

**Rating Rationale**

February 13, 2024 | Mumbai

**Welspun Corp Limited**

Rating outlook revised to 'Positive'; Ratings Reaffirmed

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**Rating Action**

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.5825 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1+ (Reaffirmed)</b>

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<b>Rs.90 Crore Non Convertible Debentures</b>	<b>CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)</b>
<b>Rs.500 Crore Non Convertible Debentures</b>	<b>CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)</b>
<b>Rs.500 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

**Detailed Rationale**

CRISIL Ratings has revised its outlook on the long-term bank facilities and non-convertible debentures of Welspun Corp Limited (WCL) to **'Positive'** from 'Stable' while reaffirming the rating at **'CRISIL AA'**. The rating on short-term facilities and commercial paper has been reaffirmed at 'CRISIL A1+'. The rating on NCD worth Rs 290 crore (see 'Annexure: Details of Rating Withdrawn' for details) has been **withdrawn**, as the instrument has been fully redeemed. CRISIL Ratings has received confirmation of redemption from the trustee. The action is in line with CRISIL Ratings' policy on withdrawal of ratings.

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The outlook revision reflects the more than expected improvement in the overall credit profile of Welspun Corp group and a continuation of the same over the medium term. Over the past two years, the group had made significant investments in both organic and inorganic avenues, whilst diversifying from its core business of line pipes. These investments include semi-integrated greenfield projects of DI Pipe and TMT bars segment along with the acquisition of Sintex-BAPL, which is expected to provide healthy diversification in its business profile. While majority of these investments have shown improvement in scale as well as profitability quarter on quarter in fiscal 2024, there is expected to be a sustained improvement in scale with ramping up of capacities as well as profitability in these segments over the next fiscal. The same will remain a key monitorable for the group's credit profile.

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The Group's revenues have grown to Rs. 9755 crores in fiscal 2023 from Rs 6509 crores in fiscal 2022 and it has achieved revenues of Rs. 12878 crore in first 9 months of fiscal 2024. Of the total revenues, the company achieved revenues of Rs. 8129 crore in H1FY24, of which DI Pipes, TMT Bars and Sintex contributed around 20-30% of the total revenues. The overall business profile remains supported by the strong performance in the legacy line pipe segment with both India and US arms operating at healthy scale and operating efficiencies. Continued ramp up in the diversified business segments leading to significant contribution to overall operating profits and return on capital employed should further improve the business risk profile of the group.

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The financial risk profile of the group is also expected to improve driven by strong network, improving capital structure and adequate debt protection metrics. Strong network of Rs. 5050 crore as on September 30, 2023 coupled with reduced reliance on external debt for working capital requirement, repayment of loans and limited debt funded capex over the medium term will lead to improvement of the capital structure. Debt levels have been reduced to Rs. 1940 crore as on Sept 30, 2023, as compared to Rs. 3316 crores as on March 31, 2023. This has led to healthy gearing of 0.38 times as on Sept 30, 2023 and is expected to remain in the similar range as on March 2024. Further the group has healthy unencumbered cash and cash equivalents and investments of Rs 1,565 crore as on September 30, 2023 and bank balance of Rs 59.95 Crs. Reduced debt levels coupled with healthy profitability has led to reduction in net debt/EBITDA to 0.5 times as on Sept 30, 2023 as compared to 2.5 times as on March 31, 2023 and is further expected to reduce over the medium term. Liquidity is expected to remain strong, backed by strong cash flows, low utilization of fund based working capital limits and healthy cash and cash equivalents which are expected to remain in the business over the medium term.

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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 a 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 Metallics 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), Welspun Global Trade LLC, USA (WGTU), Sintex-BAPL Limited (SBAPL) and Sintex Prefab and Infra Limited (SPIL). CRISIL Ratings considers these

entities are strategically important to and have a significant degree of operational integration with WCL's operations.

