



**Press Release**  
**WELSPUN ADVANCED MATERIALS (INDIA) LIMITED**  
**June 02, 2023**  
**Rating 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+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	288.00	-	-

**Rating Rationale**

Acuite has reaffirmed its long-term rating of **Acuite A- ' (read as Acuite A Minus)** and its short-term rating of **Acuite A2+ ' (read as Acuite A Two Plus)** on the Rs. 288.00 crore bank facilities of Welspun Advanced Materials (India) Limited (WAMIL). The outlook is 'stable'.

**Rationale for Rating Reaffirmation**

The rating reaffirmation takes into account WAMIL's strong parentage, support from the parent (WIL), and WIL's presence in the non-woven spunlace segment. The rating also factors in WIL's assistance with the operations of the company and low demand risk. The rating also draws comfort from the strategic location of the plant, the established distribution network, and the high growth prospects for WAMIL's products over the medium term.

Furthermore, the project received COD on March 12, 2022, and operations of the company commenced in the same month. However, the revenues of the company remain modest, which stood at 134.50 crore in FY23 (provisional) and Rs. 5.19 crore in FY22. The modest revenues are mainly on account of low utilisation of its production capacities owing to weak global demand from international markets during the period. Also, the company incurred losses during FY23 (provisional) to the tune of Rs. 11.75 crore. Also, the profitability of the company remains susceptible to volatility in raw material prices.

**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 has set up a manufacturing unit for non-woven spunlace rolled goods at Village Chandanvelly, Ranga Reddy District, in the state of Telangana. Spunlace non-wovens are produced for a 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 (advanced material) segment of the textile value chain. Welspun India Ltd. (WIL), its parent company, has been in the business of manufacturing and exporting spunlace rolls for a long time. The total installed capacity of the manufacturing unit stood at 17,729 MTPA of non-woven spunlace rolls.

## About Welspun India Limited (WIL) - Parent Company

Wil is among the largest home textile companies in Asia and among the top 3 home textile manufacturers in the world. The company is the largest exporter of home textile products from

India, with a 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 microfiber).

## **Standalone (Unsupported) Rating**

ACUITE BBB/Stable

## **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 among the top 5 home textile 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 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 microfiber). 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 the home textiles segment with global reach, established relationships with leading global retailers, a well-diversified product portfolio, a strong brand image, integrated operations, and a 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 support from WIL. The support has been in the form of WAMIL, its 100 percent wholly-owned company, wherein WIL has infused 28 percent of the project cost, which stood at Rs. 82.96 crore, and in the form of equity and zero percent cumulative convertible debentures (CCDs). To count on the aforesaid financial support, the unconditional and irrevocable corporate guarantee provided by WIL is 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 networks in India and export markets such as the USA and UK, amongst others.

Acuité believes that WAMIL will benefit from the operational and financial support of its parent, WIL, over the medium to long term.

#### **WIL's presence in the non-woven spunlace segment assists 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 in the export and Indian markets. WIL has an established presence in the manufacturing of non-woven spunlace rolls at its manufacturing facility in Anjar, Gujarat. The suppliers here are well-known, as similar plants and machinery have already been acquired earlier by the promoter

company, which also has established raw material linkages with companies like Grasim Industries Limited and Indorama Corporation, amongst others. Other supporting factors, such as process and technology, which are proven and well-known brands of "welspun" with their existence in export markets, will aid WAMIL in the future. In the non-woven spunlace segment of the WIL, it deals with the world's top customers. Out of the 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 consider it a growing business segment, promoters proposed to implement a large dedicated manufacturing facility for technical textiles, i.e., nonwovens, in Telangana.

Acuité believes that the demand risk will remain low for the company given that the business is already known to its parent, i.e., WIL, going forward.

### **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 abuts the Nagarguda-Shamshabad road to the south and the Hyderabad-Shahbad road to the east. The site is 25 kilometres from NH 44, which connects to various cities in Telangana and the rest of India, and has access from various roads to the national highways, which connect to various states of India. It offers a location advantage with the southern region being a textile hub, with ease of access for its raw materials, as well as expanding its distribution and dealer network in the southern region and across India.

