

Press Release

Walchandnagar Industries Limited

March 16, 2021

Rating Reaffirmed and Assigned



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.836.11 Cr. (Reduced from Rs.935.00 Cr.) |
| Long Term Rating | ACUITE BB / Outlook: Negative (Reaffirmed) |
| Short Term Rating | ACUITE A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.814.11 Cr. bank facilities and has assigned the rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.22.00 Cr. bank facilities of Walchandnagar Industries Limited (WIL). The outlook is '**Negative**'.

Reason for rating reaffirmation

The rating reaffirmation is on account of long track record of operations, experienced promoters with over three decades in the heavy engineering industry, reputed private and government clientele. Further, the rating also factors in healthy unexecuted order book position of ~Rs.792.99 Cr. thus giving healthy revenue visibility in medium term. The rating, however, remains constrained on account of working capital intensive operations, thus leading to stretched liquidity position, decline in operational performance in FY20.

The company revenue declined at Rs.299.75 Cr. in FY20 as against Rs.364.05 Cr. on account of delay in execution of projects. As a result, the operating margins of WIL has declined to 13.92 per cent in FY20 as against 20.69 percent in FY19. Further, the company has incurred cash losses to the tune of Rs.42.46 Cr. in FY20 (including exceptional item of Rs.9.79 Cr.) as against cash profit of Rs.24.89 Cr. in FY19. However, the pace of execution of projects has witnessed an upswing in 9MFY21 despite covid-19 pandemic disruptions in Q1FY21 and the company was able to generate 3% y-o-y growth in 9MFY21 to Rs244.34 Cr, including a healthy growth of 34% y-o-y in Q3FY21 compared to Q3FY20. Further, the company's liquidity is highly dependent on liquidation of its non-core assets, equity infusion from promoters and realisation of debtors from its legacy projects.

About the company

Mumbai based 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 segments like Defence, Nuclear, 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 WIL to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

WIL has been engaged in strategic business areas like Defence, Nuclear, Missiles, Aerospace (DNAM) and industrial products like Gears, Centrifugal, Castings and Gauges. The company is also in the EPC business of sugar mills, nuclear power plants & fabrication. The company has been engaged in this industry for more than 100 years and was promoted by (Late) Seth Walchand Hirachand Doshi. Over the last 3-4 years, WIL

has focused on exiting the EPC business by completing orders in hand and aggressively expanding into DNAM and Specialized OEM business. 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. Despite COVID-19 pandemic, the company has set up a HS200 PPT start of art facility for 'Gaganyaan' program of ISRO at its Walchandnagar plant. The extensive experience of the promoters in the industry has helped the company to build strong a market presence in the aforementioned industries.

Acuite believes that the company will continue to benefit from its extensive experience of the promoters over the medium term.

- **Healthy order book position and reputed clientele**

The established presence of WIL in the aforementioned industries for over 100 years helped the company to build esteemed client profile spanning both in private as well as reputed Government agencies. Some of the key customers of WIL 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. The track record of the company in moderate to large infrastructure segment is reflected through its healthy order book position of Rs.792.99 Cr. as on Jan 2021, thereby providing a strong revenue visibility over medium term. The order book of WIL is also well diversified among segments with Aerospace comprising ~33 per cent, Defence sector with ~15 per cent, Sugar sector with ~21 per cent and Energy Sector with ~20 percent. Over the years, WIL has gained necessary pre-qualification criteria for heavy engineering sectors by successfully commissioning large and technically complex projects.

Acuite believes that the healthy order book position of WIL and strong relations with reputed clientele will help the company to maintain a stable credit profile in the medium term.

Weaknesses

- **Working capital intensive operations**

The operations of WIL are highly working capital intensive marked by significantly high Gross Current Assets (GCA) days of 733 days in FY20 as against 699 days in FY19. This is majorly on account of high inventory period of 332 days in FY20 as against 246 days in FY19. Work in Progress inventory related to legacy projects which are stuck since 2009-2010 has led to higher inventory holding period. The receivable periods still remain high despite a slight drop to 312 days in FY20 as against 330 days in FY19. The high receivables (majorly legacy projects) have further contributed to company's stretched working capital cycle. The legacy projects of the company include 2 projects, Tendaho Sugar Factory Project (Ethiopia) and Tamil Nadu Electricity Board (TNEB) 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 high average utilisation of ~94 percent for last six months ending January, 2021. 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.

