Welspun Corp Limited

September 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Short Term Bank Facilities	4,408.00 (reduced from 5,500.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	4,408.00 (Rs. Four thousand four hundred and eight crore only)		
Non-Convertible Debenture-I (INE191B07071)*	-	-	Withdrawn
Non-Convertible Debenture-II	90.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures (Proposed)	500.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Commercial Paper (CP) Issue	500.00	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1
**withdrawn as the entire amount is redeemed*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/ instruments of Welspun Corp Limited (WCL) continue to factor in the established track record of WCL as one of India's largest steel pipes manufacturers coupled with strong financial risk profile and capital structure owing to healthy cash accruals which resulted into significant debt reduction by the company. The ratings further factor in comfortable liquidity position on the back of comfortable cash & bank balance and lower utilization of its working capital facilities along with sustained improvement in the Saudi Arabian JV's operations.
The ratings also derive strength from the vast experience of the promoters in executing complex pipeline projects, dominant position in the global large diameter welded pipe industry, certifications & accreditations from major oil & gas companies worldwide as well as prudent risk management strategies to mitigate the volatility in commodity prices and forex exposure.
The Q1FY21 performance of the group was adversely impacted by the lockdown announced to contain Covid-19 outbreak across all geographies wherein the company operates, as well as global melt-down in the oil prices. However, with gradual pickup in new orders, the performance is expected to restore to normal levels in the medium term.
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.
CARE has withdrawn the outstanding rating of 'CARE AA; Stable' (Double A; Outlook: Stable) assigned to the NCD Instruments with INE191B07071 of Welspun Corp Limited with immediate effect, as the company has repaid the said instrument in full. The above action has been taken at the request of WCL and payment confirmation as filed by the company on BSE.

<u>Rating Sensitivities</u>
Positive Factors
- WCL's ability to improve upon its consolidated operating profitability margin to more than 18% on a sustained basis
- Low leveraged capital structure with overall gearing (including corporate guarantee) not more than 0.30x
- Sustenance in RoCE above 25% and improvement in interest coverage ratio above 14.00x

Negative Factors
- Decline in profitability margins on a consolidated basis below 12% in the projected period
- Continued contraction in the order-book position leading to lower sales volumes in the projected period
- 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 and WCL's dominant position in steel pipe segment
WCL is a flagship company of the Welspun group which has an established track record in 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

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

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 (Million Tonnes Per Annum) at four locations in India. In addition, WCL's wholly-owned subsidiaries in USA have manufacturing facility with an installed capacity of 0.525 MTPA and its Joint Venture in Kingdom of Saudi Arabia (KSA) have manufacturing facility with an installed capacity of 0.375 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 & gas as well as water segments.

Improvement in operational and financial performance barring Q1FY21
On a consolidated basis, WCL reported a 32% Y-o-Y growth in operating profits to Rs. 1,284 crore in FY20 on the back of execution of margin accretive orders at the US operations (oil & gas segment) as well as export & PSU orders executed from Indian operations. The profitability in US operations is largely aided by the restrictions on import of steel pipes into the US, which provide a competitive advantage to the local US plants. Higher realisations and lower steel prices resulted in an increase in the consolidated PBILDT/tonne from Rs. 9,398 per tonne to Rs. 12,816 per tonne. The consolidated net profit of WCL was further boosted with revival of the Saudi Arabian JVs (since Q4FY19) on the back of profitable orders from SWCC (water segment). The JVs contributed Rs. 206 crore to the overall profitability in FY20 in comparison to loss of Rs. 89 crore in FY19. Resultantly, RoCE (Return on Capital Employed) increased substantially to 31.18% in FY20 and the Gross cash accruals (GCA) grew 34% Y-o-Y to Rs. 976 crore in FY20.
The Q1FY21 performance was however muted with GCA of Rs. 41 crore, considering the plant shutdown for over a month (as a result of lockdowns to contain the Covid-19 outbreak) resulting in lower sales volume (especially in US operations where sales volume declined by almost 60%) and continuing fixed costs. However, with the advent of new orders and resumption of operations, the performance is expected to restore to normal levels in the medium term.

Moderate order-book position providing medium-term revenue visibility
The global confirmed order-book as announced by the company post execution till June 30, 2020 stands at 759 KMT translating to ~Rs. 6,200 crores (ex-Saudi Rs. 4,400 crores), which provides a visibility for next 9-12 months. Apart from the above, the company also has active bids of ~1.9 MnT (1,900 KMT).
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 US operations entirely supply to the Oil & Gas segment, while In Saudi Arabia, the order book is majorly driven by water orders from SWCC.
The order book across geographies has aided the group 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.

