

## Welspun Living Limited (formerly Welspun India Limited) (Revised)

November 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	1,959.50 (Enhanced from 1,922.35)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	352.00 (Reduced from 392.03)	CARE A1+	Reaffirmed
Commercial paper	300.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Welspun Living Limited (WLL) continue to take into account its leading position in the home textiles segment with a global reach and integrated nature of operations, strong relationship with leading global retailers and its well-diversified product portfolio. The ratings also factor the satisfactory financial risk profile of WLL supported by a sizeable net worth and utilisation of free cashflows to reduce debt, thereby resulting in healthy debt coverage indicators, despite a moderation in profitability and return on capital employed (ROCE). The debt metrics are expected to continue at satisfactory levels with scheduled debt repayments, improved working capital management and no major debt-funded capex being planned.

WLL witnessed a moderation in revenue and profitability in FY23 due to challenges from high inflation across major economies. The performance of FY23 was sub-optimal, followed by FY22 which saw a healthy growth in the revenues, supported by recovery in demand from the home textile segment, primarily due to increased focus on hygiene and overall recovery in the global economy post COVID-19.

However, in H1FY24, there was recovery in the demand post the headwinds faced in FY23. The total operating income (TOI) grew 15.5% YoY to ₹4,754 crore with a healthy operating margin at 15.4% growing 751 bps YoY, with cash accruals reaching ₹561 crore. Although headwinds are expected to persist in the medium term, CARE Ratings Limited (CARE Ratings) expects an overall improvement in the revenue & margins in FY24 backed by an anticipated revival in demand from the home textile industry with inventory levels of global retailers' normalising and stabilisation of input prices.

The aforementioned rating strengths continue to remain tempered by working capital intensive operations, volatility in raw material prices, fluctuations in foreign currency, and competitive nature of business. Although the company maintains a healthy cash balance, any large cash outflow in the form of dividend or buyback will be monitorable as it can potentially undermine the company's hitherto strong financial risk profile.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- The ROCE improving above 25% on a sustained basis.
- Profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to improve above 20% on a sustained basis.
- Total debt to gross cash accruals (TD/GCA) improving to 1.30x.

#### Negative factors

- Increase in the overall gearing above 1.20x.
- Decline in ROCE below 14%.

### Analytical approach:

Consolidated, as WLL has strong operational linkages with its subsidiaries. The list is enclosed in **Annexure-6**.

### Outlook: Stable

CARE Ratings has given stable outlook to the bank facilities and instruments of WLL on expectation that the company will maintain its strong market position and stable financial risk profile supported by comfortable debt metrics.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

#### Resourceful promoters; experienced management

WLL is the flagship 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 the Welspun group, the company draws strength from the experience and competence of the management. The company is promoted by BK Goenka (Chairman of the Welspun Group) and Rajesh Mandawewala (Group Managing Director; who is also the MD of the textile business), and is ably supported by Dipali Goenka- CEO and Joint MD of WLL.

#### Leading position in home textiles segment with global reach

WLL is the largest exporter of home textile products from India and supplies to top global retailers. WLL has a distribution network covering over 50 countries. About 66-68% 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.

#### Diversified product portfolio, emerging businesses to contribute to future growth

WLL's product portfolio comprises wide range of bath and bed linen products, such as towels, bed sheets, bath rugs, bathrobes, etc. The company has been constantly innovating in the home textile segment introducing newer varieties, such as hygro cotton towels, nanocore, charcoal-infused textile products, superfast drying – Drylon, etc. WLL also has an advanced textiles division, which manufactures spunlace, needle punch, wet wipes, etc. In FY18, WLL entered into manufacturing flooring solutions, such as click-n-lock tiles, carpet tiles, wall-to-wall carpets, grass tiles, etc., through its 100% subsidiary, Welspun Flooring Limited (WFL). WLL has 36 patents across the globe for the various brands owned by it, which is the largest for any home textile player.

Around 22% of WLL's revenue in FY23 (PY: 15%) was from branded sales, which consists of its own brands, such as Welspun, Spaces, as well as licensed brands like Wimbledon, Disney, Christy, Royal Ascot, Despicable Me, Martha Stewart, Wimbledon, etc. In FY23, WLL incurred a CAPEX of around ₹275 crore pertaining to capacity addition in advanced textiles and flooring (emerging businesses). The enhanced capacities of emerging business are expected to contribute to future growth. Given the heightened focus for medical and hygienic products, especially in the wake of the pandemic, CARE Ratings expects advanced textile division to perform well and contribute to the revenue growth going forward. Overall flooring demand was adversely impacted due to the pandemic but revival in the economic activity and relaxations on restrictions imposed due to the pandemic across the globe is likely to bring back demand for this segment. The commercial establishments, real estate and hospitality sector have also opened up, which augurs well for WLL's flooring business.

