Welspun Corp Limited (Revised)

November 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities	37.46 (Reduced from Rs. 160.08 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 Facilities	**5,537.46 (Rupees Five thousand five hundred thirty seven crore and forty six lakhs only)**		
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) continues to derive strength from the vast experience of 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. Further, the rating also factors in significant improvement in its financial and operating performance in FY19 and H1FY20 on the back of growing opportunities in the US market and revival in the Saudi Arabian operations, comfortable liquidity position as reflected in consistent maintenance of adequate levels of cash and cash equivalents and prudent risk management strategies to mitigate the volatility in the steel price and forex exposure. Moreover, it also takes into account constant efforts of the company to focus on its core assets and to rationalize its debt levels, thereby improving the overall gearing and debt coverage indicators.

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 12% on a sustained basis
- Timely execution of the sale of its Plates & Coils Mills division (PCMD) and utilization of the sale proceeds towards debt reduction as envisaged.
- Further improvement in capital structure with overall gearing (including acceptances) not more than 0.60x
- Sustained Improvement in ROCE above 13% and interest coverage ratio above 5x

Negative Factors

- Decline in consolidated operating profitability margins below 8% in FY20 and 9% in FY21
- No significant improvement in the operating profit margin of Indian operations, currently constrained at 7-8%
- Increase in adjusted overall gearing (including corporate guarantee) above 1 time during the projected period
- Any significant increase in working capital requirement or any unforeseen debt funded capex/acquisition

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

Outlook: Positive

The positive outlook reflects expected improvement in the operating profitability on the back of its strong order book position with favourable mix across geographies. Moreover, it reflects further expected strengthening of its capital structure and debt coverage indicators on significant reduction of its term debt out of sale proceeds from divestment of its plate & coil mill division (PCMD), which are expected to be received by the end of FY20. The outlook may be revised to stable if the consolidated operating profitability margins consistently remains constrained at 9-10% and/or on non-utilisation of sale proceeds towards debt reduction.

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 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
In 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. Further, the consolidated PBILDT/tonne increased by 51% from Rs. 5,664 to Rs. 8,548 on account of higher realizations. The PBILDT Margin improved from 8.84% in FY18 to 9.86% in FY19; with a y-o-y increase in PBILDT of 58% on an absolute basis. The PBILDT Margin further improved to 14.74% in H1FY20. Gross cash accruals increased by 70% y-o-y to Rs. 377 crore in H1FY20.
During FY19, the profitability in the USA operations improved significantly mainly on account of restrictions on import of steel pipes into the US in the form of tariffs and quotas, which helped the local US plants to command better volumes and profit margins. As a result, the PBILDT/ Tonne doubled to appx USD 200 in FY19. Moreover, it also repatriated appx USD 29 million to WCL in the form of dividend during Q1FY20.
However, profitability is lower in Indian operations on account of higher proportion of orders executed in the water segment; which fetches lower margins. The PBILDT margin on a standalone basis was low at 7.30% in FY19 and 7.62% in H1FY20. The PBT (from continuing operations) in H1FY20 remained positive at Rs.199 crore mainly on account of dividend income from subsidiary.
The Saudi operations continued to report losses in FY19 which are shown as line item in the Consolidated Profit & Loss Statement as Losses from JV's in proportion to the shareholding of WCL (50.01% as on March 31, 2019). However, since the last quarter of FY19, there has been a turnaround in the operations led by favourable sales mix, leading to a positive EBITDA & PBT. In H1FY20, it registered an EBITDA of Rs. 284 crore. The share of net profit/loss from JV increased from a loss of Rs. 60 crore in H1FY19 to a profit of Rs. 75 crore in H1FY20 (on sale volume of 116 KMT). Moreover, currently Saudi Arabian plant has a confirmed order book of 530 KMT, providing a visibility from 18 months to 24 months.

Healthy order book position providing medium-term revenue visibility
As on September 30, 2019, the order book of WCL (excluding Saud Arabian JV operations) stood at 0.827 MnT translating to approx. Rs.8,093 crore; expected to be executed over 1.5 years. Out of the above order book, 70% 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.
A dramatic change in the US oil & gas pipe market has turned the odds in favour of the company. US, being now the world's largest oil producer (as a result of Shale revolution) and having pipeline constraints for evacuation of oil & gas offers immense opportunities for pipeline manufacturers. Further, imposition of anti-dumping duty on imports of large diameter welded pipes into the country has been advantageous to the local US plants.
Additionally, the Saudi Arabian JVs have a confirmed order book of 530 MnT translating to appx. Rs. 3,521 crore, which is mainly driven by water orders from SWCC.

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 a significant reduction in the term debt levels, mainly on account of prepayment by US based Subsidiary of USD 50 mn in March-April 2019, 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 0.74x as on Sept 30, 2019. Similarly, Total debt/PBILDT halved from 5.33x in FY18 to 2.45x in FY19 and to 1.77x (annualized) in H1FY20.

In March 2019, WCL announced the divestment of its sub-optimally utilised plates & coils mills division (PCMD) and 43 MW power plant for a consideration of Rs. 848.50 crores and Rs. 67 crores respectively, the rationale being focus on core business of welded pipes. The sale proceeds of PCMD, expected to be received by FY20 are to be utilized for further debt reduction. This in turn would 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.896 crore as on Sept 30, 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 had been less than 50% over the 12 months ending August, 2019 reflecting healthy liquidity position. Operating cycle for FY19 stood at 51 days (FY18: 49 days).
WCL has received shareholder approval to buy back its shares for a maximum consideration of Rs. 390 crore to be funded from internal accruals in FY20. Even after the buyback, the projected cash accruals are 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: Strong

Low utilization of working capital limits (Fund-based – Nil utilisation; Non-fund based – Less than 50%) during the last 12 months ending August, 2019 coupled with maintenance of adequate cash, bank balance and other liquid investments (Rs. 933 crore as on March 31, 2019 and Rs.896 crore as on Sept 30, 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)*
Total operating income	6,324	8,984
PBILDT	559	886
PAT	153	-22
Overall gearing (times)	1.03	0.78
Interest coverage (times)	3.29	4.99

A: Audited
**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

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+
Fund-based - LT-Term Loan	-		-	-	37.46	CARE AA-; Positive
Debentures-Non Convertible Debentures	August 01, 2012	INE191B07071	9.55%	August, 2026	200.00	CARE AA-; Positive
Debentures-Non Convertible Debentures	August 02, 2010	INE191B07139	11%	November, 2022	90.00	CARE AA-; Positive
Commercial Paper	August 14, 2019	INE191B14325	-	November 11, 2019	25.00	CARE A1+
Commercial Paper	August 21,	INE191B14333	-	November 19,	50.00	CARE A1+

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
	2019			2019		
Commercial Paper	September 23, 2019	INE191B14341	-	December 20, 2019	25.00	CARE A1+
Commercial Paper	September 24, 2019	INE191B14358	-	December 23, 2019	50.00	CARE A1+
Commercial Paper	October 30, 2019	INE191B14366	-	January 20, 2020	75.00	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	275.00	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-; Positive	-	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+ (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	37.46	CARE AA-; Positive	-	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+ (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-; Positive	-	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.*

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name -
Group Head Contact no.-
Group Head Email ID-

Relationship Contact

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

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**