Acuite believes that the timeliness of these events, and in case of impeded payments from its customers/liquidation of non-fund based facilities which impact 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 revenue from operations declined to Rs.299.75 Cr. in FY20 as against Rs.364.05 Cr. on account of delay in execution of projects in a timely manner. As a result, the operating margins of WIL has declined to 13.92 per cent in FY20 as against 20.69 percent in FY19. Further, the company has incurred cash losses to the tune of Rs.42.46 Cr. in FY20 as against cash profit of Rs.24.89 Cr. in FY19. However, the pace of execution of projects has been higher in 9MFY21 despite covid-19 pandemic disruptions in Q1FY21 and the company was able to generate 3% y-o-y growth in 9MFY21 to Rs244.34 Cr.

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.5 Cr.

Liquidity: Stretched

WIL has stretched liquidity marked by cash loss incurred as against its maturing debt obligations. The company generated cash loss of Rs.42.46 Cr. in FY20 (including exceptional item of Rs.9.79 Cr.) as against its maturing debt of Rs.24.45 Cr. Going ahead, the company is estimated to generate cash losses in the range of Rs.19 Cr. to Rs.13 Cr. while its debt maturing is expected to remain in the range of Rs.40.20 Cr. to Rs.24.40 Cr. in FY21-23 period. The company has availed covid-19 moratorium and also received emergency covid-19 loan from its lenders which supported the liquidity position of the company. The company's liquidity is highly dependent on liquidation of its non-core assets, equity infusion from promoters, realisation of debtors from its legacy project and receipt of advances from its new projects. The average working capital utilization remains high at 94% in last six months ended January, 21 on account of working capital intensive nature of operations. The current ration of the company stood at 1.04 times in FY20. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals to its maturing debt obligation.

Outlook: Negative

Acuite believes that the company's credit profile will be impacted by moderation in profitability margins, financial risk profile and stretched liquidity position over near to medium term. The rating may be downgraded in case of further deterioration in its profitability margins and working capital management impacting the liquidity and debt protection indicators. The outlook may be revised to 'Stable' in case of sustained improvement in scale of operations and timely execution of its projects leading to improvement in profitability margins and liquidity position of the company.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 299.75 | 364.05 |
| PAT | Rs. Cr. | (65.46) | (2.14) |
| PAT Margin | (%) | (21.84) | (0.59) |
| Total Debt/Tangible Net Worth | Times | 1.51 | 1.37 |
| PBDIT/Interest | Times | 0.51 | 1.34 |

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

Not Available

Any other information

Not Available

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|------------------|--------------------------------------|------------|------------------|-------------------------------------|
| 29-November-2019 | Cash Credit | Long Term | 135.00 | ACUITE BB / Negative (Downgraded) |
| | Cash Credit | Long Term | 85.00 | ACUITE BB / Negative (Downgraded) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A4+ (Downgraded) |
| | Bank Guarantee / Letter of Guarantee | Short Term | 300.00 | ACUITE A4+ (Downgraded) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A4+ (Downgraded) |
| | Bank Guarantee / Letter of Guarantee | Short Term | 325.00 | ACUITE A4+ (Downgraded) |
| 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. Cr.) | Ratings/Outlook |
|--|------------------|----------------|----------------|-----------------------------|----------------------------------|
| Cash Credit^ | Not Applicable | Not Applicable | Not Applicable | 135.00 | ACUITE BB/ Negative (Reaffirmed) |
| WCDL | March, 2020 | 7.00% | May, 2022 | 13.50 | ACUITE BB/ Negative (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 85.00 | ACUITE BB/ Negative (Reaffirmed) |
| WCDL | May, 2020 | 7.95% | April, 2022 | 8.50 | ACUITE BB/ Negative (Assigned) |
| Bank Guarantee / Letter of Guarantee^^ | Not Applicable | Not Applicable | Not Applicable | 300.00 | ACUITE A4+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 40.00 | ACUITE A4+ (Reaffirmed) |

| | | | | | |
|--------------------------------------|----------------|----------------|----------------|---------------------------------|----------------------------|
| Bank Guarantee / Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 254.11 (Reduced from 325.00) | ACUITE A4+ (Reaffirmed) |
|--------------------------------------|----------------|----------------|----------------|---------------------------------|----------------------------|

^includes sublimit of Cash credit of Rs.10 crore for Foundry

^^includes sublimit of Letter of Credit of Rs.20.00 crore and Letter of Credit/Bank Guarantee of Rs.5.00 crore for Foundry

Contacts

| Analytical | Rating Desk |
|---|--|
| <p>Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Nitul Dutta Analyst - Rating Operations Tel: 022-49294053 nitul.dutta@acuite.in</p> | <p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p> |

About Acuite Ratings & Research:

Acuite Ratings & Research 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 8,000 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.