

Rating Rationale

September 29, 2022 | Mumbai

Welspun Corp Limited

Rating placed on 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	Rs.5825 Crore
Long Term Rating	CRISIL AA/Watch Developing (Placed on 'Rating Watch with Developing Implications')
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.90 Crore Non Convertible Debentures	CRISIL AA/Watch Developing (Placed on 'Rating Watch with Developing Implications')
Rs.500 Crore Non Convertible Debentures	CRISIL AA/Watch Developing (Placed on 'Rating Watch with Developing Implications')
Rs.500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has placed its rating on the long-term bank facilities of Welspun Corp Limited (WCL, part of WCL group) on '**Rating Watch with Developing Implication**'; while reaffirming the short term rating at 'CRISIL A1+'.

The rating action follows the announcement of recent acquisition of specified assets of ABG Shipyard (ABG) for Rs 659 crores (plus applicable GST and taxes) by WCL. Though the contours of the transaction have been clarified, complete clarity on the transaction w.r.t the investment rationale, and legal clearances is awaited. Apart from the latest acquisition, WCL in the recent past has been investing heavily towards both organic and inorganic avenues, whilst also diversifying from its core business of line pipes. The Rating Watch will get resolved once CRISIL Ratings gets adequate clarity not just on the recent ABG acquisition but also on the WCL group's management's plans around synergizing these acquisitions and their strategy w.r.t future acquisitions or capex along with the strategy on deleveraging the balance sheet.

The ratings continue to reflect the group's strong business risk profile, backed by leadership position in the global steel line-pipe business, geographically diversified capacities, a steady order flow, and prudent risk-management strategies. The ratings also factor in a strong financial risk profile, marked by large network, comfortable capital structure, and ample liquidity. These strengths are partially offset by susceptibility to any slowdown in end-user industries and to government regulations as well as exposure to risks related to ongoing projects.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has consolidated the business and financial risk profiles of WCL, and all its subsidiaries, together referred to herein as the WCL Group. These entities are Welspun Pipes Inc (WPI), Welspun Mauritius Holdings Ltd (WMHL), Welspun Tradings Ltd (WTL), Welspun Metallics Limited (WML), Welspun DI Pipe Limited (WDL), Anjar TMT Steel Private Limited (ATMT), Welspun Specialty Solutions Limited (WSSL), and Mahatva Plastic Products and Building Materials Pvt Ltd (MPPBM). CRISIL Ratings considers these entities strategically important to and have a significant degree of operational integration with WCL's operations.

CRISIL Ratings has discontinued to consolidate East Pipes Integrated Company (EPIC), formerly known as Welspun Middle East Pipes LLC. EPIC was listed on the Saudi Exchanges Main Market, post which WCL's ownership was reduced to 35.01% from 50.01% and corporate guarantee extended by WCL was removed.

Please refer Annexure- List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Strong business risk profile, supported by market leadership in the line pipe business:** The WCL group is one of the largest players in the global steel line-pipe business with capacities of 2,180 kilo tonne per annum (ktpa) (2,555 ktpa incl Saudi operations). It has a track record of over two decades and demonstrated technical capability in supply of high-grade line pipes for critical and large projects in the oil and gas and water and sanitation segments. The group has established relationships with reputed overseas customers and with all major oil and gas players in the domestic market. Furthermore, limited competition due to large capital requirement, and necessity to have critical accreditations and customer approvals, bolster the business risk profile. Future performance will be supported by improving global demand, and strong orderbook of 722 kilo tonne (1,020 kilo tonne incl. Saudi operations) as on June-2022 offering healthy revenue visibility.

- **Geographically diverse capacities and presence:** The group's presence is diversified with facilities in India, Saudi Arabia and US, which enables it to cater to geographically diverse customers, counter protectionist policies in some global markets, and guard against economic downturns in specific regions. The geographically diversified presence mitigates the concentration risk, which is extremely critical in the steel line-pipe segment. The group also has the flexibility to manufacture pipes at any of its facilities as all units have necessary certifications and accreditations, which lends support to overall operations. Furthermore, the group is venturing into manufacturing of ductile iron pipes and SS pipes with view to diversify its products portfolio.
- **Prudent risk management strategies:** The group has a prudent risk management policy for different regions. In India, the group purchases raw material back-to-back and maintains an order-backed inventory, which mitigates price fluctuation risk of the key input, steel. In the US, the group has a pass-through agreement and all changes in steel prices are passed on to the customers. Also, majority of domestic sales are backed by letters of credit or bank guarantees, which partially offset counter-party risks.
- **Strong financial risk profile and ample liquidity:** Network was healthy at Rs 4,177 crore as on March 31, 2022, with gearing and total outside liabilities to adjusted network (TOL/ANW) ratio comfortable at 0.49 time and 1.1 times, respectively. Cash and bank balance of Rs 2,133 crore as on March 31, 2022, provide significant cushion to overall liquidity. Adjusting for such surplus, net gearing and net TOL/ANW ratio reduce further to zero time and 0.5 times, respectively. Interest coverage ratio was adequate at 10 times in fiscal 2022. Despite planned debt-funded capital expenditure (capex) of Rs. 2400 crore for ductile iron pipes manufacturing facility and Anjar TMT facility put together, the financial risk profile is expected to remain at similar levels over the medium term supported by NCDs, loan repayment and healthy cash accrual.

