

Press Release

Welspun Advanced Materials (India) Limited

March 07, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	248.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	40.00	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	288.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE A-**' (**read as ACUITE A Minus**) on the Rs. 248.00 Cr of bank facilities and assigned a short-term rating of '**ACUITE A2+**' (**read as ACUITE A Two Plus**) on the bank facilities of Rs.40.00 Cr of Welspun Advanced Materials (India) Limited (WAMIL). The outlook is '**Stable**'.

The rating reaffirmation 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, established distribution network and high growth prospects for WAMIL's products. These rating strengths are partially offset by exposure to intense competition in the Non-woven spunlace market, exposure to the volatility of raw material prices and delay in achieving the planned SCOD due to impact of 2nd wave of Covid-19.

About the Company

Established in December 2019, Welspun Advanced Materials (India) Limited (WAMIL) is a 100 percent wholly-owned subsidiary of Welspun India Limited (WIL). WAMIL was proposed to set-up a project viz Manufacturing of Non-woven Spunlace rolled goods at Village Chandanvelly, Ranga Reddy District in the state of Telangana at a total capital outlay of Rs.291.31 Cr to be funded in the debt-to-equity ratio of 72:28.

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. WAMIL to have an installed capacity of manufacturing 17,729 MTPA of non-woven spunlace rolls. The project is scheduled to commence operations by March 31, 2022 vis-à-vis its earlier scheduled commercial operations date (SCOD) of October 01, 2021. WAMIL is under the process of running trial runs at present.

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

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 corporate guarantee available till security perfection, contribution in form of Equity and debentures.

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 bath rugs (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.81.57 Cr. The 28 percent (amounting to Rs.81.57 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 (includes Rs.33.01 Cr of equity capital and Rs.40.00 Cr of compulsory convertible debentures (CCD)) as on March 31, 2021 and Rs.77.26 CR as on December 31, 2021. The balance portion of WIL's contribution is expected to be infused by March 2022 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, sponsor undertaking, and non-disposable undertaking. 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. 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 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 it a growing business segment, promoters proposed to implement the large dedicated manufacturing facility for Technical textile i.e. Nonwoven in Telangana. Acuité believes that the demand risk related to the project is lower given the business is already known to WIL.

Strategic location of the plant 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.

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, 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. 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

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. 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

Change in Scope of project and impact of 2nd wave of Covid-19 leading to delay in achieving planned SCOD

WAMIL has dropped the wet wipes project which constituted Rs.54.05 Cr of the initial project cost of Rs.345.36 Cr (16 percent of the total project cost). This led to reduction/change in scope of the project to the tune of Rs. 54.05 Cr. The same resulted in reduction in requirement of debt from Rs.248 Cr to Rs.209.74 Cr. Rationale for removal of Wet wipes related capex are a) impact of overall COVID-19 which led to entry of lot of small and unorganized players in the wet wipes segment as this does not require intensive capex leading to high competition resulting in lower realisations and margins b) WAMIL's management conservative approach yet being strategic on Capex project for Wet wipes as it would also require cost in terms of marketing and branding yet yield lower margins and c) In continuation to aforementioned

points, WAMIL will be benefitting in a better way by supplying raw material (Nonwoven Spunlace) to its customers as there is increase in the margin of Non-woven Spunlace due to increase in demand of Hygiene items and the Non-woven spunlace being major raw materials for these items.

Further, there was a lag in project execution by 6 months majorly on account of the COVID-19 impact which led to following - WAMIL ordered Non-woven Spunlace production line from France and other major plant and machineries from Italy, and these shipments got delayed as COVID-19 impacted the entire supply chain across the world. b) During April'21 and May'21, impact of 2nd wave of the COVID-19 was more intense which resulted into shortage of manpower at site and delay in Civil work and c) due to COVID-19 restrictions, technician for installation of Nonwoven Spunlace line could not reach the site on time. All these situation were out of the control of the management.

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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

Positive

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

Negative

- Lower-than-expected revenue and EBITDA margin

Material covenants

None

Liquidity: Adequate

WAMIL's liquidity is expected to be adequately 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 SCOD 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 has tied-up for working capital limits with Axis Bank and is expected to further enhance its limits with UBI. Acuité believes that liquidity will remain adequate yet improve over the medium term.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.91)	(0.06)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.35	0.00
PBDIT/Interest	Times	(648.57)	(5200.25)

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

None

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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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
15 Jun 2021	Term Loan	Long Term	248.00	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
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.26	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ Assigned
Union Bank of India	Not Applicable	Term Loan	17-11-2020	8.55	31-12-2030	209.74	ACUITE A- Stable Reaffirmed

Inland/Import LC is sub-limit of Term loan up to Rs.75.00 Cr; Buyers Credit is sub-limit to TL up to Rs.25 Cr

EPC/PCFC/FBP/ FBD) / PSC/ EBRD/ PSCFC/ Collection Bill is sub-limit to CC up to Rs.20 Cr

SBLC is a sub-limit to LC up to 100 percent; BG is a sub-limit to LC up to Rs.10 Cr

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About Acuité Ratings & Research

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