

## Press Release

### Walchandnagar Industries Limited

April 06, 2021

### Rating Downgraded



<b>Total Bank Facilities Rated*</b>	Rs.836.11 Cr.
<b>Long Term Rating</b>	ACUITE C (Downgraded from ACUITE BB/Negative)
<b>Short Term Rating</b>	ACUITE A4 (Downgraded from ACUITE A4+)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.836.11 crore bank facilities Walchandnagar Industries Limited (WIL).

#### Reason for rating downgrade

The current rating action is on account of a delay in principal and interest servicing to the tune of Rs.6.84 Cr. on unlisted NCDs of WIL issued to KKR India Debt Opportunities Fund II. However, these NCDs (ISIN: INE711A07011) do not form a part of Acuité's rated facilities of WIL. In line with the policy on default recognition for unrated instruments, the rating has been revised downwards to ACUITE C / A4.

The delay in repaying debt obligations was majorly on account of delay in receiving of the balance retention payment of USD 4.2 million (~Rs.31.00 Cr.) from its Tendaho Phase I Project in Ethiopia which was expected to receive by end of March, 2021. The company has already in talks with the Ministry of External Affairs and also sent couple of its key personnel to Ethiopia for resolving the issue at the earliest.

Further, 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

Acuité 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 with 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 per cent. 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**

- **Delays in repayment of principal and interest for the unlisted NCDs**

WIL has issued NCDs to the tune of Rs.57.00 Cr. to KKR India Debt Opportunities Fund II for tenure of 6.5 years in 2017. The company has delayed repaying the principal and interest amount to the tune of Rs.6.84 Cr. on the unlisted NCDs falling due on March, 2021 in due time. The delay in repaying the debt obligations was majorly on account of delays towards receiving the balance retention payment of USD 4.2 million (~Rs.31.00 Cr.) from its Tendaho Phase I Project in Ethiopia which was expected to receive by end of March, 2021. Further, the cash losses incurred by the company to the tune of Rs.42.46 Cr. in FY20 (including exceptional item of Rs.9.79 Cr.) and Rs.30.56 Cr. in 9MFY21 has further enhanced the already stressed liquidity position of the company.

- **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 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 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
- Timely repayment of the long term repayment obligations
- 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.

**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
16-March-2021	Cash Credit <sup>^</sup>	Long Term	135.00	ACUITE BB/ Negative (Reaffirmed)
	WCDL	Long Term	13.50	ACUITE BB/ Negative (Assigned)
	Cash Credit	Long Term	85.00	ACUITE BB/ Negative (Reaffirmed)
	WCDL	Long Term	8.50	ACUITE BB/ Negative (Assigned)
	Bank Guarantee / Letter of Guarantee <sup>^^</sup>	Short Term	300.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	40.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee / Letter of Guarantee	Short Term	254.11	ACUITE A4+ (Reaffirmed)
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 <sup>^</sup>	Not Applicable	Not Applicable	Not Applicable	135.00	ACUITE C (Downgraded from ACUITE BB/Negative)
WCDL	March, 2020	7.00%	May, 2022	13.50	ACUITE C (Downgraded from ACUITE BB/Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE C (Downgraded from ACUITE BB/Negative)
WCDL	May, 2020	7.95%	April, 2022	8.50	ACUITE C (Downgraded from ACUITE BB/Negative)
Bank Guarantee / Letter of Guarantee <sup>^^</sup>	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A4 (Downgraded from ACUITE A4+)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4 (Downgraded from ACUITE A4+)
Bank Guarantee / Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	254.11	ACUITE A4 (Downgraded from ACUITE A4+)

<sup>^</sup>Includes sublimit of Cash credit of Rs.10 crore for Foundry

<sup>^^</sup>Includes sublimit of Letter of Credit of Rs.20.00 crore and Letter of Credit/Bank Guarantee of Rs.5.00 crore for Foundry

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### About Acuité Ratings & Research:

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