

Press Release

Welspun Flooring Limited

November 10, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 845.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A1 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A One**) on the Rs. 845.00 crore of bank facilities of Welspun Flooring Limited (WFL). The outlook is '**Stable**'.

About the Group

Welspun Flooring Limited (WFL)

Established in March 2016, Welspun Flooring Limited (WFL) is a wholly-owned subsidiary of Welspun India Limited. WFL manufactures Tufted Carpet Tile, Wall-To-Wall Tufted Carpets and Luxury Vinyl Tiles (LVT), Drylons and Bulk Continuous Filaments (BCF) through its integrated state-of-the-art facility in Rangareddy district, Telangana. WFL will manufacture intermediate products like BCF for its captive consumption and Drylon which will be sold out to Welspun India Limited for its bath rag manufacturing facility in Vapi, Gujarat. The manufacturing facility is set-up at Chandanvelly, Telangana, which is in close proximity to the city of Hyderabad. The total project cost is Rs.1003.40 crore (revised from Rs.1132.81 crore), term loan of Rs.722.45 crore and promoter contribution of Rs.280.95 crore. The project has commenced operations since December, 2019.

Welspun India Limited (WIL) - Parent Company

WIL is among the largest home textiles company in Asia and amongst top 3 home textiles manufacturers in the world. The company is the largest exporter of home textile products from India with presence in over 50 countries and supplies to the top global retailers. WIL's portfolio comprises a wide range of home textile products such as terry towels (cotton and blended yarn), bed linen (basic bedding and decorative bedding), bath rugs (cotton, nylon or micro fiber) and bath rugs. The rating factors in WFL's low project risk on account of timely commencement of the project in December, 2019, strategic location of the plant, partial backward integration, established distribution network, strong parentage and demonstrated track record of continuous fund support from WIL and high growth prospects for WFL's products. These rating strengths are partially offset by moderate demand/offtake risk and exposure to the volatility of raw material prices.

Analytical Approach

Acuite has consolidated the financial and business risk profiles of Welspun Flooring Limited (WFL) and its Parent Welspun India Limited (WIL), on account of their common management and brand name, strong operational and financial linkages. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Timely commencement of project in December, 2019**

WFL commenced its project as per the scheduled timelines in December, 2019; nonetheless with a revised and a lower project cost along with a limited capacity of LVT. The initial project cost for setting up the manufacturing facility was Rs.1132.81 Cr; to be funded by the debt-to-equity ratio of 72:28 with a term loan of Rs.815 Cr and Rs.317.81 Cr of promoter contribution. WFL short-closed the project by commencing operations from December, 2019 with a revised project cost of Rs.1003.40 Cr; to be funded through term loan of Rs.722.45 Cr and promoter contribution of Rs.280.95 Cr. Post revision, the debt-to-equity ratio though remained intact at 72:28. The rationale behind project cost revision was to start manufacturing of LVT in a phased manner. The balance portion of the planned LVT capacity will be operational by availing the remaining fraction of the term loan and promoter contribution in phased manner. This reckons on the pace of demand for WFL's LVT followed by operationalization of the remaining capacity. Out of Rs.1003.4 Cr, WFL had drawn down Rs.637.8 Cr of term loan along with promoter contribution of Rs.269.6 Cr as on March 31, 2020. The term loan is drawn down as on September, 2020 is Rs.690.5 Cr with the majority of promoter contribution infused. This takes the project completion status to almost 97 percent as on September 30, 2020; entailing low funding and implementation risk. The demand risk is moderate pronounced by the untapped market, consumer's appetite for designer houses and high-end commercial spaces, thereby signifying high demand prospects of Luxury Vinyl tiles (LVT) and tufted carpets and tufted tiles. The demand in the targeted export markets like the USA and Europe will be aided by the entrenched brand of 'Welspun' by its parent company - WIL. WIL is among the largest home textiles company in Asia and amongst top 3 home textiles manufacturers in the world. The company is the largest exporter of home textile products from India with presence in over 50 countries and supplies to the top global retailers. Acuite believes that WFL is exposed to low project risk, given its project nearing completion and high demand envisaged for its premium products.

