AUGUST 31, 2016

CARE PLACES THE RATINGS ASSIGNED TO THE LT BANK FACILITIES AND ST BANK FACILITIES/DEBT INSTRUMENTS OF WELSPUN INDIA LTD ON CREDIT WATCH

Ratings

Facilities	Amount** (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	3,552.45	**CARE AA- (Double A Minus) (Credit Watch)**	**Placed on Credit Watch**
Short term Bank Facilities	393.82	**CARE A1+ (A One Plus)(Credit Watch)**	**Placed on Credit Watch**
Total Facilities	**3,946.27 (Rs. Three Thousand Nine Hundred Forty Six Crore and Twenty Seven Lakh only)**		
Commercial Paper*	300.00	**CARE A1+ (A One Plus)(Credit Watch)**	**Placed on Credit Watch**

* Standalone

**As on March 31, 2016 the total outstanding long term bank facilities stood at Rs.2114 crore (total rated facilities Rs.3552.45 crore); total outstanding short term bank facilities stood at Rs.268 crores (total rated facilities Rs.393.82 crores). As on August 30, 2016, total Commercial Paper o/s stood at Rs.200 crore (total rated size Rs.300 crores).

Rating Rationale

The ratings assigned to bank facilities and instrument of WIL have been placed on credit watch following press release regarding the termination of business relationship by one of the company's leading customers – Target Corporation (which contributed to ~10 % of the total revenues of WIL in FY16) that they are in the process of termination of Business relationship over allegations of not meeting the required product specification by WIL for a specific product program (cotton bedsheets), the sales of which by company is approx Rs.57 crore p.a. CARE however notes that 'Target' has in the same press release informed that these product are safe to use and that other products are as per their specification.

Following this, product reviews have been undertaken by some of WIL's other customers.However another key customer from Europe has confirmed that they will continue business with Welspun as usual. Since the company procures raw material at various stages viz Cotton, Yarn, Greige Fabric etc it has appointed audit firm Ernst &Young to review its supply systems and processes and started active dialogue with other customers. To have better control on the quality, the company has taken following steps
a) It is taking steps to produce all the premium product in-house right from basic raw material b) It is developing tracking system to provide access to its customers to visualise their supplies at every stages i.e from cotton to finish products

CARE would take a view on the ratings once impact of the above development on the business and financial profile of WIL becomes clear. The ratings continue to draw comfort from the resourceful promoters (i.e., Welspun group) and extensive experience of the management, WIL's leading position in home textiles segment with global reach, its well-diversified product portfolio, and established relationship with the large global retail chains backed by 26 own patents (including pending) and 34% of sales from its own innovative products and 13% from branded products The ratings are, however, constrained by fairly leveraged capital structure and WIL's exposure to inherent industry risks, such as volatility in raw material prices and fluctuations in foreign currency. However, the same is largely covered through Price variation/pass through mechanism with its major customers.

Background

WIL is a prominent company of the Welspun group promoted by Late Mr. G.R. Goenka, Mr. B.K. Goenka and Mr. R.R. Mandawewala. The company is one of the largest manufacturers and exporters of bed & bath textile products globally. WIL's portfolio comprises wide range of home textile products such as terry towels (cotton and blended yarn), bed linen

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

(basic bedding and decorative bedding), bath rugs (cotton, nylon or micro fiber) and bath robes. In FY16, exports accounted for around 97% of total income. Over the past few years, the company has increased its presence in newer markets, such as Hong Kong, Canada, Germany, UAE, Australia, Japan, etc apart from being strong in the traditional markets of US and UK. The company is employing nearly 30,000 people (directly and indirectly) as on June 30,2016.

As on March 31, 2016, terry towel capacity stood at 60,000 tonnes per annum (tpa), while the total capacity for bed linens and rugs was 720 lac meters p.a. and 15,000 tpa respectively at its facilities located at Vapi and Anjar, Gujarat.
During FY16 WIL reported consolidated total income of Rs.6057 crore and consolidated PAT of Rs715 crore as compared to total income Rs.5392 crore and PAT of Rs.544 crore in FY15. In Q1FY17 company reported total income of Rs1593 crore and net profit of Rs209 crore
As on March 31, 2016, WIL's Total Debt/Gross Cash Accruals stood at 2.88x and overall gearing stood at 1.78x. As on June 30, 2016 WIL's unencumbered Cash & Cash equivalent stood at Rs. 500 crore

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

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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