

Press Release

Welspun Enterprises Limited

March 29, 2019



Rating Reaffirmed

Total Facilities Rated	Rs. 500.00 crore
Long Term Rating	ACUITE Provisional AA (SO) / Outlook: Stable (Reaffirmed)

*Refer to Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating of '**ACUITE Provisional AA (SO)**' (read as **ACUITE Provisional double A (Structured Obligation)**) to the Rs. 500.00 Cr. Proposed Non-convertible debentures of Welspun Enterprises Limited (WEL).

Extension of Provisional Rating

Acuité had assigned a rating of 'ACUITE Provisional AA (SO)' (read as ACUITE Provisional double A (Structured obligation)) to the Rs. 500.00 Cr. Proposed Non-convertible debentures of Welspun Enterprise Limited (WEL) vide Press Release dated December 20, 2018, with a validity period of 90 days.

The conversion of provisional rating to final rating was subject to the appointment of a SEBI registered debenture trustee and signing of trust deed. The company has not yet issued the NCDs and Acuité has received a request from the client for the extension of provisional rating by 90 days.

Acuité has therefore extended the rating of 'ACUITE Provisional AA (SO)' (read as ACUITE Provisional double A (Structured Obligation)) on the Rs. 500.00 Cr. Proposed Non-convertible debentures of Welspun Enterprise Limited (WEL) by 90 days.

The rating is provisional and will be converted to the final rating subject to:

- Appointment of a SEBI registered debenture Trustee and signing of trust deed.
- Confirmation from trustee regarding the compliance with all the terms and condition of term sheet.

The provisional rating is valid for 90 days and Acuité reserves the right to alter/modify/extend/withdraw the rating any time prior to 90 days, if such an action is deemed appropriate.

About the company

Welspun Enterprises Limited (WEL) is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. Besides Infrastructure, Welspun Group have interests in Home Textiles (Welspun India Limited) and large diameter SAW pipes (Welspun Corp Limited).

WEL is an operating as well as holding company executing Engineering Procurement and Construction contracts for construction of roads, highways. The company has successfully executed Build Operate and Transfer (BOT) projects in the past and is presently focused on executing projects under Hybrid Annuity Model (HAM). Besides a presence in road infrastructure through various SPVs, WEL is also engaged in oil and gas exploration activities through Welspun Natural Resources Private Limited (WNRPL) which has a joint venture with Adani Group in Adani Welspun Exploration Limited. WNRPL has 5 Oil & Gas blocks of which 2 blocks are in Kutch, 2 blocks in Mumbai (under AWEL) and 1 block is in Palej (under WNRPL).

WEL's equity shares are listed on Bombay stock exchange and National Stock exchange. As on September 30, 2018, the promoter and promoter group holds ~46 percent of the equity in WEL.

Analytical approach:

Acuité has considered standalone business and financial risk profile of WEL to arrive at the rating.

List of key rating drivers and their detailed description:

Strengths:

Demonstrated execution capabilities in EPC segment:

WEL has been in the infrastructure segment since 2010 with the acquisition of MSK Projects Limited. The company has been developing and operating PPP projects in various sectors including roads, water supply, and urban infrastructure. WEL has successfully completed six BOT projects with a total length of over 500 kms and has established relationship with government authorities, namely, National Highways Authority of India (NHAI), Madhya Pradesh Road Development Corporation (MPRDC), Gujarat State Road Development Corporation (GSRDC) to name a few. The company is now focused mainly on execution of projects under Hybrid Annuity Model (HAM) and has been awardee of India's first HAM project Delhi - Meerut Expressway Package I. The company has established its execution capabilities with successful completion of India's first project under HAM well in advance of the stipulated schedule for which the company has received appreciation letter from Prime Minister of India and NHAI.

The company reported revenues of Rs. 998.34 Cr. in FY2018 as against Rs. 301.10 Cr. in FY2017 with operating margin of 7.17 percent in FY2018. The company has reported revenue of Rs. 596.79 Cr. for the period April to September 30, 2018.

WEL currently has a portfolio of six HAM projects for execution, of which two projects have already received first milestone payment from NHAI. Historically, the company has demonstrated its ability to attain financial closure of awarded project well within the prescribed time lines. Presently, the company has attained financial closure for four projects of the six projects in hand and is under negotiation for tie up of balance two projects.

The company has successfully transferred four BOT project to government post building and operating. Presently, the company has two projects under BOT Model, namely, Himmatnagar Bypass which is operational and Dewas Water Supply Project which is being reconstructed. The company plans to focus more on relatively safe HAM projects viz. a viz. a BOT model. This is likely to support the company's business risk profile.

WEL has strong order book of Rs. 7117 Cr. of which Rs. 7058 Cr. is under Hybrid Annuity Model and Rs. 59 Cr. under BOT model. The company is likely to sustain the revenue growth given the strong order book position. The government spending on infrastructure and focus on building road infrastructure has resulted in buoyancy in revenues for players such as WEL which is expected to be sustained over the medium term.

