

Welspun India Limited

August 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	1,843.69 (Reduced from 2,023.81)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	497.03 (Enhanced from 383.17)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	2,340.72 (Rs. Two thousand three hundred forty crore and seventy two lakh only)		
Commercial Paper*	300.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	300.00 (Rs. Three hundred crore only)		

*Standalone

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Welspun India Limited (WIL) takes into account WIL's leading position in home textiles segment with global reach and integrated operations, strong relationship with leading global retailers and its well-diversified product portfolio. It further factors in the stable operating performance of the company in FY21 despite the challenges associated with the pandemic. Revenue growth in FY21 (refers to the period April 1 to March 31) was supported by healthy demand from the home textile segment primarily due to increased focus on hygiene and development of homebody economy across the globe. CARE notes that even though there was growth in the revenue from the flooring business (Welspun Flooring Limited) on a YoY basis, capacity utilization levels remained low at around 18% in FY21 on the back of low institutional demand from commercial and residential real estate and hospitality segments which were adversely impacted by the pandemic. Going forward, with ramp up in economic activities, the demand for this segment is also likely to pick up. Steady growth in the home textiles and advanced textiles segments, coupled with improvement in the performance in the flooring segment is expected to result in revenue growth of 15%-18% and EBIDTA of 19%-20% in FY22.

The reaffirmation of the ratings also factors in the improvement in leverage indicators on account of steady cash accruals and prepayment of loans. CARE Ratings notes that the debt taken for the scheduled capex of around Rs. 600 crore in FY22 towards expansion of facilities across various segments and buyback of shares carried out recently may have a bearing on the overall gearing by the end of the current financial year but the same is expected to remain at comfortable levels.

These strengths are partially offset by lower-than-expected performance of the flooring business requiring continuous support from WIL, 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:

- ROCE of above 28% on a sustained basis
- Total Debt/GCA improving to 1.3x

Negative Factors:

- Increase in gearing beyond 1.20x
- Decline in ROCE below 14%

Detailed description of the key rating drivers
Key Rating Strengths

Resourceful promoters; experienced management: WIL 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 of the 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. Mandawewala is also the MD of the textile business and ably supported by Ms. Dipali Goenka- CEO & Joint MD of WIL.

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 a leading player in the home textiles segment, followed by Europe contributing 17%-18% of revenues while Indian operations contribute 7% to the revenues.

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 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. Recently, WIL has started 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. WIL has 32 patents across the globe for the various brands owned by it. Around 15% of WIL's revenue in FY21 (PY: 13%) 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.

WIL is undertaking debottlenecking and rebalancing capex of ~ Rs. 200 in FY22 will increase the capacities of its existing home textile products. It also setting up greenfield plant for manufacture of advanced textiles using spunlace technology in Telangana under its 100% subsidiary Welspun Advanced Materials India Limited. This project is likely to be completed by Q4FY22 and will almost double the capacity of the spunlace segment. Given strong demand for medical and hygienic non-woven products such as PPE kits, masks etc. CARE expects this division to drive revenue growth going forward. Further, WFL is expanding the capacity of its hard flooring division by investing ~ Rs. 217 crore. Overall flooring demand was adversely impacted due to the pandemic but revival in economic activity and relaxations on restrictions imposed due to the pandemic across the globe is likely to bring back demand for this segment.

Established relationship with the large global retail chains: Over the years, WIL has developed strong relationships with clients and supplies products on annual program basis (having 'cost plus' pricing) with its key clients. WIL's highest revenue is from B2B channel (85% of the total sales in FY21), wherein it has partnered with large retail and hotel chains such as Wal-Mart, Macy's, Tesco, Bed Bath & Beyond, IKEA, Mark & Spencer, Marriot, Taj Group etc. Towards the end of FY21, the company entered its agreement with Target, 8th largest retailer in USA thus, assuring steady revenues from FY22 onwards.

Integrated nature of operations WIL is vertically integrated which strengthens its overall business profile. WIL integration levels include converting 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 spinning, weaving, processing, printing, washing, cutting and sewing. Current backward Integration is 70% of its yarn and fabric requirements

Improvement in capital structure: The capital structure of the company has improved continually over the past few years. Long-term debt to equity ratio of the company has improved from 0.58x as on March 31, 2020, to 0.32x as on March 31, 2021, on the back of prepayment of loans aggregating Rs.417crore in FY21 apart from scheduled repayments. As a result other debt coverage indicators have also improved. CARE Ratings notes that debt taken for the scheduled capex of around Rs. 600 crore in FY22 towards expansion of facilities across various segments and buyback of shares carried out recently may have a bearing on the overall gearing by the end of the current financial year but the same is expected to remain at comfortable levels.

