

Welspun Corp Limited

February 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture issue (NCD) -1	90 (Reduced from Rs.294 crore)	CARE AA-; Positive (Double A Minus); Outlook: Positive	Reaffirmed
Non-Convertible Debenture issue (NCD) -2	200 (Reduced from Rs.700 crore)	CARE AA-; Positive (Double A Minus); Outlook: Positive	Reaffirmed
Total facilities	290 (Rs. Two Hundred and Ninety crore only)		

*Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
Rating Rationale

The reaffirmation of the ratings on the Non-convertible Debenture issue of Welspun Corp Ltd. (WCL) continue to derive strength from the resourceful promoters with long standing experience in the industry, comfortable liquidity position as reflected in high level of cash and cash equivalent consistently maintained by the company. Further, the ratings continue to draw strength from WCL's dominant position amongst global large diameter welded pipe producers along with presence of certifications and accreditations from major oil & gas companies worldwide as well as healthy order book position providing medium-term revenue visibility.

The ratings are, however, tempered by continued pressure on consolidated operating margins and subdued performance during FY17 (refers to the period April 1 to March 31) reflecting the subdued performance of the industry in the recent past. However, it is expected that the order book in India for the industry will built up in FY18 considering the Government spending on infrastructure. Also, in United States, it is expected that investments in the oil & gas industry specifically related to pipe lines would pick up in the medium term.

Any significant change in the available liquidity maintained by the company and WCL's ability to achieve the envisaged improvement in operational performance and profitability in the medium term, remain the key rating sensitivities.

Outlook Positive:

WCL reported moderate order book position and considerable improvement in the profitability in H1FY18. Expected improvement in the order book position accompanied by strong liquidity profile and moderate debt coverage indicators with no major capex plan enhances the overall financial profile of the company.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced promoters; dominant position in steel pipe segment: WCL is the flagship company of the Welspun group having established track record in fields such as line pipes, steel and home textiles. The company was set up in 1995 with technical expertise from Intertec GmbH, Germany and equity participation from Intertec GmbH and Gujarat Industrial Investment Corporation Ltd. WCL's product portfolio comprises LSAW, HSAW and ERW pipes ranging from ½ inch to 140 inches, along with specialized coating, double jointing and bending.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Moderate financial risk profile with comfortable liquidity position: Historically, WCL has consistently maintained high levels of free cash and cash equivalents to meet contingencies; cash and cash equivalents stood at Rs.1,167 crore as on June 30, 2017. As the company had healthy cash accruals available for operations, the reliance on working capital bank borrowings remained low reflecting healthy liquidity position. WCL had moderate overall gearing and debt coverage indicators:

Particulars	FY16	FY17
PBILDT Interest Coverage (times)	3.67	2.74
Net Overall Gearing (times)	1.02	1.09
Net Overall Gearing (Excluding Acceptances) (times)	0.62	0.41
Net Debt/PBILDT(times)	3.39	4.91

WCL primarily utilizes non-fund based limits to meet its working capital requirements reflected in comfortable net overall gearing (excluding acceptances). WCL intends to maintain adequate liquidity in the form of cash/cash equivalents at all times in line with its financial policy, providing comfort for meeting debt commitments (including prepayment of high cost debt) in the near term. In addition, the company does not have any substantial capex plans in the near term involving commitment of funds. Any substantial decline in the cash holding remains a key rating sensitivity.

Key Rating Weaknesses

Continued pressure on consolidated operating margins: WCL's performance continued to remain under pressure in FY17 due to increased competition in the industry and general economic slowdown. At the consolidated level, net sales declined by 30% on y-o-y basis in FY17. However, during H1FY18, WCL reported PBILDT margin of 13.22% (9.10% in H1FY17) on account of execution of niche orders in USA and Saudi. However, the margins are above average and are not likely to sustain on annual basis. Going forward, standalone business operations are expected to report improved profitability (on account of higher domestic order flows). However, the turnaround in US and Saudi Arabia operations remains a monitorable.

Moderate order book position providing medium-term revenue visibility; higher share of LSAW orders to improve profitability going forward : As on September 30, 2017, WCL had consolidated order book comprising 0.661 mt of pipes translating to approx. Rs.4,400 crore, to be executed over the next 12 months. However, the overall profitability will be under stress considering the gradual increase in demand and continued losses from the Saudi Arabia's operations.

Subdued outlook for global steel pipes industry: The outlook for the pipe business remains challenging. While there are early signs of revival of line pipe business on the back of announcement of new projects in North America, Latin America and India, competition continues to remain stiff, keeping margins under pressure. Also, with the National steel policy coming in effect and Government of India's focus on local supplies for government projects is likely to boost the demand for line pipe business.

Analytical approach

For arriving at the ratings, CARE has combined the business and financial risk profiles of Welspun Corp Ltd, Welspun Pipes Inc (subsidiary in USA) and WCL's Saudi Arabia JV, as these entities have significant operational linkages and are under a common management.

Applicable Criteria

[Rating Methodology-Manufacturing Companies](#)

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Established in 1995, WCL is the flagship company of the Welspun group promoted by Late Mr. G.R. Goenka, Mr. B.K. Goenka and Mr. R.R. Mandawewala. WCL is engaged in manufacturing HSAW, LSAW and ERW pipes, with total pipe capacity of 1.60 million tonnes per annum (mtpa), at three locations in India. In addition, WCL through its 100% wholly owned subsidiaries has set up operations in the USA and 50.01% subsidiary in Saudi Arabia, with its global pipe production capacity at 2.425 mtpa.

Following are the brief financials of WCL (Consolidated):

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Income from Continuing Operations	7,341	6,030
PBILDT	887	646
PAT	179	10
Overall Gearing (Including LC Acceptances) (times)	1.31	1.31
Interest coverage (times)	3.68	2.74

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Debentures-Non Convertible Debentures	Aug 2010	9.55%	Aug 2026	200.00	CARE AA-; Positive
Debentures-Non Convertible Debentures	Aug- 2012	11.00%	Aug 2023	90.00	CARE AA-; Positive

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Positive	1)CARE AA-; Positive (12-Sep-17) 2)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)	1)CARE AA- (10-Nov-15)	1)CARE AA- (17-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	5600.00	CARE A1+	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (05-May-17)	1)CARE A1+ (03-Aug-16)	1)CARE A1+ (10-Nov-15)	1)CARE A1+ (17-Oct-14)
3.	Fund-based - LT-Cash Credit	LT	401.50	CARE AA-; Positive	1)CARE AA-; Positive (12-Sep-17) 2)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)	1)CARE AA- (10-Nov-15)	1)CARE AA- (17-Oct-14)
4.	Commercial Paper	ST	200.00	CARE A1+	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (05-May-17)	1)CARE A1+ (03-Aug-16)	1)CARE A1+ (10-Nov-15)	1)CARE A1+ (17-Oct-14)
5.	Debentures-Non Convertible Debentures	LT	90.00	CARE AA-; Positive	1)CARE AA-; Positive (12-Sep-17) 2)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)	1)CARE AA- (10-Nov-15)	1)CARE AA- (17-Oct-14)

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