#### Established relationship with the large global retail chains

Over the years, WLL has developed strong relationships with clients and supplies products on annual programme basis (having 'cost plus' pricing) with its key clients. In the B2B category, WLL supplies its products to retailers like Amazon, Flipkart and Myntra domestically. In the international market, WLL supplies its products to large retailers like Walmart and IKEA. WLL's highest revenue is from B2B channel in home textile segment with 66% of the total sales in FY23 (P.Y. 74%). Apart from this, WLL sells its own brands through shop-in-shops, franchised retail outlets and through e-commerce platforms. WLL has 15511+ outlets across 600+ towns and is the no.1 distributed brand of home textiles in home linen in India. The E-commerce platform has picked up traction in the past year post the pandemic, as now more number of people buy from the safety of their homes. For the flooring business, WLL has partnered with leading brands, such as Infosys, Google, Hyatt, Marriot, Taj Group, Radisson, etc. It also has 240 shop-in-shop locations across 380 cities to increase its market share.

#### Integrated nature of operations

WLL is vertically integrated, which strengthens its overall business profile. The integration levels of WLL include converting cotton into made-ups like bed and bath products (bed linen, pillow covers, duvets, comforters, quilts, mattress pads, bath towels, bath rugs, bathrobes, etc.) through spinning, weaving, processing, printing, washing, cutting and sewing. Current backward integration is 70% of its yarn and fabric requirements.

#### Improved performance expected, however, pace of recovery is contingent on external factors

WLL reported a de-growth of 13% y-o-y in TOI from ₹9,313 crore in FY22 to ₹8,094 crore in FY23 and a 44% de-growth in PBILDT, attributable to economic headwinds faced in global markets impacting home textile industry. The PBILDT margins of WLL during FY23 had been impacted due to the factors such as low volume and volatile input cost with cotton prices touching historical highs, shipping as well as energy costs witnessing a manifold increase, and low demand scenario which constrained its ability to hike prices amidst already existing high prices. Furthermore, reduced capacity utilisation led to under absorption of fixed costs, resulting the margin to be on a declining trend. The PBILDT margin for FY23 dipped by 534 bps from 14.64% in FY22 to

9.30% in FY23. In H1FY24, the TOI grew 15.5% YoY to ₹4,754 crore with a healthy operating margin at 15.4% growing 751 bps YoY.

The profit after tax (PAT) of WLL came down significantly from ₹592 crore in FY22 to ₹188 crore in FY23. Nevertheless, WLL's tangible net worth (TNW) base continued to remain strong at ₹3,989 crore as on March 31, 2023. WLL's gross debt reduced from ₹3,304 crore as on March 31, 2022 to ₹2,462 crore as on March 31, 2023 with scheduled term loan repayments and reduction in overall working capital borrowings as capacities were utilised sub-optimally during the year. WLL's net debt stood at ₹1,573 crore as on September 30, 2023 (P.Y. ₹1,998 crore). CARE Ratings observes that the net debt/equity also improved to 0.42x as on March 31, 2023 (P.Y. 0.61x), whereas net debt/PBILDT ratio marginally deteriorated to 1.76x for FY23 (P.Y. 1.56), following lower PBILDT, albeit expects it to remain comfortable.

### **Key weaknesses**

#### **WLL's exposure to inherent industry risks**

Cotton and cotton yarn are the key raw materials for WLL. Volatility in cotton prices lead to volatility in profitability margins as the entire increase cannot be recovered through higher realisations. Furthermore, most of the B2B contracts have built-in price escalation clauses, although the negotiation and finalisation of the price takes 1-2 quarters. As such, there is a lag of upto 2 quarters during which WLL is exposed to cotton price fluctuations.

#### **Competition in home textile business**

The Indian export home textile market is dominated by few large players such as Bombay Dyeing, Welspun Living, 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, Bangladesh, etc. Nevertheless, WLL has been able to maintain a healthy market share in its key markets and has strong tie-ups with reputed players in the key home textile segments such as towels, bed linen, etc. The domestic home textile market is still dominated by the unorganised sector and brand penetration continues to remain low, albeit increasing due to increasing brand consciousness.

#### **Liquidity: Strong**

WLL has strong liquidity marked by expected strong accruals of around ₹900 crore in FY24 against which it is comfortably placed as scheduled long-term debt repayment obligation is ₹161 crore for FY24. CARE Ratings also draws comfort from the liquid cash and investments to the tune of ₹791 crore as on March 31, 2023, and ₹769 crore as on September 30, 2023. WLL does not have any large debt-funded capex and its working capital utilisation remained at around 85% for 12 months ended October 2023.

#### **Environment, social, and governance (ESG) risks**

Regarding environment risks, WLL implemented ISO 14001 Environmental Management Systems at both manufacturing sites. Utilising waste heat and blast furnace waste gas for power and steam generation coupled with building up 27-MW solar power plant at Anjar. The recent Dow Jones Sustainability Indices (DJSI) score of 59, is 23% higher than the previous score, and places WLL among the top 5 percentile of global textile companies.

Regarding social risks, WLL is engaged with cotton farmers to grow sustainable cotton (better cotton initiative and organic cotton) in an initiative spread over 350 villages, impacting 18,000 farmers. The company has also started a "SPUN" initiative: empowering women in rural communities, who earn livelihood by making handicraft goods from factory textile scrap. All these initiatives will be managed by the robust governance through ESG Compass – an integrated ESG digital platform with automated data dashboards extended to all sites, locations and subsidiaries in India.

