Welspun Corp Limited

August 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Short Term Bank Facilities	3,809.00 (Reduced from 4,408.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Total Bank Facilities	**3,809.00 (Rs. Three Thousand Eight Hundred Nine Crore Only)**		
Non-Convertible Debentures-I	63.00 (Reduced from 90.00)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Non-Convertible Debentures-II	500.00	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Total Long-Term Instruments	**563.00 (Rs. Five Hundred Sixty-Three Crore Only)**		
Commercial Paper	500.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Short-Term Instruments	**500.00 (Rs. Five Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation to the bank facilities/instruments of Welspun Corp Limited (WCL) continue to factor in the strong business risk profile supported by its dominant position in the steel pipe business with diverse geographical presence in India, United States of America (US) and Saudi Arabia. The ratings also consider the robust financial risk profile marked by comfortable capital structure and debt service indicators which has been further strengthened by the pre-payment of entire long-term debt in its US subsidiary in July 2021. CARE notes the debt-funded (70%) greenfield expansion undertaken by WCL in terms of setting up “Pig Iron” (PI) and “Ductile Iron” (DI) manufacturing plants at Anjar, Gujarat which is expected to moderate its capital structure and solvency indicators in the medium term. However, ample liquidity cushion is available in the form of cash and liquid investments as on July 31, 2021, which is further bolstered post receipt of proceeds from sale of its Plate and Coil division (PCMD, now classified as discontinued operations) along with generation of healthy cash accruals in FY21 provide comfort. Though WCL encountered challenges on account of pandemic in FY21 which led to moderation in its revenue profile and slow pace of order-book execution, WCL did not face any major moderation in Q1FY22 and reported a reasonable performance backed by steady order flow reflected by confirmed order book-position as on July 31, 2021, which provides medium term revenue visibility. However, any slowdown on account of uncertainties around the pandemic and any other material developments impacting the sales volume and incremental orders in the key markets remains a key rating monitorable.

The above rating strengths are offset by the volatility associated with the crude oil & gas and steel prices impacting the demand for pipelines and order book in line pipe segment and regulatory risk in the geographies in which it operates.

CARE notes the scheme of arrangement which provides for acquisition of Welspun Steel Limited (WSL, rated CARE A-;Under credit watch with developing implications/ CARE A2) and investments held in Welspun Specialty Solutions Limited (WSSL; 50.03%), Anjar TMT Steel Private Limited (ATSPL; 100%) and Welspun Captive Power Generation Limited (WCPGL, rated CARE A+; Stable/ CARE A1+; 2.95%) [cumulatively referred to as demerged company] which is subjected to approval of National Company Law Tribunal (NCLT). As per the scheme, the transaction is a related party transaction and same is being done on arm’s length basis post thorough due diligence. The scheme does not provide for any cash consideration as WCL would issue and allot only Cumulative Redeemable Preference Shares (CRPS) to the eligible shareholders of the Demerged Company as on the record date which would translate to Rs.362.73 crore at face value, redeemable at the option of the holder, upon the expiry of 18 months from the date of issue. The CRPS would not be listed on the stock exchanges. CARE would continue to monitor the developments in this regard.

Rating Sensitivities

Positive Factors

- WCL's ability to improve upon its consolidated operating profitability margin to more than 16% on a sustained basis
- Low leveraged capital structure with overall gearing (including corporate guarantee) not more than 0.30x
- Sustenance in ROCE above 25% and improvement in interest coverage ratio above 8.00x

Negative Factors

- Decline in profitability margins on a consolidated basis below 11% in the projected period
- Continued contraction in the order-book position leading to lower sales volumes in the projected period
- Increase in adjusted overall gearing (including corporate guarantee) above 1.00x during the projected period
- Any delay, in the proposed capex plan, resulting into time and cost over-run.

Detailed description of the key rating drivers

Key Rating Strengths

Strong business risk profile supported by dominant position in the steel pipe business

WCL is one of the dominant players in the steel line pipe business with established track record of over two decades and demonstrated capabilities in supply of line pipes for complex projects in the oil & gas as well as water segments. WCL has global pipe production capacity of 2.55 million tonnes per annum (MTPA) with an aggregate capacity of 1.65 MTPA at four locations across India, 0.52 MTPA capacity in US and 0.375 MTPA capacity through joint venture in Saudi Arabia. Over the past three years, the company has consistently sold more than 1000 KMT of pipes globally which is aided by its established relationship with reputed overseas and domestic customers. Owing to requirement of sophisticated infrastructure in such business results in high entry barriers for new players thereby limiting competition thus strengthening WCL's business risk profile.

