

Press Release

Walchandnagar Industries Limited

September 07, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|-----------------------|------------------------|
| Bank Loan Ratings | 323.83 | ACUITE C Reaffirmed | - |
| Bank Loan Ratings | 512.28 | - | ACUITE A4 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 836.11 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long term rating at '**ACUITE C**' (read as **ACUITE C**) and the short term rating at '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.836.11 crore bank facilities Walchandnagar Industries Limited (WIL).

Rationale for reaffirmation

The rating reaffirmation takes into account the significant uncertainty on the restructuring of the debt assigned by KKR to ACRE considering the stipulations of the standstill agreement and the ability of the company to conform to those obligations within the stipulated time.

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 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 market presence in the aforementioned industries.

Acuité 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. 871.69 Cr. as on 31 July 2022, thereby providing a strong revenue visibility over medium term. The order book of WIL is also well diversified among segments with Aerospace comprising ~25 per cent, Nuclear sector with ~18 per cent, Sugar sector with ~19 per cent and Energy Sector with ~18 percent. Over the years, WIL has gained necessary pre-qualification criteria for heavy engineering sectors by successfully commissioning large and technically complex projects.

Acuité 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

- **Uncertainty on execution of the final restructuring of KKR debt:**

The company in FY2021 delayed in the payment of principal and interest servicing on loan and unlisted NCDs issued to KKR India Financial Services Private Limited and KKR India Debt Opportunities Fund II respectively. In FY2022 KKR assigned the debt to Assets Care and reconstruction Enterprise Limited (ACRE). The company in FY2023 in April 2022 entered into a standstill agreement with ACRE. The standstill period shall commence from April 12, 2022 to April 12, 2023. Under the standstill agreement, all existing events of default including payment default of the facility and debentures shall be waived during the standstill period.

The company shall conform to certain stipulations during the standstill period including payment of monthly interest of Rs. 0.82 Cr during the standstill period, an aggregate payment of Rs. 25 Cr by the end of the standstill period by way of monetizing assets agreed upon in the standstill agreement and ensuring an operating EBITDA of Rs. 55.00 Cr from FY2023. The restructuring of Rs. 207 Cr outstanding debt is subject to the compliance with the standstill obligations. However, the operating performance of the company continue to deteriorate in FY2022 and Q1FY2023. The company reported an EBITDA of Rs. 22.92 Cr in FY2022 and reported an EBITDA loss of Rs. 4.50 Cr in Q1FY2023. Nonetheless, the company has been able to monetize its non-core assets in a timely manner thereby enabling the company to so far comply with the standstill conditions.

Acuité believes, the timely conformance to the standstill conditions will remain a key rating sensitivity.

• **Susceptibility of Operating Performance to cyclical nature of industry and Acuité Ratings & Research Limited**

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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. The company's revenue from operations declined to Rs.299.19 Cr. in FY2022 as against Rs.299.75 Cr. Further, due to delays in project execution and increase in raw material cost the operating margins of WIL has declined from 13.92 per cent in FY2020 to 7.66 percent in FY2022. Also, the company has been incurring cash losses since FY2020. IN addition, the company reported an aggregate revenue of Rs. 64 Cr and operating loss of Rs. 4.50 Cr in Q1FY023.

Acuite believes for the execution of debt restructuring company's ability to generate adequate operating profits is of paramount importance.

•Working capital intensive nature of operations:

The operations of WIL are highly working capital intensive marked by significantly high Gross Current Assets (GCA) days of 656 days in FY2022 as against 596 days in FY2021. This is majorly on account of high inventory period of 204 days in FY2022 as against 183 days in FY2021. Work in Progress inventory related to legacy projects which are stuck since 2009-2010 has led to higher inventory holding period. 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 ~86 percent for last six months ending June, 2022. 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.

Rating Sensitivities

- Sustained improvement in scale of operations and profitability.
- Inability to comply with the standstill conditions during the standstill period.
- Further elongation in the working capital cycle thereby increasing overall reliance on external borrowings

Material covenants

None.

Liquidity Position: Stretched

The net cash accruals of the company has been negative since FY2022 against repayment obligations in the range of Rs. 24-78 Cr through FY2020-22. The company in order to carry out routine operations has been monetizing its non-core assets. The company in FY2021 has sold its property walchand house and nine flats in Pune. The aggregate proceeds stood at Rs. 22.00 Cr and was received partly in FY2021 and FY2022. The bankers had second charge over the property walchand house. As a result the facilities availed by the company were reduced. Further, in order to comply with standstill agreement the company shall further, monetize its non-core assets. This will result in further decline of the facilities availed by the company from banks. The WC cycle days stood at 275 in FY2022 against 305 in the previous year. The bank limit utilization for the 10-month period ended June 2022 stood at 86 percent. Further, the current ratio stood at 0.99 times as on March 31, 2022. The company has unencumbered cash and bank balance of Rs. 2.94 Cr as on March 31, 2022.