#### **Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)

[Policy on Withdrawal of Ratings](#)

[Manufacturing Companies](#)

## About the company and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

Welspun Living Limited (WLL) is the flagship company of the Welspun group, promoted by Late G.R. Goenka, B.K. Goenka and 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. WLL'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 fibre) and flooring products.

Brief Financials (₹ crore): Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	9,313	8,094	4,755
PBILDT	1,363	753	732.77
PAT	606.703	202.51	363.14
Overall gearing (times)	0.85	0.62	0.60
Interest coverage (times)	10.39	5.79	12.28

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**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:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper- Commercial paper (Standalone)	-	-	-	Not Placed Yet	300.00	CARE A1+
Fund-based - LT-Term loan	-	-	-	01-06-2025	56.50	CARE AA; Stable
Fund-based- Long term	-	-	-	-	1903.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	352.00	CARE A1+

**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 2023-2024	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
1	Fund-based - LT-Term loan	LT	56.50	CARE AA; Stable	-	1)CARE AA; Stable (27-Dec-22) 2)CARE AA; Stable (06-Apr-22)	1)CARE AA; Stable (24-Aug-21)	1)CARE AA; Stable (07-Jan-21)
2	Fund-based-Long term	LT	1903.00	CARE AA; Stable	-	1)CARE AA; Stable (27-Dec-22) 2)CARE AA; Stable (06-Apr-22)	1)CARE AA; Stable (24-Aug-21)	1)CARE AA; Stable (07-Jan-21)
3	Non-fund-based - ST-BG/LC	ST	352.00	CARE A1+	-	1)CARE A1+ (27-Dec-22) 2)CARE A1+ (06-Apr-22)	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (07-Jan-21)
4	Commercial paper-Commercial paper (Standalone)	ST	300.00	CARE A1+	-	1)CARE A1+ (27-Dec-22) 2)CARE A1+ (06-Apr-22)	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (11-Dec-20)

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

**Annexure-4: Complexity level of the various instruments rated**

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

## Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the 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.

## Annexure-6: List of subsidiaries for WLL as on March 31, 2023

List of Subsidiaries	% held by Welspun Group	Country of Origin
Anjar Integrated Textile Park Developers Private Limited (AITP)	100.00	India
Welspun Anjar SEZ Limited (WASEZ)	100.00	India
Besa Developers and Infrastructure Private Limited (BESA)	100.00	India
Welspun Global Brands Limited (WGBL)	98.03	India
Welspun USA Inc. (WUSA)	98.68	U.S.A.
Welspun Captive Power Generation Limited (WCPGL)	77.00	India
Welspun Holdings Private Limited (WHPL)	98.11	Cyprus
Welspun Home Textiles UK Limited (WHTUKL) (Held through WHPL)	98.11	U.K.
CHT Holdings Limited (CHTHL) (Held through WHTUKL)	98.11	U.K.
Christy Home Textiles Limited (CHTL) (Held through CHTHL)	98.11	U.K.
Christy Welspun GmbH (CWG) (Held through WUKL)	98.11	Germany
Welspun UK Limited (WUKL) (Held through CHTL)	98.11	U.K.
Christy 2004 Limited (Held through WUKL)	98.11	U.K.
Christy Lifestyle LLC (Held through WUKL)	98.11	U.S.A.
Christy UK Limited (CUKL) (Held through CHTL)	98.11	U.K.
ER Kingsley (Textiles) Limited (Held through CHTL)	98.11	U.K.
Welspun Mauritius Enterprises Limited (WMEL)	98.03	Mauritius
Novelty Home Textiles SADECV (Held through WMEL)	98.03	Mexico
Welspun Zucchi Textiles Limited (WZTL)	100.00	India
Welspun Flooring Limited (WFL)	100.00	India
Welspun Advanced Materials (India) Limited (WAMIL)	100.00	India
Welspun Nexgen Inc. (WNI)	100.00	U.S.A.
TILT Innovations Inc. (TII) (Held through WUSA)	98.68	U.S.A.
TMG (Americas) LLC (Held through WUSA)	98.68	U.S.A.
Anjar Terry Towels Limited (ATTL)	100.00	India

## Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Ranjan Sharma Senior Director <b>CARE Ratings Limited</b> Phone: 079-40265617 E-mail: <a href="mailto:ranjan.sharma@careedge.in">ranjan.sharma@careedge.in</a></p> <p>Pulkit Agarwal Director <b>CARE Ratings Limited</b> Phone: +91 22-67543505 E-mail: <a href="mailto:pulkit.agarwal@careedge.in">pulkit.agarwal@careedge.in</a></p> <p>Arti Roy Associate Director <b>CARE Ratings Limited</b> Phone: +91 22-67543657 E-mail: <a href="mailto:arti.roy@careedge.in">arti.roy@careedge.in</a></p>
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### About us:

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