

Rating Rationale

February 20, 2023 | Mumbai

Welspun Corp Limited

Long term rating removed from 'Watch Developing'; Ratings Reaffirmed

Rating Action

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

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

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its rating on the long-term bank facilities and non convertible debentures of Welspun Corp Limited (WCL; part of the WCL group) from **'Rating Watch with Developing Implications'** and has reaffirmed the rating at **'CRISIL AA'** while assigning a **'Stable'** outlook. The rating on the short-term bank facilities and commercial paper is reaffirmed at **'CRISIL A1+'**.

CRISIL Ratings had placed WCL's ratings on 'Watch Developing' on September 29, 2022, following announcement of the acquisition of specified assets of ABG Shipyard (ABG) for Rs 659 crores (plus applicable GST and taxes) by WCL. The legal clearance was however pending on the same. Developments on the transaction remained monitorable since full payment for the same had been made by WCL, impacting available liquidity in the short term. CRISIL Ratings has resolved the watch as the acquisition has been completed and WCL (through its subsidiary) has received possession of the same. CRISIL Ratings also has adequate clarity on the utilisation of these assets in near term.

Apart from this acquisition, WCL in the recent past had invested heavily towards both organic and inorganic avenues, whilst also diversifying from its core business of line pipes. Initial losses from the recent completed capex, one time inventory write-off and slowdown in US line pipe business, impacted performance in first half of fiscal 2023. With ramp-up in line pipe business, and reducing losses in new businesses, performance improved in Q3 of fiscal 2023. The performance is expected to be significantly better in Q4 and thereafter sequentially improve quarter-on-quarter, driven by strong profits in line pipe and stabilisation of recently completed capex/acquisitions. Further, absence of any major acquisition or capex plans over the medium term, will lead to an improvement in the overall financial metrics that remain subdued currently with the contracted profitability and large debt leading to aggressive operating and financial leverage.

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 inspite deterioration yet a moderately strong financial risk profile, marked by large network 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 stabilization of recently completed capex.

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 Metalics Limited (WML), Welspun DI Pipe Limited (WDL), Anjar TMT Steel Private Limited (ATMT), Welspun Specialty Solutions Limited (WSSL), Mahatva Plastic Products and Building Materials Pvt Ltd (MPPBM), Propel Plastic Products Private Limited (PPPPL), Big Shot Infra Facilities Private Limited (BSIFPL), Nauyaan Shipyard Private Limited (NSPL) and Welspun Global Trade LLC, USA (WGTU). 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 700 kilo tonne (928 kilo tonne incl. Saudi operations) as on Dec-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.

Despite deterioration, strong financial risk profile and ample liquidity:

Networth was healthy at Rs. 4140 crores as on Dec 31, 2022 (Rs 4,177 crore as on March 31, 2022), with gearing comfortable at 0.77 time as on Dec 31, 2022 (0.49 time as on March 31, 2022). The total outside liabilities to adjusted networth (TOL/ANW) ratio was at 1.11 time as on March 31, 2022, and expected to have increased to around 1.5 times as on Dec 31, 2022. Cash and bank balance of Rs 1,341 crore as on Dec 31, 2022, provide cushion to overall liquidity. Adjusting for such surplus, net gearing and net TOL/ANW ratio reduce to 0.45 time and 1.2 times, respectively, as on Dec 31, 2022.

Interest coverage ratio was adequate at 10 times in fiscal 2022. It deteriorated to around 2.2 times for 9 month ended Dec 2022, due to lower EBITDA, but expected to improve to 4-5 times for fiscal 2023. Return on Capital employed is also estimated to have deteriorated to around 4-5% and net Debt to EBITDA to around 4 times for fiscal 2023.

The deterioration in financial profile is on account of recently completed debt-funded capital expenditure (capex) of Rs. 2400 crore for ductile iron pipes and TMT manufacturing facilities and acquisition of Rs. 700 crores for ABG Shipyard assets, which are yet to generate returns. With sequential improvement in operating performance and no major additional debt to be availed, the financial profile should improve and will remain a key monitorable.

