Welspun Corp Limited

July 6, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	160.08 (Reduced from Rs. 401.50 crore)	**CARE AA-: Positive (Double A Minus; Outlook Positive)**	**Reaffirmed**
Short term bank facilities	5,500.00 (Reduced from Rs. 5,600.00 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**5660.08 (Rupees Five thousand six hundred sixty crore and eight lakhs)**		
Non-Convertible Debenture-I	200	**CARE AA-: Positive (Double A Minus; Outlook Positive)**	**Reaffirmed**
Non-Convertible Debenture-II	90	**CARE AA-: Positive (Double A Minus; Outlook Positive)**	**Reaffirmed**
Commercial Paper (CP) Issue	500	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings on the bank facilities/instruments of Welspun Corp Limited (WCL) continue to derive strength from the resourceful promoters with long standing experience in the industry, dominant position amongst global large diameter welded pipe producers along with presence of certifications and accreditations from major oil & gas companies worldwide, healthy order book position providing medium term revenue visibility, comfortable liquidity position as reflected in high level of cash and cash equivalent consistently maintained by the company and prudent risk management strategies to mitigate the volatility in the steel price and forex exposure. Further, the rating also factors the call option exercised by WCL for Non-Convertible Debentures repayment, thereby improving the overall gearing and debt coverage indicators.

The ratings are, however, tempered by continued pressure on operating margins, continued losses in the Saudi business, susceptibility of the order book on the demand in the end user industry and regulatory risk in the geographies. However, the Company has obtained large volume of orders for the Saudi business of 952 KMT aggregating to USD 788 million to be executed in the next two to three years which may lead to improvement in the financial performance over the next few years. In addition, as on May 1, 2018, WCL had order book position of 1.66 million MT aggregating to USD 1.7 billion i.e. 1.61x of the revenues in FY18 which provides revenue visibility over the next two years.

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 healthy order book position across geographies. 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.

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

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.

Healthy order book position providing medium-term revenue visibility

As on May 1, 2018, WCL had consolidated order book comprising 1.657 mt of pipes translating to approx. Rs.10,878 crore to be executed over the next three years. Also, the order book position is across geographies had aided the company to diversify its revenue profile. Also, the increasing global trade protectionism may provide an advantage to WCL having operating manufacturing units in the key markets of Kingdom of Saudi Arabia, USA and India has enabled WCL to increase its order book position across geographies. However, the order book position is susceptible to demand in the end user industry and regulatory risks in the geographies.,

Improvement in overall gearing and debt coverage indicators 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.889 crore as on March 31, 2018. As the company had healthy cash accruals available for operations, the reliance on working capital bank borrowings remained low reflecting healthy liquidity position. During FY18, WCL exercised call option and redeemed Rs.704 crore of NCD's and raised fresh NCD's of Rs.250 crore. On net basis, WCL redeemed Rs.454 crore, thereby improving the PAT margins and debt coverage indicators.

The overall gearing and debt coverage indicators as shown below:

Particulars	**FY16**	**FY17**	**FY18**
PBILDT Interest Coverage	3.67	2.74	3.57
Overall Gearing (Including Acceptances)	1.31	1.31	1.03
Total Debt/GCA	7.32	10.22	6.80

WCL primarily utilize non-fund based limits to meet it working capital requirements. 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 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. Strong order book position accompanied by comfortable liquidity profile enhances the overall financial profile of the company.

Key Rating Weaknesses

Continued pressure on operating margins:

During FY18, on account of lower oil prices the proportion of orders for pipes for Water industry increased compared to Oil & Gas industry which impacted the profitability also reflected in decline in PBILDT/ton during the second half of FY18. However, WCL reported increase in profitability on absolute basis (3.76% y-o-y basis). WCL reported PBILDT margin of 8.80% (considering the losses in the Suadi operations) in FY18 as compared to 10.62% in FY17. During FY18, the Saudi operations continued to report losses and the profitability of the Indian operations also improved vis-à-vis FY17, however the profits were lower than FY17 as the previous year had foreign exchange gains to the tune of Rs.80 crore. The profitability in the USA operations improved considering increase in order executed during the year. On overall consolidated basis WCL profitability has improved over the previous financial year in absolute terms. Also, the order book position as on May 1, 2018 is across geographies with significant improvement in the order book position in the Saudi region. Furthermore, the receivables are majorly backed by letters of credit/bank guarantees and WCL has strong customer base thereby mitigating collection risk to a certain extent.

Analytical approach: Consolidated

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)	FY17 (Audited)*	FY18 (Audited)*
Income from Continuing Operations	6,013	7,521
PBILDT	639	662
PAT	10	153
Overall Gearing (Including LC Acceptances) (times)	1.31	1.03
Interest coverage (times)	2.71	3.57

**The financials are adjusted as per CARE Standards; the PBILDT is calculated after factoring income from the Joint Venture/Associates.*

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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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.

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
Non-fund-based - ST-BG/LC	-	-	-	5500.00	CARE A1+
Fund-based - LT-Term Loan/ECB	-	-	Oct 2019	160.08	CARE AA-; Positive
Debentures-Non Convertible Debentures	August 01, 2012	9.55%	Aug 2026	200.00	CARE AA-; Positive
Debentures-Non Convertible Debentures	August 02, 2010	11%	Aug 2023	90.00	CARE AA-; Positive
Commercial Paper	-	-	Less than one year	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Positive	-	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)	1)CARE AA- (10-Nov-15)
2.	Non-fund-based - ST-BG/LC	ST	5500.00	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)
3.	Fund-based - LT-Term Loan	LT	160.08	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)

4.	Commercial Paper	ST	500.00	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)
5.	Debentures-Non Convertible Debentures	LT	90.00	CARE AA-; Positive	-	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)	1)CARE AA- (10-Nov-15)

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