Welspun Corp Limited (Revised)

August 11, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities	3,809.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**3,809.00 (₹ Three thousand eight hundred nine crore only)**		
Non-convertible debentures	36.00 (Reduced from 63.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-convertible debentures	500.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**536.00 (₹ Five hundred thirty-six crore only)**		
Commercial paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**500.00 (₹ Five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings of the bank facilities and instruments of Welspun Corp Limited (WCL) continues to factor in its strong business risk profile, supported by its dominant position in the steel pipe business with a diverse geographical presence in India, the US, and Saudi Arabia. The ratings also consider the strong financial risk profile, supported by a comfortable capital structure and liquidity position.

CARE Ratings Limited (CARE Ratings) notes the debt-funded (70%) greenfield expansion undertaken by WCL under its subsidiaries in terms of setting up pig iron (PI) and ductile iron (DI) manufacturing and TMT re-rolling plants at Anjar, Gujarat, which has moderated its capital structure in FY22 (refers to the period April 1 to March 31). The project cost has undergone revision because of the changes in the project plan and the rising input cost, which is primarily funded through debt (70%) and the balance through equity. The projects were commissioned in July 2022 (for trials runs). With the balance debt being availed, the leverage is expected to moderate further in FY23; however, it will remain comfortable.

The liquidity position of the company remains strong, with sales consideration received for the Plates & Coil Mill division in H1FY22. Furthermore, in Q4FY22, WCL received US$ 40.49 million as dividend from Welspun Mauritius Holdings Limited with its stake dilution in the joint venture (JV) company – East Pipe Integrated Company (EPIC) – during its initial public offer (IPO). The cash and cash equivalent as on June 30, 2022, stood at ₹2,179 crore on a consolidated level.

During FY22, although the company achieved a total income of ₹6,488 crore, profitability was impacted due to the product mix and rising commodity prices. Furthermore, there were minimal operations in the US in H2FY22 on account of changes in government policies and slowdown due to the COVID-19-induced pandemic. However, considering the increase in oil and gas pipeline requirements in the US, the company has received a large order with distribution to the export markets. This project will be executed from September 2022 onwards, and the sales will commence from Q4FY23. As on March 31, 2022, the company has a healthy order book position to supply 925 KMT, valued at ₹12,250 crore, providing revenue visibility for the next two years and the order book has crossed a million MT in June 2022. Moreover, in the US, the company is already executing orders worth US$ 110 million, with delivery in Q3FY23 and Q4FY23, which is over and above the large order mentioned above.

However, any slowdown on account of uncertainties around the fourth wave of the pandemic and any other material developments impacting the sales volume and incremental orders in the key markets remain key rating monitorable. The demand for pipelines is expected to increase with the rising demand from the European markets due to the curtailment of oil and gas distribution from Russia and Ukraine.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The above rating strengths are offset by the volatility associated with crude oil and gas and steel prices impacting the demand for pipelines, the order book in the line pipe segment, and the regulatory risk in the geographies in which it operates. However, with the current order book of over a million MT, the operations in the US and Saudi Arabia will be occupied for the next 18-24 months, while the operations in India will continue to be benefitted from the Government's thrust on initiatives like "Nal sel Jal" project for the water pipelines and the "Coastal Gas Distribution" projects for the O&G sector in India. The export markets are currently driven by orders being executed for the Australia and Middle East regions and prospective orders in the European markets.

In June 2021, WCL had announced the scheme of demerger to acquire the steel business of Welspun Steel Limited (WSL; rated 'CARE A-/CARE A2; under Credit Watch with Developing Implications'), directly and indirectly carried out through investments held in Welspun Specialty Solutions Limited (WSSL; 50.03%), Anjar TMT Steel Private Limited (ATSPL; 100%) and Welspun Captive Power Generation Limited (WCPGL, rated 'CARE A+; Stable/CARE A1+'; 2.95%), cumulatively referred to as 'demerged company'. The scheme has been approved by the Ahmedabad Bench of the National Company Law Tribunal (NCLT) on March 16, 2022, and WCL is now the holding company of the steel assets of the group. WCL has paid ₹11 crore as cash and issued ₹351 crore of redeemable preference shares (RPS) to the shareholders of the 'demerged company', redeemable at the option of the holder, upon the expiry of 18 months from the date of issue. Upon the effectiveness of the scheme, WCL has consolidated the steel business under it and is likely to benefit from being an integrated manufacturer now.

CARE Ratings notes that with the acquisition of Sintex BAPL Ltd by WCL, the company plans to foray into the plastic or polymer products segment. CARE Ratings will continue to monitor the developments in this regard.

