Welspun India Limited

December 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,922.35 (Enhanced from 1,832.58)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	392.03 (Reduced from 502.28)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**2,314.38 (₹ Two thousand three hundred fourteen crore and thirty-eight lakh only)**		
Commercial paper	300.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**300.00 (₹ Three hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities and instruments of Welspun India Limited (hereinafter referred to as WIL or the 'Company') continues to take into account its leading position in home textiles segment with global reach and integrated operations, strong relationship with leading global retailers and its well-diversified product portfolio. CARE Ratings Limited (CARE Ratings) further factors in the stable operating performance of the company in FY22 (refers to the period April 1 to March 31) during a very challenging business environment amidst high commodity inflation and supply chain bottlenecks. The revenue growth in FY22 was supported by recovery in demand from the home textile segment primarily due to increased focus on hygiene and recovery in the global economy. The flooring business operations have also improved due to higher capacity utilisation and better institutional demand from commercial and residential real estate and hospitality segments, which were adversely impacted by the pandemic. However, currently, the exports for home textile are facing severe headwinds on demand front as well as on account of high inflationary environment in key global markets. This is depicted by the de-growth in H1FY23 sales and profitability vis-à-vis corresponding period last year. Considering the fact that almost 90% of WIL's sales are from exports, early recovery in demand from these markets is critical.

The ratings also factor the satisfactory financial risk profile of WIL supported by steady cash accruals and prepayment of loans. Despite moderation in overall profitability, the debt metrics continue to remain stable. The debt metrics are expected to continue remaining at satisfactory levels, as there is an expected reduction in net working capital due to lower inventory and no major debt-funded capex being planned.

These strengths are partially offset by high commodity inflation and current slowdown in export markets resulting in lower-than-expected performance for FY23, working capital intensive operations, exposure to inherent industry risks such as volatility in raw material prices, fluctuations in foreign currency and competitive nature of business.

Rating sensitivities

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

- The return on capital employed (ROCE) improving above 25% on a sustained basis.
- PBILDT margin to improve above 20% on a sustained basis.
- Total debt to gross cash accruals (TD/GCA) improving to 1.3x.

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

- Increase in the overall gearing above 1.20x.
- PBILDT margins declining to below 9% on a sustained basis.

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

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 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 WIL.

Leading position in home textiles segment with global reach: WIL is among the largest home textiles companies 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 68% of its revenue comes from North America, especially USA, where it is a leading player in the home textiles segment, followed by Europe contributing 17% of revenues, Indian operations contributing 9% to the revenues, and rest 6% from other countries.

Diversified product portfolio, emerging businesses to contribute to future growth: WIL'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 hygrocotton towels, nanocore, charcoal-infused textile products, superfast drying – Drylon, etc. WIL also has an advanced textiles division, which manufactures spunlace, needle punch, wet wipes, etc. In FY18, WIL 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). WIL has 35 patents across the globe for the various brands owned by it, which is the largest for any home textile player.

Around 15% of WIL's revenue in FY22 (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. WIL is in advanced stage of completion of capex 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 Limited (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 WIL's flooring business. Going forward, financial support to be extended by WIL towards operations of its subsidiaries WFL and Welspun Advanced Materials India Limited (WIL's 100% subsidiary, WAMIL) is expected to reduce.

Established relationship with the large global retail chains: Over the years, WIL has developed strong relationships with clients and supplies products on annual programme basis (having 'cost plus' pricing) with its key clients. WIL's highest revenue is from B2B channel (84% of the total sales in FY22), 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. Apart from this, WIL sells its own brands through shop-in-shops, franchised retail outlets and through e-commerce platforms. WIL has 6642+ outlets across 482+ towns and is the no.1 distributed brand of HT in home linen in India. The E-commerce platform has picked up traction in the past year post the pandemic, as now more and more people are buying from the safety of their homes. Welspun Spaces is the leading brand on Myntra in the home category. For the flooring business, WIL has partnered with leading brands, such as Infosys, Google, Hyatt, Marriot, Taj Group, Radisson, etc. It has also appointed 572 dealers across 192 cities to increase its market share.

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, bathrobes, etc.) through spinning, weaving, processing, printing, washing, cutting and sewing. Current backward integration is 70% of its yarn and fabric requirements.

Strong operational performance in FY22, debt metrics continue to be satisfactory: During FY22, the company recorded revenues of ₹9,377 crore, registering a y-o-y growth of 26.6% over the preceding financial year. Home textiles business recorded historical highest ever revenues of ₹8,791 crore in FY22, registering a growth 23.3% y-o-y. The growth was driven by both the core business as well as the emerging businesses of brands, E-commerce, flooring and advanced textiles. The revenues of the flooring business more than doubled in FY22 to ₹661 crore, registering a growth of 107.4% over the preceding year supported by higher demand and capacity addition.

The capital structure of the company is characterised by strong net worth base of ₹3,872 crore as on March 31, 2022. The company also availed additional disbursement of ₹244 crore to finance capex in advanced textile and flooring. Nevertheless, the overall gearing stood at 0.85x as on March 31, 2022 (P.Y. 0.83x) and at 0.76x as on September 30, 2022. Controlled working capital borrowing amidst challenging conditions resulted in savings of interest cost resulting in the improvement of interest coverage ratio from 6.85x in FY21 to 10.39x in FY22. No debt-funded capacity addition is planned for home textile division in near future owing to difficult market conditions. The company plans to avail debt of ₹200 crore towards solar power capex at Anjar unit, out of which ₹50 crore capex is expected to be incurred in H2FY23. Under current scenario of inflationary environment, CARE Ratings expects the overall gearing to remain in the range of around 0.75x for FY23. The improvement in debt metrics is likely to happen from FY24 onwards with emerging businesses starting to scale up the company's operating EBIDTA and also on pace of normalisation of input prices.