Weaknesses:

- **Susceptibility to slowdown in end-user industries, and to government policies:** The group has historically derived 60-70% of revenue from the oil and gas segment, and the remaining from the water segment. Slowdown in the oil and gas industry because of a significant decline in crude price had impacted operations in the recent past. Revival of new projects in oil and gas segment in the key markets of US and Middle East is critical to sustain its overall operations. Any major and continued slowdown in end-user industries will weaken demand for line pipes, and impact performance. Furthermore, operations remain exposed to government policies and preferences with respect to factors such as such as local supply and trade duties.
- **Exposure to risks related to ongoing projects:** The group is undertaking greenfield project at Anjar (Gujarat) in its subsidiaries WML and WDL for ductile iron pipes facility with estimated capacity of up to 400 ktpa and is expected to commercialise in Q3 FY2023, the blast furnace and sinter plants started operations in Q2 FY2023. The project involves capex of Rs 1,900 crores plus soft cost and will be funded through debt of around Rs. 1500 crores. The timely completion of project without incurring any significant cost overruns and subsequent ramp-up in operations and revenues will be a key monitorable.

Liquidity: Strong

The Welspun group has strong liquidity, driven by expected cash accrual of more than Rs 600 crore in fiscal 2023, against yearly repayment obligation of around Rs 46.4 crore in fiscal 2023 out of which Rs 10.4 crores was paid off during first half of the year. Unencumbered cash and cash equivalents and investments were Rs 2,133 crore as on March 31, 2022. WCL also has access to fund-based limit, which remained modestly utilised at less than 58% average over the 12 months ended June 2022. The ongoing capex projects is expected to continue in fiscal 2023, which are 70% debt funded. With a gearing of 0.49 times, the group has sufficient gearing headroom, to raise additional debt to meet its capex requirement. The group can fund its repayment obligation and incremental working capital requirement through internal cash accrual as well as unutilized bank lines.

Rating Sensitivity factors

Upward Factors

- Strengthening of business risk profile, with stabilization of new businesses leading to operating profitability at over 12%
- Sustenance of capital structure, with TOL/ANW ratio (net-off cash) of below 1 time

Downward Factors

- Decline in operating profitability below 8% because of increase in raw material prices or continued losses in new businesses.
- Weakening of financial risk profile because of increase in working capital requirement or unanticipated debt funded acquisition or capex, leading to TOL/ANW ratio above 2 times.

About the Group

Incorporated in 1995, WCL is the flagship company of the Welspun group promoted by Mr B K Goenka. It manufactures line pipes at its plants in India (Dahej and Anjar in Gujarat, Bhopal in Madhya Pradesh and Mandya in Karnataka), and the US (Little Rock, Arkansas). Products include longitudinal, spiral, and high-frequency induction-welded pipes. WCL also has coating facilities in the three countries.

The company operates in the US through its 100% subsidiary, WPI. It also has a 100% subsidiary, Welspun Tradings Ltd, which acts as a bid arm in the global market.

Operations are managed by a professional team, headed by Mr Vipul Mathur, Managing Director and Chief Executive Officer.

