

WCL/SEC/2020

September 5, 2020

To,

BSE Ltd. (Scrip Code-532144) Listing Department, P. J. Towers, Dalal Street, Mumbai - 400 001.	National Stock Exchange of India Ltd. (Symbol: WELCORP, Series EQ) Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai - 400 051.
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Dear Madam/ Sirs,

Subject: Disclosure under the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015 - Credit Rating upgrade.

We are pleased to inform that the Company has received ratings as detailed below from CRISIL Limited ("CRISIL"):

Name of the agency	Loan Facilities Rated (Rs.)	Type of Credit Rating	Existing	Additional/ Upgrade
CRISIL	Rs. 5,825 crs	Long Term - Bank Loan Facilities	AA-/Positive	AA /Stable
		Short Term- Bank Loan Facilities	A1+	A1+
CRISIL	Rs. 90 crs	Long Term - NCD	AA-/Positive	AA /Stable
CRISIL	Rs. 500 crs	Short Term- CP	A1+	A1+

Summary of Rating Rationale : The ratings reflects the strengthening of the Company's business risk profile, backed by improvement in capacity utilization in all the three regions- India, the US and Kingdom of Saudi Arabia leading to strong revenue growth and better operating profitability. Revenue increased by 29% in fiscal 2020, while consolidated operating margin improved to 14.3% from 7.7% a year earlier.


The financial risk profile has further strengthened with the prepayment of debt in the first quarter of fiscal 2021.

Detailed rating rationale dated September 4, 2020 (received by the Company on September 4, 2020) is attached herewith for your reference.

This disclosure is in compliance with Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and the Company's Code of Practices and Procedure for Fair Disclosure of Unpublished Price Sensitive Information.

Please take the same on record.

For Welspun Corp Limited


Pradeep Joshi
Company Secretary and Compliance Officer
 FCS-4959

Welspun Corp Limited

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Corporate Identity Number: L27100GJ1995PLC025609

Ratings

Rating Rationale

September 04, 2020 | Mumbai

Welspun Corp Limited

Ratings Reaffirmed

Rating Action

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

Rs.90 Crore Non Convertible Debentures (Reduced from Rs.990 Crore)	CRISIL AA/Stable (Reaffirmed)
Rs.500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities and debt programmes of Welspun Corp Limited (WCL; a part of the Welspun group) at 'CRISIL AA/Stable/CRISIL A1+'. CRISIL has withdrawn its ratings on the non-convertible debentures of Rs 900 crore of the company as they have been redeemed. The withdrawal is in line with CRISIL's policy of rating withdrawal.

CRISIL had upgraded the rating on the long term bank facilities and non convertible debentures of WCL to 'CRISIL AA/Stable' from 'CRISIL AA-/Positive' and rating on the short-term bank facilities and commercial paper reaffirmed at 'CRISIL A1+' vide rating rationale dated August 31, 2020.

The upgrade reflects the strengthening of the Welspun group's business risk profile, backed by improvement in capacity utilisation in all the three regions - India, the US and Kingdom of Saudi Arabia (KSA) leading to strong revenue growth and better operating profitability. Revenue increased by 29% in fiscal 2020, while consolidated operating margin improved to 14.3% from 7.7% a year earlier. Profitability improvement was driven by strong operating margins in the KSA unit, which has historically been a drag on profitability.

Despite Covid-19-led disruptions across geographies, the group may not face any major moderation in its revenue profile, backed by steady order book movement and a reasonable performance in the first quarter of fiscal 2021. In the first quarter, the group recorded consolidated revenue of more than Rs 2,300 crore, with outstanding orders worth 0.8 million kilo tonne as on date.

The financial risk profile has further strengthened with prepayment of debt in the first quarter of fiscal 2021. Given healthy cash generation and progressive debt repayment, capital structure is expected to remain healthy with net gearing (debt less unencumbered cash to networth) of less than 0.5 time as on March 31, 2021. Liquidity is expected to remain strong, backed by strong cash flow, and management stance of maintaining surplus cash and cash equivalent of more than Rs 500 crore at any given time.

