level. WPI, therefore, benefits from the technical know-how, established track record in executing orders, strong brand name and large scale of operations of WCL. In addition, the company enjoys financial flexibility due to association with the Welspun group.

Improved performance in FY20; although dispatches and order inflows in H1FY21 adversely impacted by the Covid-19 disruptions, meltdown in oil prices and US presidential pre-election period

Particulars	FY18	FY19	FY20	H1FY21
Installed capacity (KMT pa)	525	525	525	525
Production (KMT)	214	436	432	45
Capacity utilization (%)	40.76	83.05	82.29	17.14*
Sales Volume (KMT)	222	413	423	53
EBITDA (USD Million)	21	85	118	11
EBITDA/Tonne (USD/Tonne)	94	205	279	206

**Annualized*

WPI operates in an order-driven industry of supplying line pipes, primarily catering to oil & gas players in the US. During FY19 and FY20, WPI exhibited a strong growth in its operating profits on the back of increased volumes. The profitability in FY20 was further enhanced by execution of margin accretive orders in the Oil & Gas segment. As a result, EBITDA/ Tonne jumped by 36% Y-o-Y to USD 279 per tonne in FY20.

However, during H1FY21, the operations and order inflows were severely impacted by the Covid-19 disruptions and melt down in the oil prices. One of its customers deferred an order of 159 KMT in March 2020 for a period of 9 months. As informed by the management, the company had not made any commitments on the purchase side for these orders and hence, has not suffered due to deferment. Another customer had requested WPI for postponement of the pipes delivery, leading to lower dispatches in Q2FY21, resulting to minimal EBITDA of USD 0.37 mn in Q2FY21. It reported an EBITDA of USD 11 mn for H1FY21.

The order book position (post execution till Sept 2020) of 132 KMT, valued at Rs. 1,260 crore, provides visibility until April-May 2021. With conclusion of US Presidential elections as well as partial recovery of the crude oil prices, the management anticipates gradual pick up in the orders, going ahead.

WPI is a recognized player in the industry and has been certified as preferred supplier by the major Oil and Gas majors. Its customers include players like Kinder Morgan, TC Energy, Edgen Murray Corp., Williams Companies Inc., Energy Transfer, El Paso Energy Corp. etc.

Before submitting its bid/quote for pipes, the group obtains a quote from its suppliers (for supply valid for 1-1.5 months), keeping adequate margin so as to safely cover estimated volatility in the steel prices. The raw material (steel) is sourced locally from US based players. Wherever necessary, the group hedges its exposure to steel prices through forwards. However, the order book position is susceptible to the cycle of the end user industry and risk of changes in government policies in the U.S.

Comfortable debt coverage metrics

During Feb 2020, WPI made a prepayment of USD 25 million (~Rs. 184 crore) out of its surplus cash flows, thereby resulting in improved LT debt equity ratio from 0.31x on March 31, 2019 to 0.14x as on March 31, 2020. Healthy cash flow generation led to an improved Total debt/GCA from 1.24x in FY19 to 0.89x in FY20.

During Q1FY21, WPI repatriated USD 92 million (Rs. 676 crore) in form of dividend to its parent company in India (WCL), which in turn was partially utilised to prepay WCL's debt. However, for WPI, this resulted in lower net worth and higher gearing of 0.53x as on September 30, 2020.

WPI has proposed to increase its working capital bank facilities from its current limit of USD 50 Million to USD 100 Million to meet its higher requirement of LCs for raw material purchase (as the on-going orders are not advance-based). The enhanced limit shall be available for use at the same terms & conditions only after execution of Corporate Guarantee (CG) by WCL in favour of WPI. It is expected that the CG deed shall be executed by the end of FY21. Accordingly, no credit enhancement has been considered in the current review.