- **Strategic location of the plant, partial backward integration and established distribution network**

WFL's manufacturing plant is strategically located in Ranga Reddy district, Telangana State, which has proximity to the city of Hyderabad. It proffers location advantage with Southern region being textile hub; with ease of access for its raw materials as well as expanding its distribution and dealer network in the southern region and Pan India. With the majority of Welspun groups' manufacturing base in Gujarat, WFL was planned in Telangana with the objective of accomplishing its manufacturing base in newer geography enabling ease of doing business. WFL is backwardly integrated in terms of tufted wall-to-wall carpet segment. WFL has bulk continuous filament (BCF) plant with an installed capacity of 7000 metric tonnes per annum (MTPA) to suffice the captive needs of yarn required for manufacturing tufted carpet W2W. BCF yarn is one of the major raw material required for manufacturing tufted carpets W2W. In-house BCF plant (at 100 percent capacity level) can suffice the raw material requirement of W2W tufted carpets plant running at 40 percent capacity levels. Once, carpet tufted W2W plants exceed 40 percent capacity levels, WFL will have to source BCF from outside/open market or expand its capacity to meet the higher production of W2W carpets. The in-house BCF plant is expected to save the total RM costs and yield over and above EBITDA margins of ~2 percent. WFL has solitary marketing arrangements with more than 50 distributors and 450 dealers in place pan India. Apart from India, distributors are being appointed in various other geographies. It has already appointed 10 in US, 5 in UK, 5 in Australia and 7 in Middle East. WIL's presence in USA and Europe (WIL derives almost 80-90 percent from exports to these geographies) will help leveraging the brand presence of 'Welspun' for WFL. It has a presence in more than 100 retail outlets in India in very short period of time, amid pandemic and recently tied up distributorship with MS-International in North America. MS International is the leading importer and distributor of natural stones, landscape, tiles etc. Many such tie-ups with top distributors across geographies are under way. Such arrangements have aided WFL to clock revenue of Rs.40.5 Cr in FY20 since the COD in December 2019 and Rs.100 Cr until September, 2020 amid pandemic too. Acuite believes that key factors like strategic location, partial integration and established distribution network will assist WFL in scaling up its operations and report relatively better operating margins.

- **Strong parentage; demonstrated track record of fund support from WIL**

Welspun India Limited (WIL), is a leading company of the Welspun group promoted by Late Mr. G.R. Goenka, Mr. B.K. Goenka and Mr. R.R. Mandawewala. WIL is the largest home textiles company in Asia and amongst top 5 home textiles manufacturers in the world. WIL is the largest exporter of home

textile products in India and derives more than 80 percent of its revenue from exports. The Company supplies to top global retailers from its manufacturing facilities at Anjar and Vapi, both in Gujarat, India. WIL's portfolio comprises a wide range of home textile products such as terry towels (cotton and blended yarn), bed linen (basic bedding and decorative bedding), bath rugs (cotton, nylon or micro fiber) and bath rugs. While enumerating the support extended by WIL to WFL, Acuite takes cognizance of WIL's resourceful promoters (WFL along with Welspun group), extensive experience of the management, WIL's leading position in home textiles segment with global reach, established relationship with leading global retailers, well-diversified product portfolio, strong brand image, integrated operations and healthy financial risk profile; albeit constrained by deteriorating operating margins and exposure to inherent industry risks, such as volatility in raw material prices and fluctuations in foreign currency. WIL has demonstrated a strong track record of fund support to WFL. The 28 percent of the total project cost of Rs.1003.40 Cr i.e. Rs.280.95 Cr has been entirely funded by WIL. Additional fund support was injected to fill in the gap of the losses incurred. Cumulative fund support has been to the tune of Rs.330.96 Cr as on March 31, 2020. This includes Rs.65 Cr of equity capital, Rs.185.00 Cr of 8% Non-cumulative compulsory convertible (NCCC) preference shares, Rs.71.44 Cr of 0% compulsory convertible debentures (CCD) and Rs.9.52 Cr of unsecured loans (Quasi Equity). Erstwhile WIL, had provided an unconditional and irrevocable corporate guarantee to all the bank facilities of the company for a tenure of one year from commercial date of operations, i.e. December, 2019. The same is expected to lapse. This risk is mitigated through assurance given by WIL to extend fund support in case of any additional funding requirement in the instance of cost over-runs or insufficient cash flows that may arise during the initial phase of operations. Besides financial support, WIL will reinforce WFL in terms of brand leveraging and distribution network in India and other geographies. Acuite believes that WFL will benefit from the operational and financial support from its parent, WIL over the medium term.