Low leveraged capital structure and comfortable debt coverage metrics
WCL has not availed any moratorium benefits under the Covid-19 Relief package. In fact, the company has prematurely redeemed a large chunk of its outstanding NCDs (prepaid NCDs of Rs. 250 crore and exercised call option on NCDs of Rs. 200 crore) and prepaid bank loan in the books of its US subsidiary, out of its surplus cash flows. Thus, the consolidated term debt level has considerably reduced from Rs. 910 crore in Dec-19 to Rs. 279 crore as on August 03, 2020. Also, the level of acceptances is on a downward trend. Resultantly, overall gearing improved from 0.66x as on December 31, 2019 to 0.57x as on March 31, 2020 and further to 0.22x as on June 30, 2020. Similarly, Total debt to Gross Cash Accruals improved significantly from 2.97x in FY19 to 1.87x in FY20.
The company is looking forward to recoup the long term debt level at competitive rates by raising fresh NCDs of up to Rs. 500 crores for a tenor of 7-10 years, for general corporate purpose. Post issuance of the new NCD, the overall gearing is expected to remain comfortable in the range of 0.35-0.40x.
There has been an increase in the corporate guarantees from Rs. 850 crores (outstanding loans – Rs. 485 crore) as on March 31, 2019 to Rs. 1,445 crores (outstanding loans – Rs. 1023 crore) as on March 31, 2020, owing to higher working capital debt availed by Saudi Arabian JVs. The adjusted overall gearing (including these corporate guarantees) as on March 31, 2020 stood at 0.89x (March 31, 2019: 0.96x).

Divestment of non-core assets
In March 2019, WCL had announced divestment of its sub-optimally utilized Plates & Coils Mills Division (PCMD) for a consideration of Rs. 848.50 crores, with the rationale being focus on core business of welded pipes, to be executed by December 2019. However, in view of the current scenario, the long stop date of the agreement was postponed to March 31, 2021, as mutually agreed by the parties. WCL has received Rs. 25 crores as advance for the transaction.

Key Rating Weakness

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: Strong

Historically, WCL has maintained adequate free cash & bank balances (including liquid investments) - ~Rs. 906 crore as on March 31, 2020 and ~Rs. 677 crore as on June 30, 2020, on a consolidated basis, to meet any contingencies. Moreover, their CC utilization has been NIL since last 12 months ended July, 2020 and Non-fund based limit utilization averaged to 40% for last 12 months ending July, 2020. Current CP outstanding is NIL. Current Ratio as on March 31, 2020 stood at 1.26x.

Operating cycle for FY20 had shot up to 82 days as compared to 58 days in FY19 as a result of high un-dispatched FG inventory as on March 31, 2020.

Projected cash accruals are more than adequate for its annual debt repayment obligations. Liquidity shall further enhance with receipt of PCMD sale consideration (expected by March 31, 2021).

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.*

Sr. No.	Name of Entity	Stake (%)
Direct Subsidiaries		
1	Welspun Pipes Inc. (WPI)	100.00
2	Welspun Tradings Limited	100.00
3	Welspun Mauritius Holdings Limited	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' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities.

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's wholly-owned subsidiaries in USA have manufacturing facility with an installed capacity of 0.525 MTPA and its Joint Venture in Kingdom of Saudi Arabia (KSA) have manufacturing facility with an installed capacity of 0.375 MTPA.

Following are the brief financials of WCL (Consolidated):

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Income from Continuing Operations	9,072	10,015
PBILDT	974	1,284
PAT	-22	654
Overall Gearing (Including LC Acceptances) (times)	0.78	0.57
Interest coverage (times)	5.49	8.92

A: Audited

Note: The financials are adjusted as per CARE Standards

Covenants of rated instrument / facility: Not available

Status of non-cooperation with previous CRA: Not available

Any other information: Not available

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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	-	-	-	-	4408.00	CARE A1+
Debentures-Non Convertible Debentures	INE191B07139	August 02, 2010	11%	August, 2023	90.00	CARE AA; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	INE191B07071	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	7-364 days	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (05-Mar-20) 2)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)
2.	Non-fund-based - ST-BG/LC	ST	4408.00	CARE A1+	-	1)CARE A1+ (05-Mar-20) 2)CARE A1+ (04-Nov-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (05-May-17)
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)
4.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (05-Mar-20) 2)CARE A1+ (04-Nov-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (12-Sep-17) 2)CARE A1+ (05-May-17)
5.	Debentures-Non Convertible Debentures	LT	90.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Mar-20) 2)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)
6.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	-	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. 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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