

Press Release

Walchandnagar Industries Limited

October 10, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 935.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 935.00 crore bank facilities of Walchandnagar Industries Limited. The outlook is '**Stable**'.

Walchandnagar Industries Limited (WIL) is an ISO 9001:2008 certified company with global presence and diversified business portfolio in Projects, Products and High-tech Manufacturing. Incorporated in 1908, WIL has a long track record of operations for over 100 years. WIL has been engaged into EPC of sugar mills, nuclear power plants and fabrication and heavy engineering segment like defence, nuclear and aerospace and missiles (DNAM). WIL has a strong customer base. WIL is a listed company on the BSE and NSE stock exchanges in India.

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

WIL has been engaged into EPC of sugar mills, nuclear power plants and fabrication and heavy engineering segment like defence, nuclear and aerospace and missiles (DNAM). The company has been engaged in this industry for more than 100 years and was promoted by (Late) Seth Walchand Hirachand Doshi. The present Chairman of the company is Mr. Chakor Doshi who possesses extensive industry experience of more than three decades in the said industries. Mr. Doshi is an M.Sc (Op. Research and Industrial Engineering) from USA. Some of the landmark projects of WIL include key critical equipment in India's maiden mission to moon, i.e., 'Chandrayan I', contribution towards 'Akash Missile' among others. The extensive experience of the promoters in the industry has helped the company build strong market presence. The track record of the company in moderate to large infrastructure segment is reflected through its healthy order book position of Rs. 793.50 Cr. as on August 31, 2018, thereby providing a strong revenue visibility over medium term. The order book of WIL is also well diversified among segments with sugar sector comprising ~24 per cent, Defence sector ~24 per cent and Aerospace of ~10 per cent. Acuite believes that WIL will continue to benefit from its experience in the EPC and heavy engineering segment and its diversified order book over near to medium term. Over the years WIL has gained necessary pre-qualification criteria for heavy engineering sectors by successfully completing large and technically complex projects. On account of its established presence in the industry, WIL has been able to build esteemed client profile spanning both Private as well as Government agencies. Some of the key customers are, Bharat Dynamics Limited (BDL), Hindustan Aeronautics Limited (HAL), Defence Research and Development Organisation (DRDO), Indian Space Research Organisation (ISRO), Nuclear Power Corporation of India Limited (NPCIL) among others.

• Refinancing of debt at favorable terms and improved financial flexibility

The company has successfully refinanced its debt from Kohlberg Kravis Roberts (KKR) - the private equity in September 2017. KKR has lent Rs.237 crore; Rs.180 crore term loan and Rs.57 crore non-convertible debentures. The usage of these funds is towards repayment of existing term loans and regularizing of working capital limits of the company. The revised terms and conditions entails a moratorium period of 2 years and the repayment is expected to commence from September 2019. The aforementioned refinancing has partly alleviated the liquidity concerns for the company. Acuite believes that the refinancing of debt with plough back of earnings will result in a improvement in

gearing and debt protection indicators over the medium term. WIL is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company has market capitalization of Rs.411.35 crore as on September 27, 2018. On quarterly basis, the company has booked net revenue of Rs.66.19 crore in Q1FY2019 as against Rs.87.71 crore for Q1FY2018, in the company has also demonstrated improvement in its profitability marked by net profit of Rs.0.07 crore and cash accruals of Rs.7.12 crore (Prev: net loss of Rs.8.45 crore and cash accruals of Rs.0.85 crore for Q1FY2018). Acuite expects that the company will generate positive cash accruals over the medium term backed by its healthy order book and company's ability to execute the same, and the sale of non-core assets. This is likely to lead to comfortable liquidity position for meeting its debt repayment obligations commencing from September 2019.

Weaknesses

• Working capital intensive operations

Operations of WIL are highly working capital intensive marked by significantly high Gross Current Assets (GCA) days of 640 in FY2018 as against 705 days in FY2017. This is majorly on account of high debtor period of 351 days in FY2018 as against 324 days in FY2017. Work In Progress inventory related to legacy projects which are stuck since 2009-2010 has led to higher inventory holding period and high receivables (majorly legacy projects) have contributed to company's stretched working capital cycle. The legacy projects of the company includes 2 projects, Tendaho Sugar Factory Project (Ethiopia) and Tamil Nadu Electricity Board Project. The company has witnessed working capital stretch due to delayed payments from clients which in turn has slowed down project execution in certain cases and has also impacted overall company growth. Further, timely execution of these legacy projects and timely release of retention money will be a key rating sensitivity factor.

• Susceptibility of Operating Performance to Regulatory Risks

WIL's operating cash flows are dependent on its ability to complete its EPC projects in a timely manner and to secure new projects from time to time. WIL had in the past experienced delays in commencement as well as execution of some of its EPC projects on account of delays in regulatory and environmental approvals. This may in turn result in significant cost escalations in EPC Projects leading to lower than expected operating profitability.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of WIL to arrive at the rating.

Outlook: Stable

Acuite believes that WIL will maintain 'Stable' financial risk profile over the medium term supported by its experienced management, healthy revenue visibility backed by a healthy order book position and its reputed clientele base. The outlook may be revised to 'Positive' in case of higher-than-expected growth in operating income with retention of profitability margins or further improvement in its liquidity most likely has result of realization of receivables from its legacy projects. The outlook may be revised to 'Negative' in case of any deterioration in the working capital cycle or if the company reports lower than anticipated profitability from its operations.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual) [^]
Operating Income	Rs. Cr.	400.44	399.52	802.68
EBITDA	Rs. Cr.	77.27	49.60	62.00
PAT	Rs. Cr.	-25.82	-79.52	-71.68
EBITDA Margin	(%)	19.30	12.41	7.72
PAT Margin	(%)	-6.45	-19.90	-8.93
ROCE	(%)	6.51	1.95	3.61
Total Debt/Tangible Net Worth	Times	1.31	1.21	0.98
PBDIT/Interest	Times	1.10	0.74	0.62
Total Debt/PBDIT	Times	5.24	8.49	11.50
Gross Current Assets (Days)	Days	640	705	538

[^]FY2016 financials are 18 months

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	135.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	325.00	ACUITE A3

Cash Credit of Rs.135.00 crore includes sublimit of Cash credit of Rs.10 crore for Foundry and PCFC of Rs.30 crore

Bank Guarantee of Rs.300.00 crore includes sublimit of Letter of Credit/Bank Guarantee of Rs.5.00 crore for Foundry

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Kashish Shah Analyst - Rating Operations Tel: 022 49294031 kashish.shah@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (erstwhile SMERA Ratings 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 6,000 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 Mumbai.

Disclaimer: *An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.*