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 and diversification into other business segments:** The WCL group is one of the largest players in the global steel line-pipe business with capacities of 1,780 kilo tonne per annum (ktpa) (2,155 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 reputable 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 MS line pipes of 611 kilo tonne as on September 2023 (in India and USA operations) offering healthy revenue visibility. The business profile of the group is further supported by diversification through semi-integrated greenfield projects of DI Pipe and TMT bars segment along with the acquisition of Sintex-BAPL. In H1FY24, the company achieved around 20-30% of the total revenues from these segments and continued ramping up of these diversified business segments leading to significant contribution to overall operating profits should further improve the business risk profile of the group and would remain a key monitorable over the medium term.

- **Geographically diverse capacities and presence:** The group's presence is diversified with facilities in India 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.

- **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:** Networth was healthy at Rs. 5050 crores as on September 2023 (Rs 4,487 crore as on March 31, 2023), with gearing comfortable at 0.38 time as on September 30, 2023 (0.74 time as on March 31, 2023). The total outside liabilities to adjusted networth (TOL/ANW) ratio though had increased to 2.3 time as on March 31, 2023, however, it is expected to improve over the medium term driven by steady accretion to reserves, repayment of loans and moderate reliance on external debt for working capital and capex. Cash and cash equivalents along with other marketable securities of Rs 1565 crore as on September 30, 2023, provide cushion to overall liquidity. Adjusting for such surplus, net gearing reduces to 0.07 time as on September 30, 2023. Interest coverage ratio has improved to 6.2 times in H1FY24 from 3.4 times in fiscal 2023 driven by improved profitability and moderate leverage. It is expected to remain healthy over the medium term.

#### **Weaknesses:**

- **Susceptibility to slowdown in end-user industries, and to government policies:** The group derives 50%-60% of revenue from the oil and gas segment, and the remaining from the water segment in the line pipe segment. Slowdown in the oil and gas industry because of a significant decline in crude price had impacted operations in the past and the sector remains cyclical in nature. Sustained demand for new projects in oil and gas segment in key markets of US and India 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 capex incurred in the past fiscal:** The group had incurred capex for ductile iron pipes facility, TMT bar facility as well as acquisition of Sintex-BAPL. Due to heavy investments incurred during the past two fiscals, the return on capital employed had deteriorated to 7% in fiscal 2023. These segments have started ramping up in fiscal 2024 and continued ramp up with healthy contribution of operating profits from these segments leading to improvement in RoCE will remain a key monitorable for the group.

#### **Liquidity: Strong**

The Welspun group has strong liquidity, driven by a healthy expected cash accrual crore which is sufficient to meet its repayment obligations. Further the group has healthy unencumbered cash and cash equivalents and investments of Rs 1,565 crore and bank balance of Rs. 59.95 Crs as on September 30, 2023. The group has already repaid the preference shares of Rs. 351.51 crore as on September 30, 2023 and has sufficient funds for the upcoming NCD repayments of Rs. 200 crore and other term debt obligations. WCL's working capital bank lines remained moderately utilised at 67% for the past 12 months through December 2023. 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 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.
- WCL has set a zero waste to landfill (ZWL) target by 2030 and the company had been able to achieve this target in fiscal 2023 itself.
- 100% 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 having ESG & CSR Committee at its top levels, Managing Director/CEO at the second level and designated employees at the last levels.

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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: Positive**

The WCL group's leadership position and healthy order book in the line-pipe segment along with ramping up of operations from the diversified segments, comfortable financial risk profile and ample liquidity will continue to support credit risk profile over the medium term.

### **Rating Sensitivity factors**

#### **Upward Factors**

- Sustained and strong bottom-line contributions from the recent diversifications while the existing line pipe business continues to grow at a healthy CAGR without any major deviation in profitability leading to a ramp up in ROCE levels to over 22% over the medium term.
- Improvement in working capital cycle and financial risk profile resulting in gross debt to operating EBITDA well below 1 time.

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#### **Downward Factors**

- Delayed ramp up the diversified business segments leading to annual consolidated operating EBIDTA of less than Rs 1500 crores 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.

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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.

