

Press Release

Welspun Advanced Materials (India) Limited

June 15, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 248.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 248.00 crore of bank facilities of Welspun Advanced Materials (India) Limited (WAMIL). The outlook is '**Stable**'.

About the Group

Welspun Advance Materials India Limited (WAMIL)

Established in December 2019, Welspun Advanced Materials (India) Limited (WAMIL) is a 100 percent wholly-owned subsidiary of Welspun India Limited (WIL). WAMIL is proposed to set-up a project viz Manufacturing of Non-woven Spunlace rolled goods and Wet Wipes at Village Chandanvelly, Ranga Reddy District in the state of Telangana at a total capital outlay of Rs.345.36 crores to be funded in the debt-to-equity ratio of 72:28.

WAMIL proposes to use the manufactured Spunlace Rolls partially for manufacturing of Wipes (captive purpose) and balance Spunlace rolls to be sold in the market including export. Spunlace non-wovens are produced for wide range of applications like Wet Wipes, dry wipes, wound care, female hygiene products, diapers, artificial leather, coating substrates, filtration and PPEs. These fabrics form a part of the technical (advance material) segment of the textile value chain. Welspun India Ltd (WIL), its parent company, is already in the business of manufacturing and export of Spunlace Rolls since long time. WIL, has installed capacity of manufacturing ~9930MTPA of spunlace rolls through manufacturing facility in Anjar (Gujarat). WAMIL to have an installed capacity of manufacturing 17,729 MTPA of non-woven spunlace rolls and 100 million packets of wet wipes per annum. The project is scheduled to commence operations from October 01, 2021.

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) and bath rugs (cotton, nylon or micro fiber).

The rating factors in WAMIL's strong parentage, tangible support from the parent (WIL), WIL's presence in Non-woven Spunlace segment assisting WAMIL and exposing it to low demand risk, strategic location of the plant, partial backward integration, established distribution network, low funding risk, and high growth prospects for WAMIL's products. These rating strengths are partially offset by its moderate implementation risk, exposure to intense competition in the export market, timely completion of the project given the present scenario of Covid-19 and exposure to the volatility of raw material prices.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Strong parentage; tangible support from the parent to WAMIL**

Welspun India Limited (WIL), is a leading company of the Welspun group promoted by 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) and bathrugs (cotton, nylon or micro fiber). While enumerating the support extended by WIL to WAMIL, Acuité takes cognizance of WIL's resourceful promoters (WAMIL 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 exposure to inherent industry risks, such as volatility in raw material prices and fluctuations in foreign currency.

WAMIL is of strategic importance to WIL; the same is demonstrated by the tangible support from WIL. The support has been in form of WAMIL being its 100 percent wholly-owned company wherein WIL is expected to infuse 28 percent of the project cost of Rs.345.35 Cr. The 28 percent (amounting to Rs.97.36 Cr) is to be infused in form of equity and zero percent cumulative convertible debentures (CCDs). Cumulative fund support has been to the tune of Rs.73.01 Cr as on March 31, 2021. This includes Rs.33.01 Cr of equity capital and Rs.40.00 Cr of compulsory convertible debentures (CCD). The balance portion of WIL's contribution amounting to Rs.23.69 Cr is expected to be infused by FY2022 end. To count on the aforesaid financial support is the unconditional and irrevocable corporate guarantee provided by WIL valid until the creation and perfection of the security, shortfall undertaking, and non-disposable undertaking. The shortfall undertaking assures WIL's fund support to WAMIL in the instance of any cost over-runs until achievement of Scheduled Commercial Operation Date (SCOD). Besides financial support, WIL will reinforce WAMIL in terms of brand leveraging and distribution network in India and export markets such as USA, UK amongst others. Acuité believes that WAMIL will benefit from the operational and financial support from its parent, WIL over the medium to long term.