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 local supply and trade duties.

Exposure to risks related to stabilization of recent capex:

The group has completed its recent capex through its subsidiaries WML and WDL for ductile iron pipes facility with estimated capacity of up to 400 ktpa, which commenced operations in Q3 FY2023. The project involves capex of Rs 1,900 crores plus soft cost and was funded through debt of around Rs. 1500 crores. Timely ramp-up in operations and revenues will be remain a key monitorable for the group.

Liquidity: Strong

The Welspun group has strong liquidity, driven by healthy expected cash accrual and unencumbered cash and cash equivalents and investments of Rs 1,341 crore as on December 31, 2022, which is sufficient to meet debt obligations over the next six quarters till March 2024. WCL's working capital bank lines remained moderately utilised at less than 60%. The group can fund its repayment obligation and incremental working capital requirement through internal cash accrual, unutilized bank lines and surplus cash.

Environment, social and governance (ESG) profile

The ESG profile of WCL supports its strong credit risk profile.

The steel pipe manufacturers have a high impact on environment primarily driven by high power consumption done during their manufacturing process. The sector also has a significant social impact because of its large workforce across its own operations and value chain partners, and due to its nature of operations affecting local community and health hazards involved. WCL has been focusing on mitigating its environmental and social risks.

Key ESG highlights:

- WCL has set a target to become carbon neutral by 2040 and to use 10% Renewable Energy by 2025, and 20% Renewable Energy by 2030
- WCL has set a target of 0.55 KL/MT and 0.40 KL/MT for FY25 & FY30, respectively. It has also set a target to become water neutral by 2040.
- This year WCL has almost utilized 85% of the waste generated by either reused or recycled. WCL has set a zero waste to landfill (ZWL) target by 2030 and to limit waste to landfill by 1 MT by 2025.
- 50% of identified critical suppliers were assessed on WCL Supplier Code of Conduct, and has a target of 100% of critical suppliers to be assessed on ESG parameters by 2025.
- The company's governance structure is characterized by 50% of its board comprising independent directors, dedicated investor grievance redressal system and extensive disclosures.

There is growing importance of ESG among investors and lenders. The commitment of WCL to the ESG principle will play a key role in enhancing stakeholder confidence given access to domestic capital market.

Outlook: Stable

The WCL group's leadership position and healthy order book in the line-pipe segment, comfortable financial risk profile and ample liquidity will continue to support credit risk profile over the medium term.

Rating Sensitivity Factors**Upward Factors**

- Sustained improvement in operational performance leading to cash accruals of above Rs 1200 crores
- Improvement in working capital cycle and financial risk profile resulting in debt to operating EBITDA well below 1 time

Downward Factors

- Inability to ramp up annual consolidated operating EBITDA to over Rs 1000 crores over fiscal 2024 with continued bump up over the medium term
- 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 1.5 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), the US (Little Rock, Arkansas), and KSA (Dammam). 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; and in KSA through step-down subsidiary EPIC (erstwhile Welspun Middle East Pipe Company LLC; merged with Welspun Middle East Pipe Coating Company LLC in fiscal 2021). 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

As on/for the period ended March 31	Unit	YTD Dec 2022	2022	2021
Operating income	Rs crore	5,688	6,509	6,438
Reported profit after tax	Rs crore	-40.9	441	631
PAT margins	%	-0.7	6.8	9.9
Adjusted Debt/Adjusted Networth	Times	0.77	0.49	0.20
Interest coverage	Times	2.2	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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. 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
INE191B07154	Non-Convertible Debentures	10-Feb-2021	6.5%	09-Feb-2024	200	Simple	CRISIL AA/Stable
INE191B07162	Non-Convertible Debentures	16-Feb-2021	7.25%	16-Feb-2026	200	Simple	CRISIL AA/Stable
INE191B08020	Non-Convertible Debentures	09-Jul-2021	7.90%	09-Jul-2036	100	Simple	CRISIL AA/Stable
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/Stable
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	200	NA	CRISIL AA/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	1616	NA	CRISIL AA/Stable

