

Press Release

Walchandnagar Industries Limited

August 16, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 935.00 cr. bank facilities of Walchandnagar Industries Limited (WIL). The outlook has been revised to '**Negative**'.

Outlook: Negative

The revision in outlook reflects Acuite's belief that WIL's financial risk profile is likely to be impacted by moderation in the profitability metrics and elongation of its working capital cycle over near to medium term. The rating may be downgraded in case of sustained moderation in its profitability margins thereby further impacting the liquidity and debt protection indicators or if the realizations of receivables from its legacy projects remains slower-than-anticipated. Conversely, the outlook may be revised to 'Stable' if the company is able to demonstrate significant growth in revenue while efficiently managing its working capital cycle.

Walchandnagar Industries Limited (WIL) is an ISO 9001:2015 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.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

WIL has been engaged in EPC of sugar mills, nuclear power plants and fabrication and manufacturing for 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' and 'Chandrayan II', 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. 802.5 Cr. as on July 2019, thereby providing a strong revenue visibility over medium term. The order book of WIL is also well diversified among segments with sugar sector comprising ~21 per cent, Defence sector ~18 per cent and Energy sector of ~20 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 commissioning 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) amongst others.

Weaknesses

- **Working capital intensive operations**

The operations of WIL are highly working capital intensive marked by significantly high Gross Current Assets (GCA) days of 699 in FY2019 as against 640 days in FY2018. This is majorly on account of high debtor period of 330 days in FY2019 as against 351 days in FY2018. 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. Further, the inventory has increased in FY2019 due to 2 projects stuck to the tune of ~Rs.22 crore. The legacy projects of the company include 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. This has led to increasing reliance on external borrowing reflecting in full bank limit utilisation on an average for last three months ending July 2019. WIL has a principal repayment of ~Rs.35 crore in September, 2019 with regards to KKR loan. The company's repayment is highly dependent on external factors such as receipt of payment from its legacy projects, liquidation of its non-fund based facilities which are backed by 100 per cent cash margin. Acuite will be closely monitoring the timeliness of these events, and in case of impeded payments from its customers/liquidation of non-fund based facilities which impacts the financial risk profile of the company, will remain a key monitorable.

- **Susceptibility of Operating Performance to cyclical nature of industry and regulatory risk**

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. For instance, the company witnessed delays in specialised projects in Q1FY2020. As a result, the operating margins of WIL has declined to 5.02 per cent in Q1FY2020 as against 25.71 per cent in Q1FY2019. Further, the company has incurred cash losses to the tune of Rs.14.56 crore in Q1FY2020 as against cash profit of Rs.7.12 crore in Q1FY2019. The pile up of WIP is likely to also lead to significant cost escalations in EPC Projects leading to lower than expected operating profitability.

Liquidity position

WIL has repayment of Rs.35 crore falling due in September 2019. The company has generated a negative cash accrual for Q1FY2020 to the tune of Rs.14.56 crore. The negative cash accruals are majorly on account of decline in operating margins and spike in interest cost for Q1FY2020. Buildup in receivables for legacy projects and pile up in inventory levels due to delays/put on hold can lead to temporary mismatch in the liquidity of the company. However, this mismatch can be resolved in case of receipt of payments from its legacy projects / liquidation of non-fund based facilities (backed by 100 per cent cash margin) and receipt of advances from its new projects.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	364.05	400.44	399.52
EBITDA	Rs. Cr.	75.33	77.27	49.60
PAT	Rs. Cr.	(2.14)	(25.82)	(79.52)
EBITDA Margin	(%)	20.69	19.30	12.41
PAT Margin	(%)	(0.59)	(6.45)	(19.90)
ROCE	(%)	8.90	6.51	1.95
Total Debt/Tangible Net Worth	Times	1.45	1.31	1.21
PBDIT/Interest	Times	1.34	1.10	0.74
Total Debt/PBDIT	Times	4.98	5.24	8.49
Gross Current Assets (Days)	Days	699	640	705

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-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
10-Oct-18	Cash Credit	Long term	135.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long term	85.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	45.00	ACUITE A3 (Assigned)
	Bank Guarantee / Letter of Guarantee	Short Term	300.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	45.00	ACUITE A3 (Assigned)
	Bank Guarantee / Letter of Guarantee	Short Term	325.00	ACUITE A3 (Assigned)

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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	135.00	ACUITE BBB-/Negative (Outlook revised from Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE BBB-/Negative (Outlook revised from Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Reaffirmed)
Bank Guarantee / Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Reaffirmed)
Bank Guarantee / Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	325.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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