Outlook: Not applicable

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 299.19 | 327.21 |
| PAT | Rs. Cr. | (38.07) | (57.24) |
| PAT Margin | (%) | (12.72) | (17.49) |
| Total Debt/Tangible Net Worth | Times | 2.41 | 1.90 |
| PBDIT/Interest | Times | 0.78 | 0.57 |

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-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|---|
| 05 Jul 2022 | Bank Guarantee | Short Term | 254.11 | ACUITE A4 (Issuer not co-operating*) |
| | Working Capital Demand Loan | Long Term | 13.50 | ACUITE C (Issuer not co-operating*) |
| | Cash Credit | Long Term | 85.00 | ACUITE C (Issuer not co-operating*) |
| | Cash Credit | Long Term | 135.00 | ACUITE C (Issuer not co-operating*) |
| | Working Capital Demand Loan | Long Term | 8.50 | ACUITE C (Issuer not co-operating*) |
| | Bank Guarantee | Short Term | 300.00 | ACUITE A4 (Issuer not co-operating*) |
| | Letter of Credit | Short Term | 40.00 | ACUITE A4 (Issuer not co-operating*) |
| 06 Apr 2021 | Working Capital Demand Loan | Long Term | 13.50 | ACUITE C (Downgraded from ACUITE BB Negative) |
| | Cash Credit | Long Term | 85.00 | ACUITE C (Downgraded from ACUITE BB Negative) |
| | Cash Credit | Long Term | 135.00 | ACUITE C (Downgraded from ACUITE BB Negative) |
| | Bank Guarantee | Short Term | 300.00 | ACUITE A4 (Downgraded from ACUITE A4+) |
| | Letter of Credit | Short Term | 40.00 | ACUITE A4 (Downgraded from ACUITE A4+) |
| | Working Capital Demand Loan | Long Term | 8.50 | ACUITE C (Downgraded from ACUITE BB Negative) |

| | | | | |
|-------------|-----------------------------|------------|--------|---|
| | Bank Guarantee | Short Term | 254.11 | ACUITE A4 (Downgraded from ACUITE A4+) |
| 16 Mar 2021 | Bank Guarantee | Short Term | 300.00 | ACUITE A4+ (Reaffirmed) |
| | Cash Credit | Long Term | 85.00 | ACUITE BB Negative (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 8.50 | ACUITE BB Negative (Assigned) |
| | Letter of Credit | Short Term | 40.00 | ACUITE A4+ (Reaffirmed) |
| | Cash Credit | Long Term | 135.00 | ACUITE BB Negative (Reaffirmed) |
| | Working Capital Demand Loan | Long Term | 13.50 | ACUITE BB Negative (Assigned) |
| | Bank Guarantee | Short Term | 254.11 | ACUITE A4+ (Reaffirmed) |
| 29 Nov 2019 | Bank Guarantee | Short Term | 325.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Bank Guarantee | Short Term | 300.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Cash Credit | Long Term | 85.00 | ACUITE BB Negative (Downgraded from ACUITE BBB- Negative) |
| | Cash Credit | Long Term | 135.00 | ACUITE BB Negative (Downgraded from ACUITE BBB- Negative) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| 16 Aug 2019 | Cash Credit | Long Term | 135.00 | ACUITE BBB- Negative (Reaffirmed) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A3 (Reaffirmed) |
| | Bank Guarantee | Short Term | 300.00 | ACUITE A3 (Reaffirmed) |
| | Bank Guarantee | Short Term | 325.00 | ACUITE A3 (Reaffirmed) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A3 (Reaffirmed) |
| | Cash Credit | Long Term | 85.00 | ACUITE BBB- Negative (Reaffirmed) |
| 10 Oct 2018 | 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 | Short Term | 300.00 | ACUITE A3 (Assigned) |
| | Letter of Credit | Short Term | 45.00 | ACUITE A3 (Assigned) |
| | Bank Guarantee | Short Term | 325.00 | ACUITE A3 (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---------------------|----------------|------------------------------------|------------------|----------------|----------------|-------------------|------------------------------|
| State Bank of India | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 250.00 | ACUITE A4 Reaffirmed |
| Bank of India | Not Applicable | Bank Guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 225.00 | ACUITE A4 Reaffirmed |
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 132.10 | ACUITE C Reaffirmed |
| Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 83.72 | ACUITE C Reaffirmed |
| Bank of India | Not Applicable | Covid Emergency Line. | Not Applicable | Not Applicable | Not Applicable | 8.07 | ACUITE C Reaffirmed |
| Bank of India | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 37.28 | ACUITE A4 Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | 95.43 | ACUITE C Reaffirmed |
| State Bank of India | Not Applicable | Working Capital Demand Loan (WCDL) | Not available | Not available | Not available | 4.51 | ACUITE C Reaffirmed |

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About Acuité Ratings & Research

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