- **Creation of WAMIL is demand-driven expansion; WIL's presence in Non-woven Spunlace segment to assist WAMIL and exposes it to low demand risk**

WAMIL has been established to cater to the potential demand of WIL's existing elite customer base present in the Non-woven spunlace segment along with other players too in the export and Indian market. WIL, i.e. parent company of WAMIL has an established presence in manufacturing of non-woven spunlace rolls at its manufacturing facility in Anjar, Gujarat, but relatively with lower installed capacity of about 9,930 MTPA. The suppliers here are well-known as similar plant and machinery have already been acquired earlier by the promoter company and also has established raw material linkages with companies like Grasim Industries Limited, Indorama Corporation amongst others. Other supporting factors such as process and technology which are proven, Well-known brand of 'Welspun' with its existence in export markets to aid WAMIL in future. In case of Non-woven Spunlace and Wipes segment of the WIL, WIL deals with World's top customers. Out of current capacity of the top end-users, WIL is able to cater to merely 7 percent of the demand. In order to tap the demand from current customers and considering growing business segment, promoters proposed to implement the large dedicated manufacturing facility for Technical textile i.e. Nonwoven & Wipes in Telangana. Acuité believes that the risk related to the project is lower given the business is already known to WIL.

- **Low funding risk**

WAMIL has low funding risk. WAMIL has tied up for debt with the lender for Rs.248 Cr of term loan which was sanctioned in November 2020 (LC being sub limit up to Rs.175 crores to import machinery). WAMIL has drawn down Rs.25 Cr of term loan as on March 31, 2021 and opened LC of Rs.100 Cr for import of Plant and Machinery. The repayments are expected to commence from quarter ending December 2022 in a ballooning structure. WAMIL is yet to tie up for working capital limits. The proposal has already been put up with lenders. The same is expected to get sanctioned 1-2 months prior to the SCOD. Acuité believes that WAMIL is exposed to low funding risk, given its term loan being entirely tied-up.

- **Strategic location of the plant, partial backward integration and established marketing arrangements**

WAMIL's manufacturing plant is strategically located in Ranga Reddy district, Telangana State, which

has proximity to the city of Hyderabad. It is abutting Nagarguda – Shamshabad road to the South and Hyderabad – Shahabad road to the East. The site is 25kms from NH44 which connects to various cities of Telangana and rest of India. The proposed site has access from various roads to the national highways which connect to various states of India. 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, WAMIL was planned in Telangana with the objective of accomplishing its manufacturing base in newer geography enabling ease of doing business.

WAMIL is backwardly integrated in terms of Wet wipes. WAMIL is planning to use Spunlace for captive consumption to the extent of requirement for manufacturing of wipes by the Company; balance quantity would be sold to B2B and B2C segment. Around 0.11 kg of spunlace will be required to manufacture 1 packet of wipes. 1 packet of wipes contains around 80-100 wipes. WAMIL is expected to utilize 20-30 percent of spunlace produced for captive consumption i.e. manufacturing of wipes in the initial 2-3 years of operations and gradually ramp up to 40-50 percent siting demand prospects. This gives comparatively higher gross margins for the wipes segments vis-à-vis other non-integrated players.

With WIL's strong presence in the Export and Domestic Market, WAMIL will have market readily available with the support from WIL. Besides, 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 WAMIL. For spunlace rolls (post meeting the captive requirement), WAMIL shall cater to the existing customers of WIL and new customers too, basically exports to over 35 countries, with customers including global giants from health-hygiene segment like Reckitt Benckiser (Dettol), Nice-Pak, Rockline, Cardinal, Johnson & Johnson, ITW, Cascades, 3M, Essity etc and also supplying to domestic brand like Himalaya amongst others. For wipes, WAMIL expects to target both Business to Business (B2B) and Business to Consumer (B2C) fronts under the export and domestic market. Target customer segment under B2B to include baby product brands, medical brands, large FMCG retailers and B2C to include Household consumers, Hospitals, Medical Practitioners, Industrial Consumers amongst others. The distribution model followed by WAMIL to cater such target groups would be through traditional distribution model, modern trade and online platforms. Acuité believes that key factors like strategic location, partial integration and established distribution network will assist WAMIL in scaling up its operations and report relatively better operating margins.