Rating sensitivities

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

- WCL's ability to improve its consolidated operating profitability margin to more than 15% on a sustained basis.
- Low leveraged capital structure, with overall gearing (including CG) not more than 0.30x.
- Sustenance of return on capital employed (ROCE) above 25% and improvement in the interest coverage ratio above 8.00x.

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

- Decline in the profitability margins below 11% on a consolidated basis in the projected period.
- Continued contraction in the order book position, leading to lower sales volumes in the projected period.
- Increase in the adjusted overall gearing (including CG) above 1.00x during the projected period.
- Net debt/PBILDT of more than 2.5x during the projected period.
- Any significant shortfall in generation of cash accruals, then envisaged, from the projects partially commissioned in July 2022, though commercial operations will start from October 01, 2022.

Detailed description of the key rating drivers

Key rating strengths

Strong business risk profile: WCL is one of the dominant players in the steel line pipe business, with an established track record of over two decades and demonstrated capabilities in the supply of line pipes for complex projects in the oil and gas as well as water segments. WCL has a global pipe production capacity of 2.55 million tonne per annum (MTPA), with an aggregate capacity of 1.65 MTPA at four locations across India, 0.525 MTPA capacity in the US, and 0.375 MTPA capacity through a JV in Saudi Arabia. Over the period FY19-FY21, the company has consistently sold more than 1,000 kilometre tonne (KMT) of pipes globally, while the sales in FY22 were 796 KMT aided by its established relationships with reputed overseas and domestic customers. The requirement of sophisticated infrastructure in such business results in high entry barriers for new players, thereby limiting competition, and thus, strengthening WCL's business risk profile.

Moderation in financial risk profile and profitability indicators: The financial risk profile, marked by overall gearing and total debt to gross cash accruals (TD/GCA) at 0.64x and 3.90x, respectively, as on March 31, 2022, moderated from 0.33x and 1.56x, respectively, as on March 31, 2021, with debt availed for the capex being executed for PI & DI and TMT Bar manufacturing facility by WCL.
The company received the entire consideration from sale of its PCMD division in H1FY22 and further ₹480 crore (approximately) from the stake dilution in the JV company, EPIC, in Q4FY22, resulting in a cash and liquid investment balance of ₹2,133 crore as on March 31, 2022. The profitability margin, viz, PBILDT margin, declined to 7.12% in FY22 from 10.38% in FY21, with more volumes in low-margin products and rising commodity prices and minimal operations in the US in H2FY22. Going forward, the financial risk profile is expected to moderate, with balanced debt availed for the capex and working capital borrowings needed

for operating the plant from H2FY23. WCL has extended a CG for the debt facilities availed/to be availed for the capex purpose. The overall project cost has been revised to ₹1,900 crore (earlier ₹1,550 crore) excluding soft cost, which will be 70% funded through debt and the balance through equity. However, the overall gearing is expected to be less than unity in FY23.

Satisfactory order book position, providing medium-term revenue visibility: WCL's globally confirmed order book position stands at 925 KMT, translating into a sales value of around ₹12,250 crore as on March 31, 2022, and has crossed a million MT in June 2022, thus providing medium-term revenue visibility for the company. In addition to the above, the company has an active bid book of around 1,934 KMT, with orders in the oil and gas and water segments. For the Indian market, the demand for large-diameter pipes in the oil and gas segment is mainly driven by gas grid development and oil pipeline network by domestic oil companies, while the demand for small-diameter pipes is driven by city gas distribution projects. The US operations entirely supply to the oil and gas segment, while in Saudi Arabia, the order book is majorly driven by water orders from Saline Water Conversion Corporation (SWCC). The order book across geographies has aided the group in diversifying its revenue profile over the years. The company expects to execute nearly 700 KMT of orders in FY23.

Impact of COVID-19 and energy prices on the business profile: During FY21 and FY22, the performance of the company in terms of production and sales of line pipes in both India and the US got impacted on account of COVID-19 pandemic, uncertainty in oil prices slowing down capex activity by oil & gas majors and the recent Russia-Ukraine war. WCL Standalone PBILDT/tonne declined in FY22 due to higher mix of low margin products in the portfolio and rising steel prices, thus increasing the raw material cost. In the US, the PBILDT margin improved in FY22 with execution of high-margin specialised contracts. Overall, on a consolidated level, PBILDT/ tonne declined with increase in the raw material and logistics cost. WCL is expanding its product portfolio and has included the steel business of the Welspun Group under it to manufacture steel billets, DRI and TMT Bars. Furthermore, the company has set up DI Pipes and TMT Bar manufacturing facility in Anjar, which has been partly commissioned in July 2022. With addition of new products and healthy order book position, the company expects to improve its operating performance in the medium term.