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Welspun Corp Limited	Full	Parent company
Welspun Tradings Limited	Full	Subsidiary company
Welspun Mauritius Holdings Limited	Full	Subsidiary company
Welspun Pipes Inc	Full	Subsidiary company
Welspun DI Pipes Limited	Full	Subsidiary company
Welspun Metallics 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
Propel Plastic Products Private Limited	Full	Subsidiary company
Big Shot Infra Facilities Private Limited (BSIFPL)	Full	Subsidiary company
Naayaan Shipyard Private Limited (NSPL)	Full	Subsidiary company
Welspun Global Trade LLC, USA	Full	Subsidiary company

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1906.0	CRISIL AA/Stable		--	22-11-22	CRISIL AA/Watch Developing	29-09-21	CRISIL AA/Stable	09-09-20	CRISIL AA/Stable	CRISIL AA-/Positive
			--		--	19-10-22	CRISIL AA/Watch Developing		--	04-09-20	CRISIL AA/Stable	--
			--		--	29-09-22	CRISIL AA/Watch Developing		--	31-08-20	CRISIL AA/Stable	--
Non-Fund Based Facilities	ST	3919.0	CRISIL A1+		--	22-11-22	CRISIL A1+	29-09-21	CRISIL A1+	09-09-20	CRISIL A1+	CRISIL A1+
			--		--	19-10-22	CRISIL A1+		--	04-09-20	CRISIL A1+	CRISIL A1+
			--		--	29-09-22	CRISIL A1+		--	31-08-20	CRISIL A1+	--
Commercial Paper	ST	500.0	CRISIL A1+		--	22-11-22	CRISIL A1+	29-09-21	CRISIL A1+	09-09-20	CRISIL A1+	CRISIL A1+
			--		--	19-10-22	CRISIL A1+		--	04-09-20	CRISIL A1+	--
			--		--	29-09-22	CRISIL A1+		--	31-08-20	CRISIL A1+	--
Non Convertible Debentures	LT	590.0	CRISIL AA/Stable		--	22-11-22	CRISIL AA/Watch Developing	29-09-21	CRISIL AA/Stable	09-09-20	CRISIL AA/Stable	CRISIL AA-/Positive
			--		--	19-10-22	CRISIL AA/Watch Developing		--	04-09-20	CRISIL AA/Stable	--
			--		--	29-09-22	CRISIL AA/Watch Developing		--	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/Stable
Cash Credit	20	State Bank of India	CRISIL AA/Stable
Cash Credit	20	Axis Bank Limited	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan	200	HDFC Bank Limited	CRISIL AA/Stable
Letter of Credit	300	Bank of India	CRISIL A1+
Letter of Credit	350	ICICI Bank Limited	CRISIL A1+
Letter of Credit	420	IDBI Bank Limited	CRISIL A1+
Letter of Credit	380	Axis Bank Limited	CRISIL A1+
Letter of Credit	350	Bank of Baroda	CRISIL A1+
Letter of Credit	340	IDFC FIRST Bank Limited	CRISIL A1+
Letter of Credit	450	YES Bank Limited	CRISIL A1+
Letter of Credit	600	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/Stable

This Annexure has been updated on 20-Feb-23 in line with the lender-wise facility details as on 02-Aug-21 received from the rated entity.

Criteria Details

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

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Jaya Mirpuri Director CRISIL Ratings Limited B:+91 22 3342 3000 jaya.mirpuri@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Ankita Gupta Associate Director CRISIL Ratings Limited D:+91 22 4097 8104 ankita.gupta@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Shalaka Singh Manager CRISIL Ratings Limited B:+91 22 3342 3000 Shalaka.Singh@crisil.com	

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