Ratings

CRISIL
An S&P Global Company

Rating Rationale

August 16, 2017 | Mumbai

Welspun Corp Limited

'CRISIL AA-/Stable/CRISIL A1+' assigned to bank debt and debt programmes

Rating Action

Total Bank Loan Facilities Rated	**Rs.5825 Crore**
Long Term Rating	**CRISIL AA-/Stable (Assigned)**
Short Term Rating	**CRISIL A1+ (Assigned)**

Rs.990 Crore Non Convertible Debentures	**CRISIL AA-/Stable (Assigned)**
Rs.200 Crore Commercial Paper	**CRISIL A1+ (Assigned)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has assigned its **'CRISIL AA-/Stable/CRISIL A1+'** ratings to the bank facilities and debt programmes of Welspun Corp Limited (WCL; part of the Welspun group).

The ratings reflect the group's strong business risk profile backed by leadership position in the global line pipe business, geographically diverse capacities, steady order book, sustained operating margin and prudent risk management strategies. The ratings also factor in the strong financial risk profile because of large networth, comfortable capital structure, committed stance of the management towards controlling external debt levels, and healthy debt coverage ratio, albeit average interest coverage. Overall financial risk profile is driven by adequate liquidity.

These strengths are partially offset by susceptibility to slowdown in end-user industries and to government regulations, and below-par return on capital employed (RoCE) because of capital intensive business, sub-optimal capacity utilisation levels, and significant losses at the Middle East subsidiary.

Analytical Approach
For arriving at the rating, CRISIL has combined the business and financial risk profiles of WCL and its subsidiaries - Welspun Mauritius Holdings Ltd, Welspun Pipes Inc (WPI), and Welspun Tradings Ltd; and step-down subsidiaries-Welspun Middle East Pipe Company LLC (WMEP), Welspun Middle East Pipe Coating Company LLC (WMEC), Welspun Tubular LLC, and Welspun Global Trade LLC. This is because all these entities, together referred to as the Welspun Corp group, have the same business, brand, management, and significant financial and operational linkages.

Key Rating Drivers & Detailed Description
Strengths
*** Strong business risk profile supported by market leadership in the line pipe business:** The Welspun Corp group is one of the largest players in the global line pipe business with capacities of 24.25 lakh tonne per annum and consistent sales of about 10 lakh tonne annually. 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 oil & gas and water & sanitation segments. The group has established relations with reputed overseas customers which include Transcanada Pipelines Ltd, Shell, TOTAL, Kinder Morgan, Saudi Arabian Oil Company, Qatar Petroleum, Saudi Aramco and Kuwait Oil Company. It also supplies line pipes to all major players in the domestic market, such as BPCL, IOCL, GAIL, Reliance Industries Ltd, Gujarat State Petronet Ltd, and L&T. Order book was sizable at about 7 lakh tonne as on June, 2017. It has ability to execute projects in quick time given large and multi-location capacities. Furthermore, limited competition due to large capital requirement, necessity to have critical accreditation sand customer approvals, bolster its business risk profile. Future performance will be supported by strong domestic demand and anticipated influx of orders from the US market post ongoing revival in new projects/developments in oil and gas segment, mainly driven by production cuts by OPEC countries and improvement in crude prices.

*** Geographically diverse capacities and presence:** The group has multi-locational presence with facilities in India, the US, and Kingdom of Saudi Arabia (KSA), which enables it to cater to geographically diverse customers, counter protectionist policies in few export markets, and guard itself against economic downturns in specific regions. Its geographically diversified presence mitigates the concentration risk which is extremely critical in the steel line pipe segment. Furthermore, the group has the flexibility to manufacture pipes at any of its facilities, which lends support to overall operations. On account of the above, operating margin has been steady at 9.4-10.8% in the past three fiscals.

*** Prudent risk management strategies:** Back-to-back purchases and order-backed inventory mitigate price fluctuation risk of key input, steel. Also, 75-80% of domestic sales is backed by letter of credit or bank guarantees, which partially offsets bad debt risks. The group also has a prudent risk management policy, it fully hedges its foreign exchange exposure for net of sales over purchases as well as one year debt obligations.

*** Strong financial risk profile and adequate liquidity:** As on March 31, 2017, networth was strong at Rs 3344 crore, gearing healthy at 0.72 time, and total outside liabilities to networth (TOLTNW) ratio comfortable at 1.65 times. Unencumbered cash and bank balance and liquid investments of more than Rs 700 crore as on March 31, 2017, provide significant cushion to overall liquidity. Adjusting for these, net gearing and net TOLTNW reduce further to 0.5 time and 1.43 times, respectively. Net debt/EBITDA is also comfortable at 2.5 times. With term loan repayment, no debt-funded capital expenditure, and healthy cash accrual, gearing is expected to improve further over the medium term. Management has the policy of maintaining net gearing at below 1 time and net debt/EBITDA below 2 times. Nonetheless, interest coverage ratio remained average at 2.6 times in fiscal 2017, and has been in the 2.6-3.9 times in the four years through fiscal 2017.

Weakness

*** Susceptibility to slowdown in end-user industries, and to government policies**: The group derives around 70% of revenue from the oil and gas segment, and the remaining from water segment. Slowdown in the oil and gas industry because of significant decline in crude prices have impacted the group's operations in recent time. Revival of new projects in this segment in the key markets of US and Middle East is critical for improvement in overall operations. Any severe slowdown in end-user industries will weaken demand for line pipes, affecting the group's operating performance. Furthermore, the operations remain exposed to government policies and preferences with respect to local supply, trade duties etc.