The ratings continue to reflect a strong business risk profile, backed by leadership position in the global steel line-pipe business, geographically diverse capacities, a steady order flow, expected sustained improvement in operating margin, and prudent risk-management strategies. The ratings also factor in a strong financial risk profile, marked by large network, comfortable capital structure, the commitment of the management towards controlling external debt and ample liquidity. These strengths are partially offset by susceptibility to any slowdown in end-user industries and to government regulations.

Analytical Approach

For arriving at the ratings, CRISIL has consolidated 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. That is because all these entities, together referred to as the Welspun group, have the same business, brand, and management, and significant financial and operational linkages.

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 Welspun group is one of the largest players in the global steel line-pipe business with capacities of 2,555 kilo tonne per annum (ktpa) and consistent sales of more than 1,000 ktpa. 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 such as Transcanada Pipelines Ltd, Shell, TOTAL, Kinder Morgan, Saudi Arabian Oil Company, Qatar Petroleum, Petroliam Nasional Berhad (Petronas) and

Kuwait Oil Company. It also supplies line pipes to all major players in the domestic market such as Bharat Petroleum Corporation Ltd, Indian Oil Corporation Ltd, Gas Authority of India Ltd, Reliance Industries Ltd, Gujarat State Petronet Ltd, Adani Gas Ltd, TATA Projects Ltd and Larsen & Toubro Ltd. 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 healthy orders of 850 kilo tonne as on August 2020 offering adequate revenue visibility.

*** Geographically diverse capacities and presence**

The group has multi-location presence with facilities in India, the US, and KSA, 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. Furthermore, the group 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.

*** 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. In KSA, since the contracts are for longer tenure of two years, the group hedges its commodity risk for six months through forward contracts. Moreover, since the contracts in KSA do not have price-escalation clauses, the group has been building the risk premium to cover for steel price fluctuations at the time of bidding for the contracts. 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 3,456 crore as on March 31, 2020, with gearing and total outside liabilities to adjusted network (TOL/ANW) ratio comfortable at 0.63 time and 1.81 times, respectively. Unencumbered cash and bank balance and liquid investments of Rs 1,046 crore as on March 31, 2020, provide significant cushion to overall liquidity. Adjusting for such surplus, net gearing and net TOL/ANW ratio reduce further to 0.33 time and 1.51 times, respectively. Net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio was also comfortable at 0.32 time as on March 31, 2020. Management has committed to maintaining a net gearing below 0.7 time and a net debt to EBITDA ratio below 2 times. Interest coverage ratio was adequate at 10.1 times in fiscal 2020. With NCD and loan prepayment, no major, debt-funded capital expenditure (capex), and healthy cash accrual, the financial risk profile is expected to improve further over the medium term.

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. Amid the pandemic-induced slowdown in oil prices in March 2020, the group witnessed deferment of few orders by customers in the fourth quarter of fiscal 2020. Revival of new projects in oil and gas segment in the key markets of US and Middle East is critical to sustain improvement in 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.

Liquidity Strong

The Welspun group has strong liquidity, driven by expected cash accrual of more than Rs 550 crore per annum each in fiscals 2021 and 2022, against yearly repayment obligation of around Rs 357 crore and Rs. 63 crore, respectively. Unencumbered cash and cash equivalents were Rs 1,046 crore as on March 31, 2020, which currently reduced to Rs 677 crores due to prepayment of debt. WCL also has access to fund-based limit of Rs 290 crore, which remained modestly utilised at 7% average over the 12 months ended June 2020. The group can fund its repayment obligation and capex requirement (if any) through internal cash accrual. Currently, the group has NCDs outstanding of Rs 90 crores as on date.

Outlook: Stable

The Welspun group's leadership position in the line-pipe segment, a diversified global presence, and a healthy order book should continue to help maintain revenue growth and profitability over the medium term. A prudent funding mix and commitment towards maintenance of the capital structure and debt coverage will ensure sustenance of the financial risk profile.