Key rating weaknesses

Slowdown in export market and commodity inflation to result in moderation in performance and profitability: The home textile industry has been facing a demand slowdown as high energy and food prices have weakened the demand for discretionary products such as curtains and bedspreads in the top export markets of the US and Europe. The inventory levels are high with the overseas retailers. India's exports also have begun moderating on a sequential basis after touching a record high in FY22. Due to the current slowdown in export markets, WIL reported total sales of ₹4,116 crore in H1FY23, which was 13% lower than H1FY22. The operating profitability of the company has been severely impacted due to the factors such as commodity prices touching historical highs, shipping as well as energy costs witnessing a manifold increase, in addition to supply chain and logistical challenges. Within last 12 months, cotton prices touched as high as ₹1 lakh per candy. Although prices are showing signs of softening, it still remains above the historical average prices; hence, margin recovery is expected to be slower than envisaged. The cost of materials increased from ₹3,587 crore in FY21 (around 48% of FY21 sales) to ₹5,094 crore in FY22 (around 54% of FY22 sales). Manufacturing expenses, which includes power, fuel, dyes, chemicals, etc., also increased from ₹871 crore in FY21 to ₹1,043 crore in FY22. The SG&A costs increased from ₹707 crore in FY21 to ₹948 crore in FY22 because of higher logistics expense during the year. The company undertook price hikes to counter the increasing input prices. Although these hikes could not cover inflation fully, they have nevertheless limited further contraction in operating margins.

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 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 WIL is exposed to cotton price fluctuations.

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 Limited, Indo Count Industries Limited [rated 'CARE AA-; Stable/CARE A1+'], Himatsingka Seide Limited, Trident Limited [rated 'CARE AA; Positive/CARE A1+'], etc. These organised and larger players mainly cater to export demand from large global retailers and face competition from countries like Bangladesh, Pakistan, Vietnam, etc, where labour cost is lower than India. 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 unorganised sector and brand penetration continues to remain low, albeit increasing due to increasing brand consciousness.

Liquidity: Strong

CARE Ratings draws comfort from the liquid cash and investments to the tune of ₹995 crore as on September 30, 2022. Considering the increasing input prices and supply chain constraints, WIL's working capital requirement has also been increasing. Therefore, in some of the months, the limits have been highly utilised. The working capital utilisation is expected to come down in the near term with expected softening of input prices, easing of supply chain challenges and reducing inventory. CARE Ratings also draws comfort from management articulation that WIL shall continue to maintain strong liquid balance in the near future considering the global uncertainties. WIL has long-term debt repayment obligations of ₹162 crore for FY23. Out of the total debt repayments for FY23, balance of ₹85 crore is to be repaid in remaining H2FY23.

Analytical approach:

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

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](#)
[Cotton Textile](#)
[Manufacturing Companies](#)

About the company

Welspun India Limited (WIL) 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. 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 fibre) and flooring products.

Brief Financials (₹ crore): Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	HY ended September 30, 2022 (UA)
Total operating income	7,408	9,377	4,116
PBILDT	1,420	1,425	325
PAT	540	601	30
Overall gearing (times)	0.83	0.85	0.76
Interest coverage (times)	6.85	10.39	5.33

A: Audited; UA: Unaudited

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 various instruments rated for this company: Annexure-4

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 (Standalone)	INE192B14596	15-09-2022	6.65	14-03-2023	300.00	CARE A1+
Fund-based - LT-Term loan		-	-	01-06-2025	175.52	CARE AA; Stable
Fund-based-Long term		-	-	-	1746.83	CARE AA; Stable
Non-fund-based - ST-BG/LC		-	-	-	392.03	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	Fund-based - LT-Term loan	LT	175.52	CARE AA; Stable	1)CARE AA; Stable (06-Apr-22)	1)CARE AA; Stable (24-Aug-21)	1)CARE AA; Stable (07-Jan-21)	1)CARE AA; Stable (02-Jan-20) 2)CARE AA; Stable (07-Oct-19)
2	Fund-based-Long term	LT	1746.83	CARE AA; Stable	1)CARE AA; Stable (06-Apr-22)	1)CARE AA; Stable (24-Aug-21)	1)CARE AA; Stable (07-Jan-21)	1)CARE AA; Stable (02-Jan-20) 2)CARE AA; Stable (07-Oct-19)
3	Non-fund-based - ST-BG/LC	ST	392.03	CARE A1+	1)CARE A1+ (06-Apr-22)	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (07-Jan-21)	1)CARE A1+ (02-Jan-20) 2)CARE A1+ (07-Oct-19)
4	Commercial paper-Commercial paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (06-Apr-22)	1)CARE A1+ (24-Aug-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (11-Dec-20)	1)CARE A1+ (07-Oct-19)

*Long term/Short term.

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

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

Sr. No.	Name of 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: Bank lender details for this company

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

Annexure-6: List of subsidiaries as on March 31, 2022

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

S.No	Name of companies/ Entities	% of holding
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 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 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Arti Roy
Phone: +91-22-67543456
E-mail: arti.roy@careedge.in

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

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in