Acuité believes that WEL's demonstrated execution capabilities and healthy order book will support its business risk profile.

Healthy Financial Risk Profile:

WEL's financial risk profile is supported by healthy tangible net worth of Rs. 1454.05 Cr. as on March 31, 2018 as against Rs. 1330.62 Cr. as on March 31, 2017. The company has prudent capital structure as reflected in low gearing of 0.05 times as on March 31, 2018 as against 0.06 times as on March 31, 2017. The debt to EBITDA ratio improved to 0.37 times in FY2018 from 1.02 times in FY2017. Going ahead, the company plans to raise debt to support its growth initiatives, as a result the leverage ratios may undergo moderation. However, considering high level of liquid investment maintained at any point of time on a net debt basis, debt protection metrics are expected to remain comfortable.

Acuité believes that the company will benefit from healthy financial risk profile and the high level of liquid investment resulting in better financial flexibility.

Maintenance of Debt-service reserve account (DSRA)

The rating factors in the Structured Payment Mechanism (SPM) put in place by WEL to ensure timely servicing of the interest obligations. The rating on the NCDs is secured by the presence of a DSRA equivalent to interest servicing obligations of up to two quarters throughout its tenure on rolling basis.

The DSRA shall be either in the form of cash, cash equivalent or by way of a Bank Guarantee from a Commercial Bank. Incase DSRA is furnished by way of Bank Guarantee (BG), the BG should be in the favor of the Debenture Trustee and is to be rolled over or renewed prior to at least 7 working days from the date of its expiry, failing which the debenture trustee would invoke the same and credit the proceeds received from the bank into the DSRA account. In case the DSRA is utilised in full or part or the value of the DSRA is diminished below the minimum required, WEL will be required to replenish the same within ten days of the occurrence of such an event.

The rating centrally assumes complete adherence to the SPM by the debenture trustee and WEL on an ongoing basis.

Weaknesses:

Susceptibility of operating performance to timely receipt of orders and execution of projects in hand:

WEL is focused on execution of HAM projects wherein 40 percent of the project is funded on milestone basis by the counter party and the remaining 60 percent is generally funded by the company by way of debt and equity. The project execution is dependent on timely debt tie up and timely receipt of milestone payments. Any delay in execution of projects due to factors such as delays in receipt of approvals is likely to impact the company's revenues and accruals during a given period.

Besides timely execution, the company's revenue profile is also dependent on receipt of orders. The future flow of order is linked to level of government spending on infrastructure. While the government has recognised the need for quality infrastructure and has identified infrastructure development as a key focus area, in the event of higher than expected fiscal strain, the government may be constrained to slow down its pace of infrastructure development which in turn could result in moderation of the flow of orders for large players such as WEL. However, this risk is partially mitigated as the company has strong order book giving revenue visibility for over 2 to 3 years.

Acuité believes that timely execution and buildup of strong pipeline of projects will remain crucial for stable credit profile of WEL.

Liquidity Position

WEL has maintained cash and cash equivalent of more than Rs.700 Cr. as on 31 March, 2018. WEL will maintain a DSRA (Debt Service Reserve Account) equivalent to two quarters interest for the proposed NCD issue. The company also avails fund based and non-fund based facilities from banks, the fund based facility is largely unutilised from May 2018 to October 2018, indicating the financial flexibility of WEL.

Considering the operational commitments (including equity commitments to SPV's) and upcoming debt obligation, Acuité expects WEL to maintain a comfortable liquidity profile in the near to medium term.

Outlook: Stable

Acuité believes that WEL will maintain a 'Stable' business and financial risk profile over medium term on the back of established execution capabilities and healthy financial risk profile. The outlook may be revised to positive in case of higher than expected revenue growth while maintaining profitability and overall financial risk profile. The outlook may be revised to 'Negative' in case of significantly lower than expected growth in accruals and sharp deterioration in the coverage indicators

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	998.34	301.10	192.46
EBITDA*	Rs. Cr.	71.57	(20.33)	(39.78)
PAT	Rs. Cr.	109.74	43.27	43.03
EBITDA Margin	(%)	7.17	(6.75)	(20.67)
PAT Margin	(%)	10.99	14.37	22.36
ROCE	(%)	10.97	4.27	6.87
Total Debt/Tangible Net Worth	Times	0.05	0.06	0.05
PBDIT/Interest	Times	22.97	10.08	6.61
Total Debt/PBDIT	Times	0.37	1.02	0.93
Gross Current Assets (Days)	Days	130	534	281

*includes operating profit and excludes other income like interest income from bank deposits and other sources.

Applicable Criteria

- Infrastructure Entities -<https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition:<https://www.acuite.in/view-rating-criteria-17.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
20-Dec-2018	Proposed Non-convertible Debentures	Long Term	500.00	ACUITE Provisional AA (SO) /Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Non-convertible Debentures	NA	NA	NA	500.00	ACUITE Provisional AA (SO) /Stable (Reaffirmed)

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About Acuité Ratings & Research:

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