- **High demand prospects for LVT and tufted carpet and tiles**

Vinyl flooring market in India is witnessing rising demand due to innovation and adaptation in recent flooring techniques. An increasing preference for a luxury lifestyle coupled with inflating income levels has stimulated the entire Flooring market growth. The major players in the flooring market players are engaging in a wide range of innovations to reach new customers and expand product portfolios. Luxury Vinyl Tile is a hard-surface flooring which imitates the appearance of natural materials. LVT is the most popular type of vinyl flooring, accounting for a market share of 52.6% in the global vinyl flooring market. LVT represents the largest segment as it is a low-cost alternative for tile or planks. LVT market is untapped in India, which accounted for a mere 11.2 percent share in Indian flooring market of about 4.5 mn sqm in FY 2018. Multiple factors like untapped market, consumer's appetite for designer houses and high-end commercial spaces in India and 'Make in India' initiative to boost the indigenous production, fewer number of organized players, dependence on expensive imports are paving way for high demand prospects for the LVT and tufted carpet segment. Additionally, 80 percent of carpets are being supplied by China to different parts of the world. The recent disruptions with China provides an added advantage to WFL to capture the market share. Demand prospects are evident in long term strategic arrangements entered with one of the largest distributors for hard flooring by WFL. Acuite believes that Welspun's brand leveraging will aid WFL in capturing the potential market of LVT and tufted carpets over the medium term.

Weaknesses

- **Moderate Demand/Offtake risk**

Luxury Vinyl flooring and tufted carpet is relatively new concept and an emerging market segment in India; the potentiality of WFL to market the product and capture the demand well will remain the key rating sensitivity factor. Given the strengths or potential of the LVT and tufted carpet market, WFL has headroom for ample growth. Besides, WFL is prone to face stiff competition from the larger and established players in India and other countries like the US, Europe, amongst others. Acuite believes that WFL will remain susceptible to intense competition outside India and exposed to offtake risk over the medium.

- **Exposure to volatility in raw material prices**

The raw materials required by WFL include Nylon 6, PET, polypropylene, nylon, polymers PVC, amongst others. These will be sourced domestically and imported too and the company is susceptible to volatility in raw material pricing risk. Withal, this risk can be mitigated to an extent through re-negotiation of price with customers. The forex risk too is expected to be naturally hedged as it is expected to export around 40-50 percent of its products.

Liquidity Position: Adequate

WFL's liquidity is adequate supported by secured payment mechanism with Escrow account for a term loan from a consortium of lenders and creation of DSRA for 3 months of principal and interest ensuring timely servicing of debt obligations of the term loans. WFL maintains escrow account to route its project related cash flows. WFL will maintain a DSRA equivalent of 3 months of the debt servicing requirements (principal and Interest obligations) throughout the tenure of the bank facilities. In case of shortfall in cash flows, DSRA will be used for debt servicing as per waterfall in Escrow Agreement and in such case of utilization of DSRA, same will be replenished from Project cash flows. WFL's bank lines of Rs.50 Cr have remained utilized in the range of 85-90 percent over the last 9 months ending September, 2020. WFL's net cash accruals are expected to remain insufficient in FY2021 against its debt obligations commencing from the quarter ending in March, 2021. These are expected to be funded through fund support in the form of unsecured loans from WIL. To meet the upcoming working capital requirements, WFL has tied-up for enhancement in bank lines up to Rs.120.00 Cr. Acuite believes that liquidity will remain adequate yet improve over the medium term.

Rating Sensitivities

Positive

- Scaling up of operations and achieving break-even point in FY2021
- Timely financial support from its parent, WIL

Negative

- Delay in full commercialization of the project
- Lower-than-expected revenue and EBITDA margin in FY2021
- Higher-than-expected debt availed to complete the balance portion of the capital expenditure, leading to deteriorated capital structure

Outlook: Stable

Acuite believes that WFL will continue to benefit over the medium term due to its experienced management, strong parentage and operational support from WIL. The outlook may be revised to 'Positive', in case of timely commercialization of the project, leads to higher-than-expected revenues and profitability, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case WFL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	55.22	0.00
PAT	Rs. Cr.	-84.52	-4.64
PAT Margin	(%)	-153.07	0.00
Total Debt/Tangible Net Worth	Times	2.78	1.27
PBDIT/Interest	Times	-2.00	-2.27

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Any Material Covenants

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan I	June 29, 2018	9.00-10.00%	March, 2029	248.58	ACUITE A-/Stable (Assigned)
Term Loan II	November 29, 2018	9.00-10.00%	March, 2029	312.52	ACUITE A-/Stable (Assigned)
Term Loan III	January 10, 2019	9.00-10.00%	March, 2029	161.29	ACUITE A-/Stable (Assigned)
Cash Credit I	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A-/Stable (Assigned)
Cash Credit II#	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A-/Stable (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	2.61	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 (Assigned)
Letter of Credit#	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A1 (Assigned)

#CC is 100 percent interchangeable with Letter of credit i.e Rs.60 crores

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