Scheme of demerger completed in March 2022 – demerger of steel business of WSL held directly and indirectly through investments in WSSL and Anjar TMT completed and merged with WCL: In June 2021, WCL had announced demerger of the steel business under WSL directly and indirectly held through investments in WSSL, ATSPL and WCPGL with/into WCL. Subsequently, the company received the sanction order from Ahmedabad Bench of NCLT on the scheme of arrangement between demerged company WSL with WCL on October 07, 2021, and the scheme was approved on March 16, 2022, with the appointed date of April 01, 2021. Accordingly, WCL has merged the steel business of the Welspun group with it and ATSPL and WSSL are now subsidiaries of WCL. In terms of the scheme, the company has issued RPS of ₹351 crore repayable after 18 months to the promoters of WSL and has paid cash ₹11.73 crore in April 2022.

Listing of Saudi JV – EPIC – completed in January 2022: The IPO of the JV company, EPIC, in the Kingdom of Saudi Arabia was completed in January 2022. Post IPO, WCL holds 35.01% stake (reduced from 50.01%) through Welspun Mauritius Holding Limited (WMHL). The corporate guarantee extended by WCL to EPIC (₹1,633.55 crore as on December 31, 2021) has been withdrawn. WMHL has received USD 64 million (includes tax payable USD 11.7 million) from stake dilution, and the gain on stake sale of ₹359 crore in EPIC has been shown as other income in FY22.

Acquisition of Sintex BAPL Ltd: To increase its presence in B2C segment and foray into plastic/polymer products business, WCL has acquired Sintex BAPL's Senior Secured Unlisted NCD with outstanding of ₹1,176.61 crore for the purchase price of ₹403.16 crore through WCL's wholly-owned subsidiary – Mahatva Plastic Products and Building Material Private Limited. Sintex is a well-known brand with a distribution (around 900) and retail (around 13,000) network. The company can leverage this distribution network for its products, such as TMT, DI Pipes, ERW, etc. In addition, between April 2022 and June 2022, the company has further acquired Sintex BAPL's debt of ₹561 crore for a price of ₹143 crore. WCL plans to acquire 67% of the total debt, which will give it controlling rights at Sintex BAPL's committee of creditors.

Key rating weakness

Susceptible to slowdown in end-user industries and to government policies: WCL derives more than 50% of its revenue from the oil and gas segment. The significant volatility in crude prices can question the viability of new explorations, thereby impacting the demand for line pipes in the oil and gas segment. The revival of new projects in the oil and gas segment in the key markets of the US and the Middle East is critical to sustain improvement in the overall operations. Any major and continued slowdown in end-user industries will weaken the demand for line pipes and impact the performance. Furthermore, the operations remain exposed to government policies and regulations in the geographies it operates.

Liquidity: Strong

The liquidity profile of WCL is supported by cash balance of ₹935 crore and investment in bonds/mutual funds/Government securities of ₹1,208 crore as on June 30, 2022. In FY22, WCL received USD 64 million (around ₹480 crore, includes tax payable USD 11.7 million) from stake sale in EPIC in Saudi Arabia during its IPO. The GCA for FY23 and FY24 is projected at ₹655 crore and ₹944 crore vis-à-vis repayment of ₹89.65 crore and ₹665 crore in FY23 and FY24. Apart from the repayments, the company has approximately ₹198-200 crore of commitment towards greenfield projects being undertaken in Anjar to be incurred in FY23. WCL has also acquired NCDs/debt of Sintex BAPL Ltd from its lenders, ₹403 crore was spent to acquire ₹1,176 crore of debt as on March 31, 2022. To get the controlling stake, the company is expected to incur ₹320-350 crore in FY23 and FY24, out of which ₹143 crore has been spent. The GCA projected for FY23 is sufficient to meet the repayment obligations, capex commitment and acquisition of Sintex BAPL Ltd's debt. However, cash generation lower than the projected GCA for FY23 would require support of available cash and cash equivalents to meet the various commitments. WCL also has access to the fund-based limits of ₹500 crore, which remained utilised at 59% average over the 13 months ended June 2022.