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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 2023	2022	2021
Operating income	Rs crore	12878.4	9754.8	6508.6
Reported profit after tax	Rs crore	848.7	199.1	444.2
PAT margins	%	6.59	4.72	7.49
Adjusted Debt/Adjusted Networth	Times	0.34	0.74	0.49
Interest coverage	Times	6.78	3.36	10.10

### **Status of non cooperation with previous CRA**

WCL has not co-operated with Brickwork Ratings India Private Limited which has marked it Non-cooperative vide its circular dated October 6, 2023. The reason provided by Brickwork Ratings India Private Limited is non furnishing of information by WCL.

**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](http://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
INE191B07162	Non- Convertible Debentures	16-Feb-2021	7.25%	16-Feb-2026	200	Simple	CRISIL AA/Stable
INE191B08020	Non- Convertible Debentures	9-Jul-2021	7.90%	9-Jul-2036	40	Simple	CRISIL AA/Stable
NA	Non- Convertible Debentures*	NA	NA	NA	60	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

^ \*Yet to be issued

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#### Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity^ levels	Rating assigned with outlook
INE191B07139	Non-Convertible Debentures	09-Nov-2012	11%	08-Nov-2022	90	Simple	Withdrawn
INE191B07154	Non-Convertible Debentures	10-Feb-2021	6.5%	09-Feb-2024	200	Simple	Withdrawn

#### 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 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
Propel Plastic Products Private Limited	Full	Subsidiary company
Big Shot Infra Facilities Private Limited (BSIFPL)	Full	Subsidiary company
Nauyaan Shipyard Private Limited (NSPL)	Full	Subsidiary company
Sintex-BAPL Limited	Full	Subsidiary company
Sintex Prefab and Infra Limited	Full	Subsidiary company

#### Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023^		2022^		2021^		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	1906.0	CRISIL AA/Positive	^	--	20-02-23	CRISIL AA/Stable	22-11-22	CRISIL AA/Watch Developing	29-09-21	CRISIL AA/Stable	CRISIL AA/Stable
^	^	^	--	^	--	^	--	19-10-22	CRISIL AA/Watch Developing	^	--	--
^	^	^	--	^	--	^	--	29-09-22	CRISIL AA/Watch Developing	^	--	--
<b>Non-Fund Based Facilities</b>	ST	3919.0	CRISIL A1+	^	--	20-02-23	CRISIL A1+	22-11-22	CRISIL A1+	29-09-21	CRISIL A1+	CRISIL A1+
^	^	^	--	^	--	^	--	19-10-22	CRISIL A1+	^	--	--
^	^	^	--	^	--	^	--	29-09-22	CRISIL A1+	^	--	--
<b>Commercial Paper</b>	ST	500.0	CRISIL A1+	^	--	20-02-23	CRISIL A1+	22-11-22	CRISIL A1+	29-09-21	CRISIL A1+	CRISIL A1+
^	^	^	--	^	--	^	--	19-10-22	CRISIL A1+	^	--	--
^	^	^	--	^	--	^	--	29-09-22	CRISIL A1+	^	--	--

Non Convertible Debentures	LT	590.0	CRISIL AA/Positive	Â	--	20-02-23	CRISIL AA/Stable	22-11-22	CRISIL AA/Watch Developing	29-09-21	CRISIL AA/Stable	CRISIL AA/Stable
Â	Â	Â	--	Â	--	Â	--	19-10-22	CRISIL AA/Watch Developing	Â	--	--
Â	Â	Â	--	Â	--	Â	--	29-09-22	CRISIL AA/Watch Developing	Â	--	--

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	20	State Bank of India	CRISIL AA/Positive
Cash Credit	20	Axis Bank Limited	CRISIL AA/Positive
Cash Credit	50	ICICI Bank Limited	CRISIL AA/Positive
Cash Credit & Working Capital Demand Loan	200	HDFC Bank Limited	CRISIL AA/Positive
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+
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+
Proposed Letter of Credit & Bank Guarantee	400	Not Applicable	CRISIL A1+
Proposed Working Capital Facility	1616	Not Applicable	CRISIL AA/Positive

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
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