*** Below-average RoCE because of sub-optimal capacity utilisation, and losses in Middle East subsidiary:** The line pipe business is inherently capital intensive because of the need to set up large-capacity units. Furthermore, the group has sizeable investments in its backward integration unit, plate and coil mill. The line pipe capacities were utilised at 40-45%, while utilisation of plate and coil mill was minimal in recent past. In fiscal 2017, the group incurred severe losses in KSA operations due to prevailing adverse market conditions and economic downturn. Further its US operations also remained subdued because of majority of the large projects were kept on hold. Hence, RoCE was low at 3.3% during fiscal 2017 (8.2% in the previous fiscal). Increasing utilisation and improvement in RoCE are critical and will be monitored.

Outlook: Stable

CRISIL believes Welspun Corp group will maintain its leadership position in the line pipe segment and benefit from its diversified global presence. The outlook may be revised to 'Positive' if the group is able to ramp up its capacity utilization levels, while maintaining its operating profitability, such that RoCE and interest coverage improves significantly on a sustained basis. The outlook may be revised to 'Negative' if a prolonged downturn in the industry leads to subdued operating performance, or if the financial risk profile weakens considerably because of increase in working capital requirement or unanticipated acquisition, debt-funded capex, or any unforeseen liabilities.

About the Group

Incorporated in 1995, WCL is a flagship company of the Welspun group promoted by Mr BK Goenka. It manufactures line pipes at its plants in India (Dahej and Anjar in Gujarat and Mandya in Karnataka), the US (Little Rock, Arkansas), and Kingdom of Saudi Arabia (Dammam). Product base includes longitudinal, spiral, and high frequency induction-welded pipes. WCL also has coating facilities in the three countries and a plate and coil mill in India.

The company operates in the US through its 100% subsidiary ' WPI; and in Saudi Arabia through step-down subsidiaries - WMEP and WMEC. It also has a 100% subsidiary- Welspun Tradings Ltd- which acts as a bid arm for the company in export markets.

WCL's operations are managed by a professional team headed by Mr Lalit Naik (MD and CEO).

WCL (consolidated) on Ind-AS basis, reported profit after tax (PAT) of Rs 10.1 crore on an operating income of Rs 5920 crore for fiscal 2017; PAT was Rs 179.3 crore on an operating income of Rs 7382.5 crore for fiscal 2016.

WCL (standalone) on Ind-AS basis reported PAT of Rs 175 crore on an operating income of Rs 4368 crore in fiscal 2017; net loss was Rs 123 crore on an operating income of Rs 3775 crore in fiscal 2016.

WPI (USA) reported net loss of Rs 82 crore on an operating income of Rs 2167 crore for fiscal 2017, against a PAT of Rs 229 crore on an operating income of Rs 3742 crore for fiscal 2016.

WMEP reported a net loss of Rs 129 crore on an operating income of Rs 564 crore for fiscal 2017, against a PAT of Rs 20 crore on an operating income of Rs 1221 crore for fiscal 2016.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity date	Issue Size (rs. Crore)	Rating assigned With outlook
NA	Proposed Letter of	NA	NA	NA	472	CRISIL A1+

	Credit					
NA	Letter of Credit	NA	NA	NA	3834	CRISIL A1+
NA	External Commercial Borrowings	NA	NA	31-Oct-2019	277	CRISIL AA-/Stable
NA	Bank Guarantee	NA	NA	NA	1160	CRISIL A1+
NA	Cash Credit	NA	NA	NA	82	CRISIL AA-/Stable
INE191B07071	Non-Convertible Debentures	03-Aug-2010	9.55%	03-Aug-2025	200	CRISIL AA-/Stable
INE191B07089	Non-Convertible Debentures	28-Sep-2010	9.55%	28-Sep-2025	500	CRISIL AA-/Stable
INE191B07105	Non-Convertible Debentures	17-Aug-2012	11.15%	17-Aug-2019	146	CRISIL AA-/Stable
INE191B07113	Non-Convertible Debentures	29-Aug-2012	11.15%	28-Aug-2019	5	CRISIL AA-/Stable
INE191B07121	Non-Convertible Debentures	18-Sep-2012	11.15%	18-Sep-2019	49	CRISIL AA-/Stable
INE191B07139	Non-Convertible Debentures	09-Nov-2012	11.00%	08-Nov-2022	90	CRISIL AA-/Stable
NA	Commercial Paper	NA	NA	7-365 Days	200	CRISIL A1+

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014		Start of 2014
Instrument	**Type**	**Quantum**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Commercial Paper	ST	200	CRISIL A1+		--		--		--		--	--
Non Convertible Debentures	LT	990	CRISIL AA-/Stable		--		--		--		--	--
Fund-based Bank Facilities	LT/ST	359	CRISIL AA-/Stable		--		--		--		--	--
Non Fund-based Bank Facilities	LT/ST	5466	CRISIL A1+		--		--		--		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Proposed Letter of Credit	**472**	**CRISIL A1+**	**--**	**0**	**--**
Letter of Credit	**3834**	**CRISIL A1+**	**--**	**0**	**--**
External Commercial Borrowings	**277**	**CRISIL AA-/Stable**	**--**	**0**	**--**
Bank Guarantee	**1160**	**CRISIL A1+**	**--**	**0**	**--**
Cash Credit	**82**	**CRISIL AA-/Stable**	**--**	**0**	**--**
Total	**5825**	**--**	**Total**	**0**	**--**

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings
Criteria for rating Short-Term Debt (including Commercial Paper)
The Rating Process
Understanding CRISILs Ratings and Rating Scales

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