Robust financial risk profile and profitability indicators, moderation expected in medium term

The financial risk profile marked by overall gearing *(including acceptances)* and total debt to gross cash accruals *(TDGCA)* remains comfortable at 0.28x and 1.59 respectively as on March 31, 2021 (*PY: 0.57x and 1.92 respectively).* Pre-payment of long-term debt in its US subsidiary along with receipt of entire consideration from sale of its PCMD division has further strengthened its financial risk profile with free cash and liquid investments of Rs.1760 crore as on August 23, 2021, on the consolidated basis. Tangible net worth remains healthy at Rs.3811.65 crore with PBILDT interest coverage improving to 12.89x (PY: 8.78x). The profitability margin viz. PBILDT margins improved by 65 bps to 13.26% in FY21 on account of high margin export order realization in coastal gas link project in Canadian market. The PAT margins increased by 292 bps to 9.83% on account of company's cost optimization measures at US subsidiary. Going ahead, the financial risk profile is expected to moderate on account of greenfield capex in terms of setting up of DI and PI manufacturing plant at Anjar, Gujarat. WCL has extended/proposed to extend corporate guarantee for the debt facilities availed/to be availed for capex purpose. The overall project cost is estimated to be Rs.1777 crore which would be 70% funded through debt and balance through equity. As on July 31, 2021, WCL has already infused Rs.400 crore as a part of promoter contribution with balance amount expected to be infused in the remainder of FY22. However, the peak overall gearing is expected to be less than unity in the projected years.

Satisfactory order-book position providing medium-term revenue visibility

WCL's globally confirmed order book position stands at 528 KMT translating in sales value of around Rs.4800 crore thus providing medium term revenue visibility for the company. In addition to above, the company has an active bid book of around 1700 KMT with ~80% of such orders in the oil and gas segment whereas the balance is for the water segment. For the Indian market, the demand for large-diameter pipes in oil & 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 supplies to the oil & gas segment, while In Saudi Arabia, the order book is majorly driven by water orders from SWCC. The order-book across geographies has aided the group to diversify its revenue profile over the years

Impact of COVID-19 on the business profile

During FY21, WCL reported moderation in revenue and net income by 35% and 4% respectively on account of pandemic effect and decline in oil prices. The uncertainty around the pandemic led to cautious approach of midstream and exploration and production companies of US in their large capex program. Additionally, the major pipeline projects in US got stalled due to concerns related to environment safety and presidential elections in November 2020. To some extent, WCL was able to offset loss of orders in US by securing orders from new markets viz. Australia and Latin America. The Indian operations were supported, to some extent, by the intent of government to double down on the capex expenditure to revive the economy which led to increased tender activity from public sector companies. The Saudi JV operations were severely impacted due to

prolonged shutdown from March 2020 till June 2020 due to COVID impact which led to backlog in terms of order execution resulting in low sales. Additionally, the market was impacted by oil prices decline and sharp increase in steel prices.
During Q1FY22, US market continue to remain muted on account of continuing cautious stance maintained by the mid-stream oil players thus resulting in low new incremental orders for WCL. The order-book execution pace remained low in the Saudi JV resulting in low JV contribution at Rs.2.50 crore during Q1FY22 *(Q1FY21: Rs22.83 crore)*. However, Indian operations remained stable and WCL reported Rs.1336 crore of revenue and net income of Rs.97 crore during Q1FY22. *(PY: Rs.2085 crore and Rs.53.92 crore respectively)*

Key Rating Weakness
Susceptible to slowdown in end-user industries and to government policies
WCL derives more than 50% of revenue from the oil and gas segment. Significant volatility in the prices of crude price can question the viability of new explorations thereby impacting demand for line pipes in oil and gas segment. Further, the recent upward rally in the steel prices may defer the capex plans of large steel customers. The above effect coupled with COVID impact had impacted operations and crippled demand in FY21. Amid the pandemic-induced slowdown in oil prices in March 2020, WCL witnessed deferment/cancellation of few orders by customers. Revival of new projects in oil and gas segment in the key markets of US and Middle East is critical to sustain improvement in overall operations. Any major and continued slowdown in end-user industries will weaken demand for line pipes, and impact performance. Furthermore, operations remain exposed to government policies and regulations in the geographies it operates.

Liquidity: Strong
WCL has strong liquidity, driven by expected cash accrual of more than Rs 550 crore per annum in fiscal 2022, against yearly repayment obligation of around Rs 228 crore. WCL has already prepaid its entire long-term debt in its US subsidiary. The liquidity profile is further strengthened by unencumbered cash and liquid investments at Rs 1760 crore as on August 23, 2021. WCL also has access to fund-based limit of Rs 290 crore, which remained utilised at 39% average over the 12 months ended June 2021. The current ratio stood at 2.04x and operating cycle elevated to 97 days during FY21 (PY: 75 days) on account of increase in the inventory position which is normal as per the contract and revenue recognition policies of WCL

Analytical approach: Consolidated as WCL along with its subsidiaries are operating in the same line of business and have significant operational, financial and management linkages. The subsidiaries and Joint ventures (JV) adopted for consolidation are tabulated below:
Note: The Indian operations (WCL) and US operations (held through Welspun Pipes Inc.) are fully consolidated, whereas the Saudi Arabian operations and an Indian entity held through JV's are consolidated by the Equity method (i.e., as a separate line item) to the extent of holding.

