

Press Release
Welspun Flooring Limited

April 11, 2022

Rating Reaffirmed & Withdrawn



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	-	ACUITE A1 Reaffirmed & Withdrawn
Bank Loan Ratings	815.00	ACUITE A- Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	845.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn its long-term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) and short-term rating of '**ACUITE A1**' (read as **ACUITE A One**) on the Rs.845.00 Cr bank facilities of Welspun Flooring Limited (WFL). This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the firm and no-objection certificates received from the banker.

About the Company

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 Carpet and Luxury Vinyl Tiles (LVT), Drylons and Bulk Continuous Filaments (BCF) through its integrated state-of-the-art facility in Rangareddy district, Telangana. WIL manufactures intermediate products like BCF for its captive consumption and Drylon which is sold out to Welspun India Limited for its bath rag manufacturing facility in Vapi, Gujarat. The manufacturing facility is setup at Chandanvelly, Telangana which is in close proximity to the city of Hyderabad.

About 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

Acuité has considered the standalone business and financial risk profile of WFL to arrive at this rating. The rating has been notched-up by considering support from its parent/sponsor company – Welspun India Limited (WIL) in the form of shortfall undertaking, corporate guarantee amongst others.

Key Rating Drivers

Strengths

Timely achievement of Phase-I COD; further enhancement in installed capacity planned within a year of COD achieved

WFL achieved its full COD for Phase-I and the volumes have scale up as expected. WFL's phase-I capex was down sized to Rs.990 Cr followed by Phase-II capex of Rs.217 Cr for doubling the Drylon capacity to 7,000 MTPA and outstretch the LVT capacity to 11 million meters PA. The capacity expansion has been planned in the second year of operations citing healthy demand from export markets like US, UK, Australia and Middle East. WFL continues to sell its products through Welspun Global Brands Limited; which is the marketing company for WIL as well. Phase-II capex was a planned capex while undertaking Phase-I; subject to healthy demand from end-users. WFL has already incurred Rs.170 Cr of capex, of which ~Rs.75 Cr was incurred in FY2021 and remaining Rs.95 Cr until December 31, 2021. The debt for funding the capex is tied up with one of the existing consortium lenders – EXIM Bank of Rs.156 Cr. The capex of Rs.170 Cr until December 2021 has been funded through Rs.61 Cr of equity (in form of CCD by WIL) and remaining Rs.109 Cr from term loan. Hence, entire equity portion/promoter contribution has already been infused with balance term loan to be drawn down by April/May 2022. The phase-II is expected to commence from April end 2022. This manifests low funding risk for the capex. Moreover, the implementation risk is too low with capex achieving ~75 percent of physical progress. The demand risk is low as the phase-II capex has been planned due to higher orders from export markets as well as domestic.

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. Acuité

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, Acuité 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. 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 has been extended until tenure of the debt. There is 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. Acuité 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. Acuité 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. Acuité 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.

ESG Factors Relevant for Rating

Governance issues relevant include board and management compensation, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact. WFL, a subsidiary company of Welspun India Limited is into manufacturing of tufted wall to wall carpets, vinyl flooring and yarn. WFL's parent, WIL has adequate policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has designated committees for CSR, Risk management, stakeholders relationship, nomination and remuneration amongst others. The company has a total of 8 number of board of directors out of which 4 number are independent and 2 number are female directors. The company has 3 independent members in its audit committee. Under its environment initiatives, the company has a policy in place for reduction in air pollution and waste. The social initiatives of WIL include policies on human rights and service quality standards. WIL has an ESG & CSR Committee constituting 5 members. Welspun group has recently conducted a separate session for its directors on ESG familiarization and planned key initiatives such as Operationalizing ESG into the overall governance structure, environmental Initiatives, ESG Data Governance and whistle blower platform to facilitate anonymous reporting.

Rating Sensitivities

Not Applicable

Material covenants

None

Liquidity: 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 net cash accruals remained insufficient in FY2021 against its debt obligations commencing from the quarter ending in March, 2021. These were funded through fund support in the form of unsecured loans from WIL. Acuité believes that liquidity will remain adequate yet improve over the medium term.

Outlook: Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	365.13	55.22
PAT	Rs. Cr.	(73.50)	(84.52)
PAT Margin	(%)	(20.13)	(153.07)
Total Debt/Tangible Net Worth	Times	1.74	2.78
PBDIT/Interest	Times	0.40	(2.00)

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Nov 2020	Term Loan	Long Term	161.29	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	60.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Assigned)
	Proposed Bank Facility	Long Term	2.61	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	60.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	248.58	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	312.52	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A- Reaffirmed & Withdrawn
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.61	ACUITE A- Reaffirmed & Withdrawn
Exim Bank	Not Applicable	Term Loan	Not available	Not available	Not available	161.29	ACUITE A- Reaffirmed & Withdrawn
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	248.58	ACUITE A- Reaffirmed & Withdrawn
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	312.52	ACUITE A- Reaffirmed & Withdrawn

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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