Welspun Corp Limited (Revised)

January 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	400.00	CARE AA; Negative / CARE A1+	Assigned
Short-term bank facilities	3,809.00	CARE A1+	Reaffirmed
Non-convertible debentures	500.00	CARE AA; Negative	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	-	-	Withdrawn
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 order book position as on September 30, 2022, for supply of 956 KMT valued at ₹13,750 crore providing revenue visibility for the next 18-24 months. With the consolidation of Welspun group's steel business under WCL, the company is likely to benefit from being an integrated manufacturer now, increased B2C presence and enlarged product portfolio.

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, has been commissioned in July 2022, and commercial production has also started from Q3FY23. The operating losses with one-time inventory write-off from new businesses have impacted the H1FY23 performance of WCL on a consolidated level.
WCL has also undertaken inorganic expansion in the recent past with acquisition of Sintex BAPL Ltd's debt (₹1,737 crore of debt acquired at discount rate in negotiation with the creditors through the resolution professional) and ABG Shipyard Ltd's specified assets. WCL has spent ₹659 crore plus taxes for acquiring ABG Shipyard Ltd's assets. The acquisition has been funded through debt of ₹400 crore and balance through cash. Although comfortable, draw down of project loan and the new debt availed for asset acquisition of ABG Shipyard Ltd along with increased working capital requirement is expected to moderate the capital structure in FY23 (refers to the period April 1 to March 31). The financial risk profile is further supported by liquidity position with cash and cash equivalent of ₹1,298 crore as on September 30, 2022.

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 USA market through its USA operations and also increase in demand in the Indian operations through export markets and domestic orders received. The company has started executing the order, and the majority of the sales are expected to commence from Q4FY23. 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.

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 se Jal" project for the water pipelines and the "Coastal Gas Distribution" project 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.

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.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- Decline in the profitability margins below 11% on a consolidated basis.
- Contraction in the order book position, leading to lower sales volumes.
- Increase in the adjusted overall gearing (including CG) above 1.10x.
- Lesser-than-envisaged improvement in the net debt/PBILDT, more than 2.50x over the next 12-18 months.
- Any significant shortfall in generation of cash accruals than envisaged, from the projects recently commissioned.

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 joint ventures (JVs) adopted for consolidation are tabulated below:

Name of Subsidiaries	Country of incorporation	Extent of shareholding as on September 30, 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%
Big Shot Infra Facilities Private Limited (w.e.f April 18, 2022)	India	100%
Nauyaan Shipyard Private Limited (w.e.f September 19, 2022)	India	100%
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 September 30, 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%
Clean Max Dhyuthi Private Limited (w.e.f August 01, 2022)	India	26%

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

Outlook: Changed from 'Stable' to 'Negative'.
The revision in the rating outlook factors in the moderated capital structure with increase in debt availed for acquisition and increased working capital requirement with the commissioning of the greenfield projects. The liquidity profile has also moderated with spending towards the greenfield projects and acquisitions vis-à-vis low cash accruals upto H1FY23. Generation of cash accruals as anticipated from the newly commissioned projects remains key rating monitorable.

Key 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 the 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 pipes and TMT Bar manufacturing facility by WCL.
The company received the entire consideration from sale of its Plates and Coil Mill Division (PCMD) in H1FY22 and further approximately ₹480 crore from the stake dilution in the JV company, East Pipes Integrated 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. The overall gearing is expected to deteriorate from current levels with the new debt availed for ABG Shipyard Ltd's assets acquisition and increased working capital requirement (overall gearing as on September 30, 2022, is 0.83x).

Satisfactory order book position, providing medium-term revenue visibility: WCL's globally confirmed order book position stands at 956 KMT, translating into a sales value of around ₹13,750 crore as on September 30, 2022, thus providing medium-term revenue visibility for the company. In addition to the above, the company has an active bid book of around 1,500 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.

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 has expanded 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 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 ₹351.51 crore repayable after 18 months to the promoters of WSL and has paid cash ₹11.22 crore in April 2022. The project under ATSPL has been commissioned in July 2022, and WSSL has shifted its production to stainless steel bars, tubes and seamless pipes.

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 the 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. As informed by the management, the company through its wholly owned subsidiary will be implementing the resolution plan which was approved on December 21, 2022 by the NCLT, Ahmedabad Branch.

Acquisition of ABG Shipyard Ltd's assets: WCL, along with Nauyaan Shipyard Limited, has acquired the assets of ABG Shipyard for ₹659 crore plus taxes. To fund the acquisition, WCL has taken a short-term loan of ₹400 crore. WCL has acquired partly built obsolete ships and scrap, which is estimated to be over around 160,000 MT, 165 acres of land and 1,000 metres of water frontage. As informed by the company, the scrap material can be utilised in the production of ductile iron pipes and billets or can be sold in the market. The Company has received the possession of moveable properties (partially built obsolete ships, metal and scrap) from the Liquidator of ABG Shipyard Limited ("Liquidator) and has also received the possession of immovable property at Dahej, Gujarat from the Liquidator. The Company is in the process of selling these material based on which the funds so generated will be utilised to repay the short term loan

Key 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 the government policies and regulations in the geographies it operates.

Liquidity: Strong

The liquidity profile of WCL is supported by cash and investment in bonds/mutual funds/Government securities of ₹1,298 crore as on September 30, 2022. The GCA for FY23 and FY24 along with available liquidity is sufficient to meet its debt obligations for FY23 and FY24. With the greenfield projects already commissioned and equity commitments done by WCL, the company does not see any major capex spending in line apart from the regular maintenance capex.
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, any further spending is expected to be met from available cash balance. 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 53% average over the 12 months ended December 2022.

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
Policy on Withdrawal of Ratings

About the company

WCL is the flagship company of the 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31. 2022 (A)	H1FY23 (UA)
Income from continuing operations	7,090	6,488	3,349
PBILDT	736	462	-39.20
PAT (after discontinued operations)	826	444	-64.13
Overall gearing (including LC acceptances) (times)	0.33	0.64	0.83
Interest coverage (times)	8.71	4.58	NM

A: Audited; UA: Unaudited (Includes share of profit/loss from Saudi Arabia Operations); NM: Not Meaningful

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
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)	Proposed	-	-	-	500.00	CARE A1+
Debentures-Non-convertible debentures	INE191B07139	-	-	-	0.00	Withdrawn
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; Negative
Fund-based - LT/ ST-Term loan		-	-	21-03-2024	400.00	CARE AA; Negative / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	3809.00	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 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+ (11-Aug-22)	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+ (11-Aug-22)	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	-	-	1)CARE AA; Stable (11-Aug-22)	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; Negative	1)CARE AA; Stable	1)CARE AA; Stable	1)CARE AA; Stable (01-Sep-20)	-

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
					(11-Aug-22)	(31-Aug-21)		
7	Fund-based - LT/ ST-Term loan	LT/ST*	400.00	CARE AA; Negative / CARE A1+				

*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 the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Fund-based - LT/ ST-Term loan	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 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3573
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Hitesh Avachat
Phone: +91-90048 60007
E-mail: hitesh.avachat@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-22-67543404
E-mail: saikat.roy@careedge.in

About us:
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