

## Welspun Steel Limited

March 30, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	250.00	CARE A-; Negative / CARE A2 (Single A Minus; Outlook: Negative / A Two)	Reaffirmed
<b>Total Bank Facilities</b>	<b>250.00</b> <b>(Rs. Two Hundred Fifty Crore only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Welspun Steel Limited (WSL) factors in the improvement in financial and operational performance from Q2-FY21 onwards, although the performance had deteriorated during FY20 resulting into operating loss and further impacted in Q1-FY21 due to imposition of lockdown in late March 2020 restricting economic activities in early FY21.

Furthermore, the ratings also factor in the subdued performance of its subsidiary company – Welspun Specialty Solutions Limited (WSSL; formerly known as RMG Alloy Steel Limited) during FY20 and further deterioration in performance during 9M-FY21. WSL has extended corporate guarantee to WSSL. The ratings, however, continue to derive strength from the parentage of the Welspun Group, strategic location of WSL's steel manufacturing facility and low levels of debt of WSL.

The ratings, however, are constrained by absence of any linkages to source its raw material requirements thereby exposing the company to susceptibility in profitability margins, inherent cyclicity of the steel industry and sustained exposure to group companies in the form of corporate guarantees and investments although corporate guarantee extended to WSSL has reduced during H1-FY21, on account of surrender of working capital facilities.

### Rating Sensitivities

#### Positive factors

- Improvement and sustenance in operating profitability above 13.00%
- Considerable reduction in exposure to group companies especially through corporate guarantees

#### Negative factors

- Deterioration in profitability margins from current level
- Increase in adjusted gearing ratio (including guaranteed debt) above 1.00x during projected period
- Any merger resulting into deterioration of its financial risk profile
- Any significant increase in working capital requirement or any unforeseen debt-funded capex/acquisition

### Outlook: Negative

The rating outlook continues to remain 'Negative' as the operational and financial performance of its subsidiary company i.e. WSSL continued to remain subdued during 9M-FY21, although the performance of WSL has improved during 9M-FY21. Although the exposure of WSL in the form of corporate guarantee extended to WSSL has reduced during H1-FY21, WSL or other group companies may have to fund the losses of WSSL and support debt obligations in case of sustenance of current performance.

The outlook may be revised to 'Stable' in case of improvement in overall performance and financial risk profile of WSSL going forward resulting in positive cash flows, along with sustained improvement in performance of WSL.

### Detailed description of key rating drivers:

#### Key Rating Strengths

##### Experienced and resourceful promoters

WSL is a part of the Welspun group, a diversified conglomerate promoted by Late Mr. G. R. Goenka, Mr. B. K. Goenka and Mr. R. R. Mandawewala; with a dominant position in line pipes and home textiles business and presence in Steel, Energy and Infrastructure sector. WSL draws strength from substantial experience and competence of the management and resourcefulness of the group.

#### Strategic location of steel manufacturing facility

The facility location at Anjar, Gujarat is strategically located in view of accessibility to nearby ports (Kandla and Mundra within reach of 30-40 Kms), highways and railways for easy and cost-effective transportation of materials, ample availability of various utilities like power, water, manpower etc. WSL majorly imports its raw material requirement, hence the proximity

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

of production plant near ports provides an advantage in terms of freight cost and inventory holding cost and therefore working capital cycle. It also provides an edge to the company to export the steel produce.

### **Comfortable debt levels**

WSL has no outstanding term debt. All term loans from banks were prepaid during FY17 and FY18 out of the increased cash & bank balances resulting from merger with Welspun Energy Private Limited. The debt of WSL mainly comprises of Non-Fund-based facilities, whose utilization remained around 81% during last 12-months ended January 2021. Overall gearing as on March 31, 2020 stood at 0.11 times. However, if the debt is adjusted to include corporate guarantees and net worth is adjusted to exclude investments in group companies, the adjusted overall gearing stands at 0.71 times as on March 31, 2020.

### **Deterioration in overall performance during FY20 and further in Q1-FY21, although improvement in performance from Q2-FY21 onwards**

The performance of the company was impacted during FY20 with lower capacity utilisation compared to FY19 resulting in operating loss of around Rs. 11 crore. The operations were further impacted during Q1-FY21, on account of imposition of lockdown in late March 2020 resulting in restrained economic activities in early FY21. The company received and executed considerable order book of billets during 9M-FY21 resulting in improvement in performance. During 9M-FY21, the company reported total revenue of Rs. 446.83 crore and operating profit of Rs. 21.80 crore.

