Press Release

Walchandnagar Industries Limited

November 29, 2019

Rating Downgrade

Total Bank Facilities Rated*	Rs. 935.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Negative (Downgraded)
Short Term Rating	ACUITE A4+ (Downgraded)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded the long-term rating to **'ACUITE BB (read as double B)'** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and short-term rating to **'ACUITE A4+ (read as A four plus)'** from **'ACUITE A3' (read as ACUITE A three)** on the Rs. 935.00 cr. bank facilities of Walchandnagar Industries Limited (WIL). The outlook is **'Negative'**.

Reason for Downgrade

The rating downgrade is on account of significant deterioration in the working capital of the company leading to stretch in the liquidity profile. Further, the operating margin has significantly declined in H1FY2020 as against H1FY2019 leading to deterioration in financial risk profile. The interest coverage ratio stood at 0.67 times for H1FY2020 as against 0.89 times for H1FY2019. Further, Debt/EBITDA stood at 6.80 times for H1FY2020 as against 6.29 times for H1FY2019. The working capital management has deteriorated significantly marked by Gross Current Asset (GCA) which stood high at around 794 days for 6MFY2020 (Annualised) as against 699 days for FY2019. The increase in GCA mainly pertains to significant increase in inventory days and continued high debtor levels. Any further delays in realisation of debtors from legacy project and monetisation of non-core asset is expected to lead to further stretch in liquidity of the company. Although there has been some realisation of stuck receivables witnessed recently in October 2019 and the timeliness of balance receivables will remain a key monitorable. Any further deterioration in financial risk profile or working capital on account non-realisation of legacy debtors or higher than expect time for non-core asset sale leading to further stretch in liquidity will be a key rating sensitivity factor.

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

Acuité 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. 886 Cr. as on Sept 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. Acuité 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 pivate 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 GCA has further deteriorated to 794 days as on September 2019. This is on account to elongated inventory days and debtor days. The company has non-moving inventory to the tune of Rs.22 crore as on September 2019 due to 2 projects stuck / put on hold. 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 October 2019. The company's liquidity 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 high cash margin. Acuité 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.

Rating Sensitivity

- Higher than expected time taken to liquidation of non-core asset
- Further elongation in working capital
- Higher than expected time taken for receipt of debtors from legacy projects

Material Covenants

- Company to infuse capital of Rs.100 crore

Liquidity position: Stretched

WIL has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated net cash accruals of Rs.24.98 crore in FY2019 as against its maturing debt of Rs.39.66 crore. However, the company has generated cash losses of Rs.7.74 crore for H1FY2020. Going ahead, the company is estimated to generate net cash accruals in the range of Rs.6 crore to Rs.26 crore while its debt maturing is expected to remain in the range of Rs.45 crore to Rs.65 crore. The company's liquidity is highly dependent on liquidation of its non-core assets and realisation of debtors from its legacy project and 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
16-Aug-19	Cash Credit	Long term	135.00	ACUITE BBB- / Negative (Reaffirmed)
	Cash Credit	Long term	85.00	ACUITE BBB- / Negative (Reaffirmed)
	Letter of Credit	Short Term	45.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee / Letter of Guarantee	Short Term	300.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	45.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee / Letter of Guarantee	Short Term	325.00	ACUITE A3 (Reaffirmed)
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 BB / Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE BB / Negative (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A4+ (Downgraded)
Bank Guarantee / Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A4+ (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A4+ (Downgraded)
Bank Guarantee / Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	325.00	ACUITE A4+ (Downgraded)

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About Acuité Ratings & Research:
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