DECEMBER 12, 2016

CARE REMOVES THE RATINGS FROM CREDIT WATCH AND REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES/DEBT INSTRUMENTS OF WELSPUN INDIA LTD

Ratings

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

* Standalone

Rating Rationale

The ratings assigned to the bank facilities and the instruments of Welspun India Ltd (WIL) have been removed from credit watch and reaffirmed following clarity on the operational and the financial impact on account of the termination of business relationship by one of the company's leading customers – Target Corporation (which contributed to around 10 % of the total revenues of WIL in FY16).

Following the termination, product reviews had been undertaken by some of WIL's other customers. However, all of the key customers have confirmed that they will continue business with WIL as usual. Since the company procures raw material at various stages viz Cotton, Yarn, Greige Fabric etc., it has appointed an audit firm to review its supply systems and processes. To have better control on the quality, the company has taken the following steps;

a) It is taking steps to produce all the premium product in-house right from basic raw materials to finished product.

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.

During Q2FY17, the company has also made a one time provision of Rs.489.64 crore to cover charges for return of goods by the customers, refund to the customers, cost of rework, inventory write-down, legal fees and other related expenses. As per the management, this provision is sufficient to cover all the potential future expenses on account of this event; any future escalation of the same remains a key rating moniterable.

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 continue to draw comfort also from high free cash holding (Rs.780 crore as on September 30, 2016), relatively low debt repayments over the next two years and high profitability margin which the company enjoy on account of its market positioning and scale of operations.

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

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 (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 September 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 Rs.715 crore as compared to total income Rs.5392 crore and PAT of Rs.544 crore in FY15.
In H1FY17, the company reported total income of Rs.3383 crore and net profit of Rs.83 crore (net of one time exceptional provision of Rs.490 crore). As on September 30, 2016, the company reported total debt of Rs.3177crore and cash & cash equivalents (lien free) of Rs.780 crore.

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****For detailedRationale 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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