Welspun Corp Ltd

September 12, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	401.50	**CARE AA-; Positive (Double A Minus; Outlook: Positive)**	**Reaffirmed; Outlook revised from Stable to Positive**
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	994.00	**CARE AA-; Positive (Double A Minus; Outlook: Positive)**	**Reaffirmed; Outlook revised from Stable to Positive**
Commercial Paper	200.00	**CARE A1+ (A One Plus)**	**Reaffirmed**

*****_Details of instruments/facilities in Annexure-1_

Detailed Rationale & Key Rating Drivers

Rating Rationale

The reaffirmation of the ratings on the bank facilities, Non-convertible Debenture issue and Commercial Paper program 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 H2FY18 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 Q1FY18. However, the FY18 performance will show normalization and is expected to report better profitability going forward. 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 definitions of the ratings assigned are available at www.careratings.com and in 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 raging from ½ inch to 140 inches, along with specialized coating, double jointing and bending.

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 it 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 Q1FY18, WCL reported PBILDT margin of 16.05% (9.01% in Q1FY17) 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 June 30, 2017, WCL had consolidated order book comprising 0.700 mt (0.958 mt as on June 30, 2016) of pipes translating to approx. Rs.4,200 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.*

Analyst Contact:
Name: Pawan Matkari
Tel: 022-6754 3529
Email: pawan.matkari@careratings.com

****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.

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-Term Loan/ECB	-	-	Oct 2019	401.50	CARE AA-; Positive
Debentures-Non Convertible Debentures	Aug 2010	9.55%	Aug 2025	700.00	CARE AA-; Positive
Debentures-Non Convertible Debentures	Aug- 2012	11.25%	Aug 2019	294.00	CARE AA-; Positive
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	700.00	CARE AA-; Positive	1)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+ (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-Term Loan/ECB	LT	401.50	CARE AA-; Positive	1)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+ (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	294.00	CARE AA-; Positive	1)CARE AA-; Stable (05-May-17)	1)CARE AA- (03-Aug-16)	1)CARE AA- (10-Nov-15)	1)CARE AA- (17-Oct-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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