Welspun Corp Ltd

May 05, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	401.50	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	5600.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**6001.50 (Rupees Six Thousand One crore and Fifty lakh only)**		
Non- Convertible Debentures	1342.80	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Commercial Paper	200.00	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Welspun Corp Ltd. (WCL) continue to derive strength from the resourceful promoters with long standing experience in the industry, comfortable liquidity position as reflected by high level of cash and cash equivalent balance 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 9MFY17 (refers to the period April 1 to December 31) reflecting the subdued performance of the industry in the recent past. However, with recent policy changes 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.

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 raging from ½ inch to 140 inches, along with specialized coating, double jointing and bending. WCL has an aggregate pipe manufacturing capacity of 1.60 mtpa at its facilities located in Dahej and Anjar (Gujarat) and Mandya (Karnataka) in India. In addition, WCL, through its subsidiaries, has set up operations in the USA and Saudi Arabia bringing its total pipe production capacity to 2.425 mtpa globally. The company enjoys a dominant position amongst global large diameter welded pipe manufacturers and has gathered several accreditations from major oil & gas companies worldwide.

Comfortable liquidity position; high levels of cash and equivalents: Historically, WCL has maintained high level of free cash and cash equivalents. Unencumbered cash & bank balance as well as liquid investments aggregated to around Rs800 to Rs.830 crore as on March 31, 2017 (Rs.1,470 crore as on March 31, 2016). As the company had healthy accumulated cash accruals available for the operations, the reliance on working capital bank borrowings remained low reflecting healthy liquidity position.

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

Overall gearing declines on net debt basis: WCL's overall gearing (on net debt basis) declined from 1.06x as on March 31, 2015 to 0.97x as on March 31, 2016, further as on December 31, 2016 the overall gearing further declined to 0.83x .The average utilisation of fund-based working capital (WC) bank limits was low (average utilization of 20% during 12-month period ended March, 2017) in the past one year. This was more on account of higher dependence on internal accruals and non-fund based bank limits for the WC requirements.

Moderate order book position providing medium-term revenue visibility; higher share of LSAW orders to improve profitability going forward: WCL booked pipes orders of 0.71 mn tonnes during 9MFY17 (0.89 mn tonnes in 9MFY16) . Consolidated pipe order book as on December 31, 2016 stood at 0.80 million tonnes of pipes (1.03 mn tonnes as on December 2015) to be executed over 9-10 months. Around 89% of pipes orders are from export markets, mainly North America, Middle East and Latin America and these orders will be executed from India plants at Anjar & Dahej. Lower sales volumes and order book position are reflective of general slowdown in the global pipes industry. However, going forward the order book is expected to improve going forward mainly on account of pick up in demand in the domestic business. Further, the profitability is expected to improve going forward as the higher proportion of orders are for LSAW pipes (which command higher margin as compared to HSAW pipes)..

Key Rating Weaknesses

Continued pressure on operating margins: WCL's operating performance continued to remain under pressure in FY16 due to increased competition in the industry and general economic slowdown. During FY16, the company's standalone business reported PBILDT margin of 7.08% as compared 7.74% in FY15, while WCL reported consolidated PBIDLT margin of 11.92% as compared to 11.11% in FY15. The improvement in consolidated PBILDT margin was mainly on account of better performance of the US and Saudi Arabia operations whilst the Indian operations remained subdued. However, during 9MFY17 WCL's standalone (India business) has witness significant turnaround on back of improved order flows and reported PBILDT margin of 9.37% (4.31% in 9MY16). WCL's 9MFY17 consolidated PBILDT margin declined to 7.77% (10.7% in 9MFY16) mainly on account of subdued performance of the US and Saudi Arabia operations. The turnaround in US and Saudi Arabia operations remain a key rating sensitivity.

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. Key regions to drive the growth in the medium term are expected to be Canada, the USA, Latin America and parts of Middle East. Canada has oil and gas reserves and most of the current exports are to the USA. With the USA is moving towards energy self-sufficiency, due to large scale exploration of shale gas, Canada is expected to build pipelines to take this oil to new markets and de-risk their economy. In the middle east market, Improvement is expected in the KSA operations, as the Kingdom had raised long term bonds to fund the stalled projections and also in process of listing its largest oil entity with valuation of over $ 2 trillion, which shall further unlock the liquidity in the kingdom. The domestic pipe ordering is expected to pick up during FY18-FY20 period on back of higher ordering from the water pipeline projects and the proposed national gas grid.

Analytical approach: Consolidated

For arriving at the ratings, CARE has taken consolidated business and financial risk profiles of Welspun Corp Ltd, Welspun Pipes Inc 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 Saudi Arabia, with its global pipe production capacity at 2.425 mtpa.

On consolidated basis, WCL posted a total income of Rs.8,424 crore and a PAT of Rs.236 crore during FY16 as compared to total income of Rs 8,556 crore and a PAT of Rs 214 crore in FY15. Further during 9MFY17 the company posted total income of Rs.3,966 crore and net loss of Rs.40 crore

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	-	-	-	5600.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	401.50	CARE AA-; Stable
Debentures-Non Convertible Debentures	Aug 2010	9.55%	Aug 2025	1000.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	Aug- 2012	11.25%	Aug 2019	342.80	CARE AA-; Stable
Commercial Paper	-	-	-	200.00	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 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	1000.00	CARE AA-; Stable	-	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+ (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-; Stable	-	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+ (03-Aug-16)	1)CARE A1+ (10-Nov-15)	1)CARE A1+ (17-Oct-14)
5.	Debentures-Non Convertible Debentures	LT	342.80	CARE AA-; Stable	-	1)CARE AA- (03-Aug-16)	1)CARE AA- (10-Nov-15)	1)CARE AA- (17-Oct-14)

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