CARE Ratings
Professional Risk Opinion

Welspun Corp Limited

March 05, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Short Term Bank Facilities	5,500.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**5,500.00 (Rupees Five thousand five hundred crore only)**		
Non-Convertible Debenture-I	200	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Positive (Double A Minus; Outlook: Positive)**
Non-Convertible Debenture-II	90	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Positive (Double A Minus; Outlook: Positive)**
Commercial Paper (CP) Issue	500	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long term rating assigned takes into account noteworthy improvement in the consolidated operating profitability during FY19 which continued through 9MFY20, resulting into generation of healthy cash flow, which in turn is expected to be utilized for further deleveraging of the consolidated balance sheet by March, 2020. Additionally, the revision also factors in revival of the Saudi Arabian operations contributing to the overall profitability, steady order-book across all three geographies, comfortable liquidity position and prudent risk management strategies to mitigate the volatility in commodity prices and forex exposure.

The ratings continue to derive strength from the vast experience of the promoters and long track record of the company in executing complex pipeline projects, dominant position in the global large diameter welded pipe industry as well as certifications and accreditations from major oil & gas companies worldwide.

The ratings are however, partially tempered by susceptibility of the group's performance to the volatility in crude oil & gas prices impacting the demand for pipelines and regulatory risk in the geographies in which it operates.

Rating Sensitivities

Positive Factors

- WCL's ability to improve upon its consolidated operating profitability margin to more than 18% on a sustained basis
- Improvement in capital structure with overall gearing (including acceptances) not more than 0.34x
- Sustained improvement in ROCE above 20% and interest coverage ratio above 14.00x

Negative Factors

- Decline in consolidated operating profitability margins below 12% in the projected period
- Non-utilisation of surplus cash flows / sale proceeds from divestment of its plate & coil mill division (PCMD) for debt reduction as envisaged
- Increase in adjusted overall gearing (including corporate guarantee) above 1.00x during the projected period
- Any significant increase in working capital requirement or any unforeseen debt funded capex/acquisition

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters; dominant position in steel pipe segment

WCL is a flagship company of the Welspun group which has an established track record in the fields such as line pipes and home textiles apart from presence in Steel, Infrastructure and Energy. 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. WCL has an aggregate pipe manufacturing capacity of 1.655 MTPA at four locations in India. In addition, WCL through its subsidiaries/Joint Ventures has set up operations in USA and Saudi

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

Arabia, bringing its global pipe production capacity to 2.555 MTPA. The company enjoys a dominant position amongst global large diameter welded pipe manufacturers and has gathered several accreditations from major oil and gas companies worldwide. It has demonstrated excellent capabilities in supply of line pipes for complex projects in the oil and gas and water segments.

Improvement in operational and financial performance during 9MFY20

During FY19, WCL achieved its highest ever sales volume of welded pipes of 1.279 MMT (a growth of 18% over previous year) on account of healthy demand of pipelines in the US Market, met by way of increased capacity utilization of its US based facility. The profitability in the USA operations has been improving significantly mainly on account of restrictions on import of steel pipes into the US in the form of tariffs and quotas, aiding the local US plants to command better volumes and profit margins. While the PBILDT margin in US operations further improved to around 15% during 9MFY20, the profitability in Indian operations also picked up in Q3FY20, averaging to 10.78% during 9MFY20, on the back of an export order. Higher realisations and lower steel prices resulted in an increase in the consolidated PBILDT/tonne by ~57% from Rs. 8,548 to Rs. 13,393.

The turnaround visible in the Saudi Arabian operations in the last quarter of FY19 also continued through 9MFY20 with a PBILDT margin of 17%. The share of net profit/loss from JV increased from a loss of Rs. 83 crore in 9MFY19 to a profit of Rs. 116 crore in 9MFY20.

Resultantly, the Gross Cash Accruals doubled to Rs. 661 crores during 9MFY20.

Healthy order book position providing medium-term revenue visibility

WCL has a confirmed order book of 1.3 Million Tonnes worth ~Rs. 10,800 crore as on December 31, 2019 on a global level, providing a revenue visibility of next 3-4 quarters. More than 65% of the order book is from margin accretive Oil & gas segment and the rest is from water segment.

For the Indian market, the demand for large-diameter pipes in oil & gas segment is mainly driven by gas grid development by GAIL and oil pipeline network by IOCL; while the demand for small diameter pipes is driven by City Gas Distribution projects.

The order book across geographies has aided WCL to diversify its revenue profile. However, sustenance of the order book position is susceptible to slowdown in the end user industry and regulatory risks in the geographies in which it operates.

Focus on constant debt reduction and divestment of non-core assets

There has been reduction in the term debt levels, mainly on account of prepayment by US based Subsidiary of USD 50 mn in March-April 2019 (in two equal tranches), thereby reducing the consolidated debt position by around Rs. 350 crores. Moreover, usage of non-fund based facilities has also been lower resulting in improvement in overall gearing from 1.03x as on March 31, 2018 to 0.78x as on March 31, 2019 and further to 0.66x as on December 31, 2019. Similarly, Total debt/PBILDT halved from 5.33x in FY18 to 2.45x in FY19 and to 1.55x (annualized) in 9MFY20.