Rating Sensitivity Factors

Upward Factors

- * Strengthening of business risk profile, driven by diversification of end-user segment while sustaining revenue growth and consolidated operating profitability at over 15%
- * Better capital structure, with reduction in TOL/ANW ratio (net-off cash) to below 1 time

Downward Factors

- * Decline in profitability below 10% because of increase in raw material prices or lower realisations
- * 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), 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 subsidiaries, WMEP and WMEC. 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

Particulars	Unit	2020	2019
Revenue	Rs.Cr	13285	10301
Profit After Tax (PAT)	Rs.Cr	890	-103
PAT Margins	%	6.7	-1.0
Adjusted Debt/Adjusted Networth	Times	0.63	0.72
Interest coverage	Times	10.1	3.4

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL 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. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Complexity level	Issue size (Rs.Cr)	Rating assigned with outlook
INE191007139	Non-Convertible Debentures	09-Nov-2012	11%	08-Nov-2022	Simple	90	CRISIL AA/Stable
NA	Commercial Paper	NA	NA	7-365 Days	Simple	500	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	NA	3490	CRISIL A1+
NA	Bank Guarantee	NA	NA	NA	NA	1033	CRISIL A1+
NA	Proposed Letter of Credit & Bank Guarantee	NA	NA	NA	NA	1212	CRISIL A1+
NA	Cash Credit	NA	NA	NA	NA	90	CRISIL AA/Stable

Annexure - Details of Rating Withdrawn

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Complexity level	Issue Size (Rs.Crore)
NA	Non-Convertible Debenture*	NA	NA	NA	Simple	900

*Yet to be issued

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Welspun Corp Limited	Full	Parent company
Welspun Mauritius Holdings Ltd		Subsidiary company
Welspun Pipes Inc (WPI)		Subsidiary company
Welspun Tradings Ltd		Subsidiary company
Welspun Middle East Pipe Company LLC (WMEP)		Step-Down subsidiary company
Welspun Middle East Pipe Coating Company LLC (WMEC)		Step-Down Subsidiary Company
Welspun Tubular LLC		Step-Down Subsidiary Company
Welspun Global Trade LLC		Step-Down Subsidiary Company

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017 Rating
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Commercial Paper	ST	500.00	CRISIL A1+	31-08-20	CRISIL A1+	09-10-19	CRISIL A1+	27-07-18	CRISIL A1+	16-08-17	CRISIL A1+	--
						12-04-19	CRISIL A1+					
Non Convertible Debentures	LT	90.00 04-09-20	CRISIL AA/Stable	31-08-20	CRISIL AA/Stable	09-10-19	CRISIL AA-/Positive	27-07-18	CRISIL AA-/Stable	16-08-17	CRISIL AA-/Stable	--
						12-04-19	CRISIL					

							AA-/Stable					
Fund-based Bank Facilities	LT/ST	90.00	CRISIL AA/Stable	31-08-20	CRISIL AA/Stable	09-10-19	CRISIL AA-/Positive	27-07-18	CRISIL AA-/Stable	16-08-17	CRISIL AA-/Stable	--
						12-04-19	CRISIL AA-/Stable					
Non Fund-based Bank Facilities	LT/ST	5735.00	CRISIL A1+	31-08-20	CRISIL A1+	09-10-19	CRISIL A1+	27-07-18	CRISIL A1+	16-08-17	CRISIL A1+	--
						12-04-19	CRISIL A1+					

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1033	CRISIL A1+	Bank Guarantee	1033	CRISIL A1+
Cash Credit	90	CRISIL AA/Stable	Cash Credit	90	CRISIL AA/Stable
Letter of Credit	3490	CRISIL A1+	Letter of Credit	3490	CRISIL A1+
Proposed Letter of Credit & Bank Guarantee	1212	CRISIL A1+	Proposed Letter of Credit & Bank Guarantee	1212	CRISIL A1+
Total	5825	--	Total	5825	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

[The Rating Process](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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