- **High demand prospects for Non-woven Spunlace products and Wet wipes; WAMIL exposed to low demand risk**

Non-woven spunlace products form part of the non-woven technical textiles. Healthcare and infrastructure sectors are major drivers of the technical textile industry. Over the last decade, the trade flows of non-wovens have been growing globally, concomitantly with the worldwide development of the production. Despite the bulky characteristics of the non-woven roll goods, the exports and imports between countries is growing due to the various driving factors of the Nonwoven textile. Additional demand drivers of for spunlace products across globe are demand for Hygiene Product especially post outbreak of Covid-19 and growth of the Consumer Wipes Industry. The spunlace technology has the attributes of absorbency, softness, drape and strength and having all physical characteristics similar to a woven cloth wipe. Thus, wipe producers found that nonwoven spunlace material is an inexpensive wiping material. Acuité believes that high demand prospects for Non-woven spunlace products and WIL's established customer base exposes WAMIL to low demand risk.

Weaknesses

- **Moderate Implementation risk and exposure to intense competition in the export market; timely completion of the project given the present scenario of Covid-19**

WAMIL's project cost is Rs.345.35 Cr to be funded through term loan of Rs.248Cr and promoter support of Rs.97.36Cr. The project has achieved ~30 percent of financial completion as on March 31, 2021. Land has been procured, construction of the building is under progress. Plant and Machinery has been selected, vendor has been identified and orders have been placed. The main component – imported plant & machinery is yet to arrive which is against import LC of Rs.175 crores (sub limit of TL). WAMIL has opened LC of Rs.100 crores against import of P&M which is expected to arrive in June'21 & July'21. The timeframe to install the P&M would be around 1-2 months. The timely project completion under the present scenario of Covid-19 is mitigated to an extent as it has witnessed no adverse impact till date backed by continuous material supply and

labour availability. WAMIL is prone to face stiff competition from the larger and established players other countries like the US, Europe, amongst others. Acuité believes that WAMIL will remain susceptible to intense competition outside India and exposed to moderate implementation risk over the medium term.

• Exposure to volatility in raw material prices

The raw materials required by WAMIL include polyester staple fiber and Viscose staple fiber. These will be sourced domestically and imported too; hence, company is susceptible to volatility in Raw material pricing risk. However, this risk can be mitigated to an extent through re-negotiation of price with customers as WAMIL will enter into contracts wherein quantity will be pre-defined with price revision on monthly basis. The company is planning to export 80-90 percent of its products.

Liquidity Position: Adequate

WAMIL's liquidity is adequate supported by secured payment mechanism with Escrow account and creation of Debt service reserve account (DSRA) for 3 months of interest post 2 years of COD ensuring timely servicing of debt obligations of the term loans. WAMIL shall be creating DSRA of 3 months of interest servicing requirements of the project out of project cash flows within 2 years from the date of COD and 3 months DSRA shall be maintained thereafter throughout the tenor of Facility. In case of shortfall in cash flows, DSRA can be used for Debt Servicing as per water fall mechanism in trust and reserve account (TRA) and in such case of utilization of DSRA, same shall be replenished from Project cash flows. In case WAMIL's net cash accruals remain insufficient in initial year of operations against its debt obligations commencing from the quarter ending in December 2022; those are expected to be funded through fund support in the form of unsecured loans from WIL. To meet the upcoming working capital requirements, WAMIL is expected to tie-up for working capital limits from private lenders. Acuité believes that liquidity will remain adequate yet improve over the medium term.

Rating Sensitivities

Positive

- Scaling up of operations as envisaged post SCOD and achieving break-even point
- Timely financial support from its parent, WIL

Negative

- Delay in full commercialization of the project
- Lower-than-expected revenue and EBITDA margin in FY2022 and FY2023

Outlook: Stable

Acuité believes that WAMIL 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 delay in full commercialization leads to 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	FY21 (Prov)	FY20 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	(0.91)	(0.06)
PAT Margin	(%)	-	-
Total Debt/Tangible Net Worth	Times	0.35	-
PBDIT/Interest	Times	(648.57)	(5200.25)

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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	17-Nov-20	8% to 8.55%	30-Dec-30	248.00	ACUITE A-/Stable (Assigned)

#LC is sub-limit to term loan up to Rs.175.00 Cr

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About Acuité Ratings & Research:

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