Key Rating Weakness

Cyclicality of steel pipe industry

Volatility in steel prices affects the profitability of steel pipe manufacturers. Further, majority of steel pipe demand comes from exploration and production activities in the oil & gas sector which is cyclical in nature and depends on the oil prices. Prices of WTI have fallen by ~35% y-o-y during 9MFY21. The continued spread of the coronavirus pandemic and resurgence of cases in Europe and the US have led to a sharp fall in consumption of petro-products thus affecting the demand prospects of oil. The prices have however recovered from their lows in April 2020 on the back of oil output cuts undertaken by OPEC+

group, fall in US production and have been improving since mid-November 2020 due to successful vaccine trials by various pharmaceutical companies.
Although the new President elect's policies in USA are touted to favour expansion of renewables and rescinding preferential policies for O&G sector, it is not expected to be an abrupt shift. Apart from government's energy policies, pipeline projects shall also depend on the state of O&G industry and market demand.
As per Grand View Research Report, the global steel pipes & tubes market size was valued at USD 142.4 billion in 2019 and is expected to grow at CAGR of 6.2% from 2020 to 2027. The US oil & gas industry is amongst the primary end-users for steel pipes & tubes. Steel pipes are majorly used for transportation of gas & liquid in the industry. The U.S. has been a leading producer of oil & gas and with discovery of unconventional oil & gas resources in the recent past, the oil reserves & natural gas reserves have increased. The market is anticipated to register a steady growth, going forward.

Liquidity: Adequate

The short term liquidity profile of WPI is adequate with Cash and Cash Equivalents of USD 11.76 million (~Rs. 87 crore) as on September 30, 2020 and current ratio of 1.48x as on March 31, 2020. There are no significant repayments scheduled in FY21 and the projected cash flows for FY22 are expected to be sufficient to repay its last instalment of USD 25 million (Rs. 184 crore) scheduled in February 2022.
WPI undertakes various projects based on receipt of orders ranging from 9 to 12 months. The operating cycle continued to remain high at 96 days in FY20, the reason being high inventory days. WPI has proposed to enhance its working capital sanctioned limits from USD 50 million to USD 100 million, to meet its higher requirement of LCs for raw material purchase. The enhanced amount shall be available for use post execution of Corporate Guarantee deed by WCL.
Furthermore, comfort can be taken from the parent's liquidity. WCL(standalone)'s cash & bank balance plus liquid investments position stood at Rs. 830 crore as on September 30, 2020.

Analytical approach: Consolidated

Welspun Pipes Inc (WPI) - Consolidated comprises its wholly owned subsidiaries - Welspun Global Trade, LLC (WGTL) and Welspun Tubular, LLC (WTL).
Also, operational and financial linkages with its parent Welspun Corp Limited (WCL) have been considered. WCL is engaged in manufacturing of HSAW, LSAW and ERW pipes in India since 1995.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Registered in the State of Delaware (USA) in August 2006, Welspun Pipes Inc. (WPI) is a wholly-owned subsidiary of Welspun Corp Ltd. (WCL, rated CARE AA, Outlook: Stable/ CARE A1+, reaffirmed in August 2020). WCL is the flagship company of the Welspun group, a diversified conglomerate with dominant position in line pipes and home textiles business and presence in Steel, Energy and Infrastructure. Established in 1995, WCL is engaged in manufacturing of LSAW (Longitudinal Submerged Arc Welded), HSAW (Helically Submerged Arc Welded) and ERW (Electric Resistance Welded Pipe) pipes ranging from half inch to 140 inches, along with specialized coating, double jointing and bending; from its various facilities with domestic pipe capacity of 1.65 Million Tonnes Per Annum (MTPA) in India.
WTL (subsidiary of WPI) has a pipe manufacturing plant in the City of Little Rock, Arkansas (USA), with an installed capacity of 3,50,000 TPA of large diameter Spiral/HSAW pipes and 1,75,000 TPA of small diameter ERW pipes besides a coating facility for the same. WPI primarily caters to Oil & Gas segment.

Brief Financials (USD Million)	FY19 (A)	FY20 (A)
Total operating income	682.53	809.81
PBILDT	84.76	118.05
PAT	45.67	74.78
Overall gearing (Including LC Acceptances) (times)	0.49	0.37
Interest coverage (times)	10.87	28.22

A: Audited; Note: The financials are adjusted as per CARE Standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Not Available

Complexity level of various instruments rated for this company: Annexure-3

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/Non-fund-based-Long Term	-	-	-	367.54	CARE A+; Stable

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	-	-	-	-	-	1)Withdrawn (05-Oct-17)
2.	Fund-based/Non-fund-based-Long Term	LT	367.54	CARE A+; Stable	-	1)CARE A+; Positive (26-Dec-19)	1)CARE A+; Stable (19-Dec-18)	1)CARE A+; Stable (05-Oct-17)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-Long Term	Simple

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

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