### **Key Rating Weaknesses**

#### **Absence of captive raw material sources and exposure to price fluctuations**

Iron ore (including pellets) and coal are the key raw materials for the company. Presently, the company lacks backward integration in terms of captive mines and procures raw materials mainly on a spot basis from various domestic as well foreign dealers. However, it has long-term raw material contract for procuring iron-ore/pellets. Imports constitute around 40%-50% of total purchases. Although the company has adopted foreign exchange hedging policies, its profitability margins are exposed to adverse fluctuation in the key input prices, in case the increase cannot be recovered through higher realization entirely.

#### **High intra-group exposure; especially towards Welspun Specialty Solutions Limited (WSSL; formerly RMG Alloy Steel Limited)**

The company continues to have high intra-group party exposure over the past few years. It was considerably higher at around 80% of its net worth as on March 31, 2020. This includes exposure towards its subsidiary company – Welspun Specialty Solutions Limited (WSSL), at almost 74% of net worth as on March 31, 2020, although the same reduced to around 61% at the end of H1-FY21. WSL is major promoter of WSSL and holds 50.09% of the equity shares as on December 31, 2020. WSL has given corporate guarantees of around Rs. 105 crore as on September 30, 2020.

Currently, WSSL has steel melting shop has capacity of 1,50,000 tonnes per annum (TPA), rolling mill of 1,00,000 TPA and stainless-steel seamless pipes capacity of 10,000 TPA. SMS and rolling mill have been operating at lower capacities. The operation of WSSL remained subdued during 9M-FY21, though the same is expected to improve from Q4-FY21 onwards as the company has received product approvals for its stainless-steel pipes/tubes division from various clientele. During 9M-FY21, WSSL has reported total operating income of Rs. 66 crore and operating loss of Rs. 15 crore. Furthermore, any deterioration in overall performance of WSSL may lead to higher reliance of WSSL on WSL and other group companies for debt commitments.

### **Cyclicality of the steel industry**

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand.

### **Liquidity Analysis**

**Adequate** – The liquidity is marked by sufficient cushion in accruals vis-à-vis its nil repayment obligations as it does not have long-term debt. The fund-based limit utilisation stood at 54% during last 12-months ended January 2021, while Non-Fund-based limits utilisation stood at 82% during last 12-months ended January 2021. The cash and cash equivalents stood at Rs. 18.00 crore as on December 31, 2020 (*apart from FD of Rs. 21.24 crore kept towards margin money*). The company does not have any major capex plans in near future. The company availed moratorium on interest obligations during March 2020 to August 2020 as permitted by Reserve Bank of India due to Covid-19 pandemic. However, the company paid entire interest at the end of moratorium and did not avail Covid relief loan or funded interest term loan.

Welspun Steel Limited has extended corporate guarantee to its subsidiary – Welspun Specialty Solutions Limited (WSSL). The

debt repayments in WSSL are to the extent of Rs. 5.97 crore in FY22 and of Rs. 12.82 crore in FY23.

**Analytical approach:** Standalone

*(Group support has been factored in on account of common name and common board members)*

**Applicable Criteria**

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria on Short Term Instruments](#)

[Rating Methodology - Notching by factoring linkages in Ratings](#)

[Financial Ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Steel](#)

**About the Company:**

Established in June 2004, Welspun Steel Ltd. is a part of the Welspun Group, promoted by Late Mr. G. R. Goenka, Mr. B. K. Goenka and Mr. R. R. Mandawewala. The Welspun Group, a USD 2.7 billion diversified conglomerate, has a dominant position in line pipes and home textiles business and presence in Steel, Energy and Infrastructure. WSL is held by various promoter-held companies of Welspun Group. WSL operates a sponge iron plant with a capacity of 144,000 tonnes per annum (tpa), Steel Melting Shop (SMS) for manufacturing of steel ingots/billets (capacity of 288,000 tpa) and rolling mill for manufacturing of Thermo-Mechanically Treated (TMT) bars (capacity of 60,000 tpa) in the Welspun City complex at Anjar, Gujarat. The company's key products include sponge iron and steel ingots/billets.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	905.51	594.30
PBILDT	67.61	-11.22
PAT	34.07	-19.58
Overall gearing (times)	0.12	0.11
Interest coverage (times)	6.46	-0.95

A: Audited

*The financials have been reclassified as per CARE standards.*

**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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	250.00	CARE A-; Negative / CARE A2

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (02-May-17)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (02-May-17)
3.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (02-May-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	250.00	CARE A-; Negative / CARE A2	-	1)CARE A-; Negative / CARE A2 (12-Feb-20)	1)CARE A; Stable / CARE A1 (16-Aug-18) 2)CARE BBB+ / CARE A2 (CWD) (06-Apr-18)	1)CARE BBB+; Stable / CARE A2 (02-May-17)

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### 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.

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