Key Rating Weaknesses

Support extended to subsidiaries on a standalone basis: The flooring business in Welspun Flooring Limited (WFL-100% subsidiary of WIL) was adversely impacted due to the pandemic. As such, capacity utilization levels continued to remain low in FY21. WFL reported a net loss of Rs. 73.50 crore in FY21. WIL on a standalone basis, invested around Rs. 278 crore in WFL in FY21 partly to fund the loss and partly towards capex funding. Furthermore, in FY21 WIL also invested Rs. 73 crore in Welspun Advanced Materials India Limited (WIL's 100% subsidiary) towards the greenfield project in spunlace division being undertaken by it.

WIL's exposure to inherent industry risks: Cotton and cotton yarn are the key raw materials for WIL. Volatility in cotton prices lead to volatility in profitability margins as the entire increase cannot be recovered through higher realizations. WIL purchases cotton through long-term agreements wherein price is fixed to a certain extent for the purchased quantity. These agreements are for the cotton season (October – September). Furthermore, most of the B2B contracts have built in price escalation clauses although, the negotiation and finalization of the price takes 1-2 quarters. As such, there is a lag of upto 2 quarters during which WIL is exposed to cotton price fluctuations. Recent increase in domestic cotton prices witnessed on the back of revival of domestic demand, higher MSP and higher international prices had an impact on the company's profitability margins in FY21.

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. Nevertheless, WIL 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 unorganized sector and brand penetration continues to remain low, albeit increasing due to increasing brand consciousness.

Liquidity: Strong – WIL has strong liquidity marked by expected strong accruals of around Rs. 1220 crore in FY22 against scheduled long-term debt repayment obligations of Rs. 146.93 crore. Unencumbered cash and bank balance to the tune of Rs.358.62 crore as on March 31, 2021 provide further support to its liquidity profile. Recently, the company concluded buyback of shares worth ~Rs. 200 crore which is likely to impact its liquidity profile. Further, it is undertaking capex of ~Rs. 600 crore which is partly debt funded. Generating adequate cash flows from the capex being undertaken shall be a key factor influencing the company's liquidity profile going forward. CARE notes that with a gearing of 0.79 times as of March 31, 2021 and debt already tied up for the capex being undertaken, WIL has sufficient gearing headroom, to raise additional debt if required. Its unutilized bank lines (23%) are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Consolidated as 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](#)

[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.

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

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY22(UA)
Total operating income	6767.20	7,376.05	2,227.22
PBILDT	1266.38	1,387.89	459.82
PAT	524.36	550.79	222.90
Overall gearing (times)	1.17	0.79	NA
Interest coverage (times)	7.13	7.03	9.41

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Quarterly installments upto 1 st June 2025	336.86	CARE AA; Stable
Fund-based-Long Term		-	-	-	1506.83	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	497.03	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE192B14539 INE192B14547	-	-	7-364 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	336.86	CARE AA; Stable	-	1)CARE AA; Stable (07-Jan-21)	1)CARE AA; Stable (02-Jan-20) 2)CARE AA; Stable (07-Oct-19)	1)CARE AA; Stable (04-Oct-18)
2.	Fund-based-Long Term	LT	1506.83	CARE AA; Stable	-	1)CARE AA; Stable (07-Jan-21)	1)CARE AA; Stable (02-Jan-20) 2)CARE AA; Stable (07-Oct-19)	1)CARE AA; Stable (04-Oct-18)
3.	Non-fund-based - ST-BG/LC	ST	497.03	CARE A1+	-	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (02-Jan-20) 2)CARE A1+ (07-Oct-19)	1)CARE A1+ (04-Oct-18)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	-	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (11-Dec-20)	1)CARE A1+ (07-Oct-19)	1)CARE A1+ (04-Oct-18)

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

Annexure -5 : Subsidiaries consolidated

S.No	Name of companies/ Entities	% of holding
1.	Anjar Integrated Textile Park Developers Private Limited (AIP)	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

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.

Contact us

Media Contact

Name- Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1

Name- Mr. Pulkit Agarwal
Contact no.- 91-22-67543457
Email ID- pulkit.agarwal@careratings.com

Analyst Contact 2

Name - Ms. Arti Roy
Contact no.- 9819261115
Email ID- arti.roy@careratings.com

Relationship Contact

Name- Mr. Saikat Roy
Contact no. : 91-22-67543404
Email ID: saiikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**