With the majority of Welspun Group's manufacturing base in Gujarat, WAMIL was planned in Telangana with the objective of accomplishing its manufacturing base in a newer geography, enabling ease of doing business. With WIL's strong presence in the export and domestic markets, WAMIL will have a market readily available with the support of WIL. Besides, WIL's presence in the USA and Europe (WIL derives almost 80–90 percent of its revenues from exports to these geographies) will likely help WAMIL leverage the brand presence of 'Welspun'. For spunlace rolls, WAMIL shall cater to the existing customers of WIL and new customers too. It basically exports to over 35 countries, with customers including global giants from the health-hygiene segment like Reckitt Benckiser (Dettol), Nice-Pak, Rockline, Cardinal, Johnson & Johnson, ITW, Cascades, 3M, Essity, etc., as well as domestic brands like Himalaya, amongst others.

Acuité believes that key factors like strategic location, partial integration, and an established distribution network will assist WAMIL in scaling up its operations and reporting relatively better operating margins.

## **Weaknesses**

### **Modest scale of operations**

The completion of the project by the company was delayed by six months without any cost overruns due to the onset of the COVID-19 pandemic. However, the company received COD for the project on March 12, 2022, which was within the revised timelines. The operations of the company started in March 2022 and yet remain modest, marked by revenues from operations of 134.50 crore in FY23 (provisional) and Rs. 5.19 crore in FY22. The modest revenues were mainly on account of low utilisation of its production capacities owing to weak global demand from international markets during the period. The operating profit margin of the company stood at 18.16 percent in FY23 (provisional). However, the company incurred losses to the tune of Rs. 11.75 crore during the same period, primarily on account of higher depreciation and interest expenses.

Acuité believes that the scaling up of operations and improvement in revenues by the company going forward will remain a key rating sensitivity.

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

The raw materials required by WAMIL include polyester staple fibre and viscose staple fibre. These will be sourced domestically and imported too; hence, the 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 revisions on a monthly basis.

### **Rating Sensitivities**

- Scaling up of operations and achieving break-even point
- Timely financial support from its parent, WIL
- Timely creation of mortgage and security perfection

### **Material covenants**

None

### **Liquidity Position**

#### **Adequate**

The liquidity position of the company remains adequate, marked by adequate net cash accruals to the tune of Rs. 23.33 crore in FY23 (provisional) against matured debt obligations of Rs. 3.40 crore during the same period. The liquidity position of WAMIL is also supported by a secured payment mechanism with an escrow account and the creation of a debt service reserve account (DSRA) for 3 months of interest after 2 years of COD, ensuring timely servicing of the debt obligations of the term loans as per the sanction terms with its lenders. WAMIL shall create a 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 the DSRA shall be maintained thereafter throughout the tenor of the facility. In case of a shortfall in cash flows, DSRA can be used for debt servicing as per the water fall mechanism in the trust and reserve account (TRA), and in such a case of utilisation of DSRA, the same shall be replenished from project cash flows. Also, to meet the upcoming working capital requirements, WAMIL has tied up for working capital limits with Axis Bank and subsequently tied up with Union Bank of India for additional working capital limits.

Acuité believes that liquidity will remain adequate yet improve over the medium term on account of the expected improvement in net cash accruals and the creation of DSRA.

### **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 of lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	134.50	5.19
PAT	Rs. Cr.	(11.75)	(0.58)
PAT Margin	(%)	(8.73)	(11.17)
Total Debt/Tangible Net Worth	Times	2.60	2.17
PBDIT/Interest	Times	9.64	2.87

### 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Mar 2022	Term Loan	Long Term	209.74	ACUITE A-   Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	10.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	18.26	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A2+ (Assigned)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A-   Stable   Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+   Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.20	ACUITE A-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Term Loan	17 Nov 2020	8.55	31 Dec 2030	Simple	206.80	ACUITE A-   Stable   Reaffirmed

Inland/Import LC is sub-limit of Term loan up to Rs.23.74 Cr.

Sublimit EPC/PCFC upto Rs.20 Cr. and BG of upto Rs.10. Cr.

EPC/PCFC/FBP/ FBD)/ PSC/ EBRD/ PSCFC/ Collection Bill is sub-limit to CC up to Rs.15 Cr .

SBLIC 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

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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