

October 17, 2014

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES AND VARIOUS INSTRUMENTS OF WELSPUN CORP LTD

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	126.00 (enhanced from 94.00)	CARE AA- (Double A Minus)	Reaffirmed
Short term Bank Facilities	6,217.75 (reduced from 6,474.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	6,343.75		
Non-Convertible Debenture issue-1	1,000.00	CARE AA- (Double A Minus)	Reaffirmed
Non-Convertible Debenture issue-2	342.80	CARE AA- (Double A Minus)	Reaffirmed
Commercial Paper issue (Standalone)	200.00	CARE A1+ (A One Plus)	Reaffirmed

Rating Rationale

The ratings continue to derive strength from the resourceful promoters with long standing experience in the industry, dominant position of Welspun Corp Ltd (WCL) amongst global large diameter welded pipe producers along with presence of certifications and accreditations from major oil & gas companies worldwide, comfortable liquidity position signified by high level of cash and cash equivalent balance maintained by the company, healthy order book position providing medium-term revenue visibility and partial refinancing of the existing debt. The ratings also factor in completion of the scheme of demerger on the non-pipe business from WCL.

The ratings are, however, tempered by continued pressure on operating margins of pipe business and subdued performance during FY14 (refers to the period April 1, 2013 to March 31, 2014) and Q1FY15 (refers to the period April 1, 2014 to June 30, 2014) primarily due to muted outlook in the industry.

WCL's ability to achieve the envisaged improvement in profitability in the medium term as well as announcement of any new projects putting pressure on the available cash accruals to the company are the key rating sensitivities.

Background

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 manufacturing HSAW, LSAW and ERW pipes with the total pipe capacity of 1.60 million tonnes per annum (mtpa) across three locations in India. In addition, WCL, through its subsidiaries, has set up operations in the USA and Saudi Arabia bringing its global pipe production capacity to 2.425 mtpa.

Completion of the Scheme of arrangement in the nature of demerger

During FY14, WCL has successfully demerged its non-pipes and plates businesses into a separate company, viz. Welspun Enterprises Ltd (WEPL). Through the de-merger, the Direct Reduced Iron (DRI), infrastructure (including energy, water and road), oil & gas exploration and Engineering, Procurement and Construction (EPC) businesses, which were earlier under

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

WCL umbrella, were transferred to WEPL. The scheme of arrangement for the demerger came into effect on January 24, 2014 with the appointed date of April 1, 2012.

As per the scheme, WCL transferred investments in non-pipe businesses along with loans & advances aggregating Rs.1,602 crore to WEPL. In addition, WCL transferred liquid investment of Rs.795 crore to the resulting company. While there was reduction in standalone networth of WCL due to transfer of the investments, there was no major impact on standalone revenue and assets. Further, in spite of transfer of part of liquid investments, WCL continues to maintain adequate level of cash and cash equivalents as part of financial policy providing strong liquidity comfort. Moreover, WCL focus going forward will be solely on pipes business in India and globally, while risk related to capex and opex on the non-pipe businesses is extinguished as a result of the demerger. Therefore, the demerger is positive from the credit perspective for WCL.

On a standalone basis, WCL posted total income of Rs.5,009 crore with a net loss of Rs.18 crore (after including unrealized foreign exchange loss of Rs.105 crore) during FY14. Further, the company posted a total income of Rs.652 crore with a net loss of Rs.69 crore in Q1FY15.

On consolidated basis, WCL posted a total income of Rs.7,871 crore and a PAT of Rs.98 crore during FY14. During Q1FY15, the company registered a total income of Rs.1,454 crore and a net loss of Rs.38 crore.

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