Analytical approach: Consolidated, as WCL, along with its subsidiaries, operate in the same line of business and have significant operational, financial and management linkages. The subsidiaries and JV adopted for consolidation are tabulated below:

Name of Subsidiaries	Country of incorporation	Extent of shareholding as on March 31, 2022
Direct Subsidiaries		
Welspun Pipes Inc	USA	100%
Welspun Trading's Limited	India	100%
Welspun Mauritius Holdings Limited	Mauritius	89.98%
Mahatav Plastic Products and Building Materials Pvt Ltd (w.e.f November 26, 2021)	India	100%
Welspun DI Pipes Limited (w.e.f. February 03, 2021)	India	100%
Welspun Metallics Limited (w.e.f. February 03, 2021)	India	100%
Anjar TMT Steel Private Limited	India	100%
Welspun Specialty Solutions Limited	India	50.03%
Indirect Subsidiaries		
Held through Welspun Pipes Inc		
Welspun Tubular LLC	USA	100%
Welspun Global Trade LLC	USA	100%
Name of Joint Ventures/Associates	**Country of incorporation**	**Extent of shareholding as on March 31, 2022**
Welspun Wasco Coatings Private Limited	India	51%
East Pipes Integrated Company for Industry, Kingdom of Saudi Arabia (formerly known as Welspun Middle East Pipes Company)	Kingdom of Saudi Arabia	35.01% (reduced from 50.01% after IPO on January 31, 2022)
Welspun Captive Power Generation Limited	India	23%

Note: The Indian operations (WCL) and the US operations (held through Welspun Pipes Inc.) are fully consolidated, whereas the joint venture/associate companies are consolidated by the equity method (i.e., as a separate line item) to the extent of holding.

Applicable criteria

- Policy on default recognition
- Consolidation
- Factoring linkages parent Sub JV group
- Financial ratios – Non-financial sector
- Liquidity analysis of Non-financial sector entities
- Rating outlook and credit watch
- Short-term instruments
- Manufacturing companies
- Project stage companies

About the company

WCL is the flagship company of the US$ 2.7-billion Welspun group. WCL is a welded pipe manufacturing company engaged in offering solutions in line pipes, with a capacity to manufacture longitudinal submerged arc welded (LSAW; used for onshore and offshore oil, gas transmission), spiral helical submerged arc welded pipes (HSAW; used for onshore oil, gas and water transmission), and electrical resistance welded (ERW; used for downstream distribution of oil, gas and water) pipes. The company also offers coating, bending, and double jointing facilities. WCL has a 2.55-MTPA capacity of steel pipes manufacturing, with plants located in India, the US, and Saudi Arabia.

Financial performance

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Income from continuing operations	7,090	6,488	1,322
PBILDT	736	462	29
PAT (after discontinued operations)	826	444	-0.95
Overall gearing (including LC acceptances) (times)	0.33	0.64	-
Interest coverage (times)	8.71	4.58	-

A: Audited; UA: Unaudited (Includes share of profit/loss from Saudi Arabia Operations)

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	3809.00	CARE A1+
Debentures-Non-convertible debentures	**INE191B07139**	Aug 02, 2010	11%	Nov 2022	36.00	CARE AA; Stable
Debentures-Non-convertible debentures	**INE191B07154** **INE191B07162** **INE191B08020** **Proposed**	Feb 10, 2021 Feb 16, 2021 Jul 09, 2021 -	6.50% 7.25% 7.90% -	Feb 2024 Feb 2026 July 2036 -	200.00 200.00 40.00 60.00	CARE AA; Stable
Commercial paper-Commercial paper (Standalone)*	**INE191B14580**	July 01, 2022	6.15%	Sept 29, 2022	100.00	CARE A1+
Commercial paper-Commercial paper (Standalone)*	**Proposed**	-	-	-	400.00	CARE A1+

*as on July 25, 2022

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (01-Sep-20)	1)CARE AA; Stable (05-Mar-20) 2)CARE AA-; Positive

								(04-Nov-19)
2	Non-fund-based - ST-BG/LC	ST	3809.00	CARE A1+	-	1)CARE A1+ (31-Aug-21)	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (05-Mar-20) 2)CARE A1+ (04-Nov-19)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (17-Feb-20) 2)CARE AA-; Positive (04-Nov-19)
4	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (31-Aug-21)	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (05-Mar-20) 2)CARE A1+ (04-Nov-19)
5	Debentures-Non-convertible debentures	LT	36.00	CARE AA; Stable	-	1)CARE AA; Stable (31-Aug-21)	1)CARE AA; Stable (01-Sep-20)	1)CARE AA; Stable (05-Mar-20) 2)CARE AA-; Positive (04-Nov-19)
6	Debentures-Non-convertible debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (31-Aug-21)	1)CARE AA; Stable (01-Sep-20)	-

*Long term/short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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About us:

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