Key Financial Indicators (Consolidated)

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	6,509	6,438
Reported profit after tax	Rs crore	441	631
PAT margins	%	6.8	9.9
Adjusted Debt/Adjusted Net worth	Times	0.49	0.20
Interest coverage	Times	10.1	15.6

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity level	Rating assigned with outlook
INE191007139	Non- Convertible Debentures	09-Nov-12	11%	08-Nov-22	90	Simple	CRISIL AA/Watch Developing
INE191B07154	Non- Convertible Debentures	10-Feb-21	6.5%	09-Feb-24	200	Simple	CRISIL AA/Watch Developing
INE191B07162	Non- Convertible Debentures	16-Feb-21	7.25%	16-Feb-26	200	Simple	CRISIL AA/Watch Developing
INE191B08020	Non- Convertible Debentures	09-Jul-21	7.90%	09-Jul-36	100	Simple	CRISIL AA/Watch Developing
NA	Commercial Paper	NA	NA	7-365 Days	500	Simple	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	3190	NA	CRISIL A1+
NA	Bank Guarantee	NA	NA	NA	329	NA	CRISIL A1+
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	NA	400	NA	CRISIL A1+
NA	Cash Credit	NA	NA	NA	90	NA	CRISIL AA/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	200	NA	CRISIL AA/Watch Developing
NA	Proposed Working Capital Facility	NA	NA	NA	1616	NA	CRISIL AA/Watch Developing

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Welspun Pipes Inc	Full	Parent company
Welspun Tradings Limited	Full	Subsidiary company
Welspun Mauritius Holdings Limited	Full	Subsidiary company
Welspun Corp Limited	Full	Subsidiary company
Welspun DI Pipes Limited	Full	Subsidiary company
Welspun Metallica Limited	Full	Subsidiary company
Anjar TMT Steel Private Limited	Full	Subsidiary company
Welspun Specialty Solutions Limited	Full	Subsidiary company
Welspun Mauritius Holdings Limited	Full	Subsidiary company
Mahatva Plastic Products and Building Materials Pvt Ltd	Full	Subsidiary company

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1906.0	CRISIL AA/Watch Developing		--	29-09-21	CRISIL AA/Stable	09-09-20	CRISIL AA/Stable	09-10-19	CRISIL AA-/Positive	CRISIL AA-/Stable
			--		--		--	04-09-20	CRISIL AA/Stable	12-04-19	CRISIL AA-/Stable	--
			--		--		--	31-08-20	CRISIL		--	--

							AA/Stable					
Non-Fund Based Facilities	ST	3919.0	CRISIL A1+		--	29-09-21	CRISIL A1+	09-09-20	CRISIL A1+	09-10-19	CRISIL A1+	CRISIL A1+
			--		--		--	04-09-20	CRISIL A1+	12-04-19	CRISIL A1+	--
			--		--		--	31-08-20	CRISIL A1+		--	--
Commercial Paper	ST	500.0	CRISIL A1+		--	29-09-21	CRISIL A1+	09-09-20	CRISIL A1+	09-10-19	CRISIL A1+	CRISIL A1+
			--		--		--	04-09-20	CRISIL A1+	12-04-19	CRISIL A1+	--
			--		--		--	31-08-20	CRISIL A1+		--	--
Non Convertible Debentures	LT	590.0	CRISIL AA/Watch Developing		--	29-09-21	CRISIL AA/Stable	09-09-20	CRISIL AA/Stable	09-10-19	CRISIL AA-/Positive	CRISIL AA-/Stable
			--		--		--	04-09-20	CRISIL AA/Stable	12-04-19	CRISIL AA-/Stable	--
			--		--		--	31-08-20	CRISIL AA/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	225	Bank of Baroda	CRISIL A1+
Bank Guarantee	104	State Bank of India	CRISIL A1+
Cash Credit	50	ICICI Bank Limited	CRISIL AA/Watch Developing
Cash Credit	20	State Bank of India	CRISIL AA/Watch Developing
Cash Credit	20	Axis Bank Limited	CRISIL AA/Watch Developing
Cash Credit & Working Capital Demand Loan	200	HDFC Bank Limited	CRISIL AA/Watch Developing
Letter of Credit	380	Axis Bank Limited	CRISIL A1+
Letter of Credit	350	Bank of Baroda	CRISIL A1+
Letter of Credit	300	Bank of India	CRISIL A1+
Letter of Credit	350	ICICI Bank Limited	CRISIL A1+
Letter of Credit	329	IDBI Bank Limited	CRISIL A1+
Letter of Credit	340	IDFC FIRST Bank Limited	CRISIL A1+
Letter of Credit	450	YES Bank Limited	CRISIL A1+
Letter of Credit	691	State Bank of India	CRISIL A1+
Proposed Letter of Credit & Bank Guarantee	400	Not Applicable	CRISIL A1+
Proposed Working Capital Facility	1616	Not Applicable	CRISIL AA/Watch Developing

This Annexure has been updated on 29-Sep-2022 in line with the lender-wise facility details as on 02-Aug-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation
Understanding CRISILs Ratings and Rating Scales

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