In March 2019, WCL announced the divestment of its sub-optimally utilised plates & coils mills division (PCMD) for a consideration of Rs. 848.50 crore, the rationale being focus on core business of welded pipes. The sale proceeds of PCMD, expected to be received by March, 2020 are expected to be utilized for further debt reduction. This in turn would further improve the capital structure, debt metrics and RoCE (Return on Capital Employed).

Comfortable Liquidity

Historically, WCL has consistently maintained adequate free cash & bank balances and liquid investments (Rs.933 crore as on March 31, 2019 and Rs. 916 crore as on December 31, 2019) to meet contingencies. WCL primarily utilizes non-fund based limits to meet it working capital requirements and the average non-fund based working capital utilization has been around 60% over last 12 months ending December, 2019 reflecting healthy liquidity position. Moreover, in comparison to its peers, WCL also has a shorter operating cycle (FY19: 51 days).

Out of the total Gross Cash Accruals (GCA) of Rs. 880 crores estimated for FY20, cash outflows in the form of buyback and dividend would amount to ~Rs. 320 crore. The projected cash flows are more than adequate for its annual debt repayments.

Key Rating Weaknesses

Susceptibility to volatility in crude oil and gas prices and government regulations

The group derives a major chunk of its revenue from oil & gas segment. Volatility in crude oil & gas prices can question the viability of new explorations thereby impacting the demand for line pipes in the oil & gas segment. Further the group is also exposed to changes in the government policies in the geographies in which it operates.

Liquidity: Adequate

Consistent maintenance of adequate cash, bank balance and other liquid investments (Rs. 933 crore as on March 31, 2019 and Rs. 916 crore as on December 31, 2019) coupled with low utilization of working capital limits (Fund-based – Nil utilisation; Non-fund based – around 60%) during the last 12 months ending December, 2019 strengthen the overall liquidity profile. Moreover, projected cash accruals are more than adequate for its annual debt repayment obligations.

Industry outlook and prospects
The company manufactures SAW pipes (HSAW & LSAW) and ERW pipes which are primarily used for transportation of oil & gas, water supply and sanitation projects etc. Demand for steel pipes used in oil and natural gas production is recovering backed by stable energy prices. The long term demand outlook for the Indian pipe industry is expected to remain steady on the back of increasing demand from infrastructure development, water supply and sanitation projects which augur well for WCL, being diversified geographically.

Analytical approach: Consolidated
Considering the operational and financial linkage of the business segments in India, USA and Saudi Arabia, CARE Ratings has taken consolidated approach for analytical purpose. The consolidated financials include the following set of companies.
Note: *The subsidiaries have been fully consolidated; whereas the JVs are consolidated by the Equity method (i.e. as a separate line item) to the extent of holding in accordance with IND AS Requirements.*

	Name of Entity	Stake (%)
Direct Subsidiaries		
1	Welspun Pipes Inc. (WPI)	100.00
2	Welspun Tradings Ltd	100.00
3	Welspun Mauritius Holdings Ltd	89.98
Indirect Subsidiaries		
1	Welspun Middle East DMCC	100.00
2	Welspun Tubular LLC	100.00
3	Welspun Global Trade LLC	100.00
Joint Ventures		
1	Welspun Middle East Pipes LLC	50.01
2	Welspun Middle East Pipes LLC	50.01
3	Welspun Wasco Coatings Private Limited	51.00

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating methodology- Factoring Linkages]

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 the manufacture of HSAW, LSAW and ERW pipes, with total pipe capacity of 1.655 million tonnes per annum (MTPA), at four 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, bringing its global pipe production capacity to 2.555 MTPA.
Following are the brief financials of WCL (Consolidated):

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	6,324	8,984	7,292
PBILDT	559	886	958
PAT	153	-22	507
Overall gearing (Including LC acceptances) (times)	1.03	0.78	0.66
Interest coverage (times)	3.29	4.99	8.88

A: Audited; UA: Unaudited

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	ISIN No	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-		-	-	5500.00	CARE A1+
Debentures-Non Convertible Debentures	August 01, 2012	INE191B07071	9.55%	August, 2026	200.00	CARE AA; Stable
Debentures-Non Convertible Debentures	August 02, 2010	INE191B07139	11%	November, 2022	90.00	CARE AA; Stable
Commercial Paper	NA	NA	NA	NA	500.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Stable	1)CARE AA-; Positive (04-Nov-19)	1)CARE AA-; Positive (06-Jul-18)	1)CARE AA-; Positive (05-Feb-18) 2)CARE AA-; Positive (12-Sep-17) 3)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)
2.	Non-fund-based - ST-BG/LC	ST	5500.00	CARE A1+	1)CARE A1+ (04-Nov-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (05-May-17)	1)CARE A1+ (03-Aug-16)
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)	1)CARE AA-; Positive (12-Sep-17) 2)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)
4.	Commercial Paper	ST	500.00	CARE A1+	1)CARE A1+ (04-Nov-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (05-May-17)	1)CARE A1+ (03-Aug-16)
5.	Debentures-Non Convertible Debentures	LT	90.00	CARE AA; Stable	1)CARE AA-; Positive (04-Nov-19)	1)CARE AA-; Positive (06-Jul-18)	1)CARE AA-; Positive (05-Feb-18) 2)CARE AA-; Positive (12-Sep-17) 3)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)

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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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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