Name of Subsidiaries	Country of incorporation	Extent of shareholding as on March 31, 2021
Direct Subsidiaries		
Welspun Pipes Inc	USA	100%
Welspun Tradings Limited	India	100%
Welspun Mauritius Holdings Limited	Mauritius	89.98%
Welspun DI Pipes Limited (w.e.f. February 03, 2021)	India	100%
Welspun Metallics Limited (w.e.f. February 03, 2021)	India	100%
Indirect Subsidiaries		
Held through Welspun Pipes Inc		
Welspun Tubular LLC	USA	100%
Welspun Global Trade LLC	USA	100%

Name of Joint Ventures	Country of incorporation	Extent of shareholding as on March 31, 2021
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	50.01%
Welspun Middle East Pipes Coatings LLC, Kingdom of Saudi Arabia (merged with East Pipes Integrated Company for Industry)	Kingdom of Saudi Arabia	-

Applicable Criteria
Criteria on rating outlook and credit watch
CARE's Policy on Definition of default
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector entities
Rating Methodology-Manufacturing sector companies
CARE's policy on Consolidation
CARE's criteria on short term instruments

About the Company
Welspun Corp Limited (WCL) is a flagship company of USD 2.7 billion Welspun Group. WCL is a welded pipe manufacturing company engaged in offering solution 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 2.55 million tonnes per annum (MTPA) capacity of steel pipes manufacturing with plants located in India, US and Saudi Arabia.

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)
Income from Continuing Operations	10019.98	6527.47
PBILDT	1263.96	865.51
PAT *(after discontinued operations)*	654.06	630.64
Overall Gearing (Including LC Acceptances) (times)	0.57	0.28
Interest coverage (times)	8.78	12.89

A: Audited
Note: The financials are adjusted as per CARE Standards

Status of non-cooperation with previous CRA: Not available

Any other information: Not available

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
Non-fund-based - ST-BG/LC	-	-	-	-	3809.00	CARE A1+
Non-Convertible Debentures-I	INE191B07139	August 02, 2010	11%	November 2022	63.00	CARE AA; Stable
Non-Convertible Debentures-II	Provided below	Provided below	Provided below	Provided below	500.00	CARE AA; Stable
-Commercial Paper (Standalone)	Provided below	Provided below	Provided below	Provided below	500.00	CARE A1+

Details of NCD-II

ISIN	Date of issue	Amount (in Rs.crore)	Coupon rate	Maturity Date	Rating assigned
INE191B07154	February 10, 2021	200.00	6.50%	February 09, 2024	CARE AA; Stable
INE191B07162	February 16, 2021	200.00	7.25%	February 16, 2026	CARE AA; Stable
INE191B08020	August 18, 2020	40.00	7.90%	July 09, 2036	CARE AA; Stable
Proposed	-	60.00	-		CARE AA; Stable
Total		**500.00**			

Details of Commercial Paper

ISIN	Date of issue	Amount (in Rs.crore)	Coupon rate	Maturity Date	Rating assigned
INE191B14473	June 06, 2021	25.00	-	September 08, 2021	CARE A1+
INE191B14481	June 18, 2021	25.00	-	September 16, 2021	CARE A1+
INE191B14507	July 02, 2021/ July 12, 2021	50.00	-	September 24, 2021	CARE A1+
INE191B14515	August 04, 2021	20.00	-	September 30, 2021	CARE A1+
Proposed	-	380.00	-		CARE A1+
Total		**500.00**			

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.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (01-Sep-20)	1)CARE AA; Stable (05-Mar-20) 2)CARE AA-; Positive (04-Nov-19)	1)CARE AA-; Positive (06-Jul-18)
2.	Non-fund-based - ST-BG/LC	ST	3809.00	CARE A1+	-	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (05-Mar-20) 2)CARE A1+ (04-Nov-19)	1)CARE A1+ (06-Jul-18)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (17-Feb-20) 2)CARE AA-; Positive (04-Nov-19)	1)CARE AA-; Positive (06-Jul-18)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (01-Sep-20)	1)CARE A1+ (05-Mar-20) 2)CARE A1+ (04-Nov-19)	1)CARE A1+ (06-Jul-18)
5.	Debentures-Non Convertible Debentures	LT	63.00	CARE AA; Stable	-	1)CARE AA; Stable (01-Sep-20)	1)CARE AA; Stable (05-Mar-20) 2)CARE AA-; Positive (04-Nov-19)	1)CARE AA-; Positive (06-Jul-18)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (01-Sep-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument: not applicable

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.	Debentures-Non Convertible Debentures	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details
Click here to view Bank Lender Details

***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.*

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