

### **Change in Rating Symbol**

September 16, 2019

#### **Welspun Enterprises Limited**

Total Instruments Rated	Rs. 500.00 Cr
Long Term Rating	ACUITE Provisional AA / Stable

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019 there is a revision in the rating symbol. The change to 'CE' suffix / removal of 'SO' suffix for the rated instrument(s) is not to be construed as any change in the rating or Acuité's credit opinion on the said instrument(s). The previous rating rationale is appended herewith for reference.

For the background note, please visit: [https://www.acuite.in/pdf/General%20Communication%20For%20Website%20\(1\).pdf](https://www.acuite.in/pdf/General%20Communication%20For%20Website%20(1).pdf)

Criteria for assigning ratings with 'SO' suffix: <https://www.acuite.in/view-rating-criteria-48.htm>

Criteria for assigning ratings with 'CE' suffix: <https://www.acuite.in/view-rating-criteria-49.htm>

**Press Release**  
**Welspun Enterprises Limited**

August 20, 2019

**Rating Reaffirmed**

<b>Total Bank Facilities Rated*</b>	Rs.500.00 Cr.
<b>Long Term Rating</b>	ACUITE AA Provisional (SO) / Outlook: Stable

\* Refer Annexure for details

**Rating Rationale**

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

**Extension of Provisional Rating**

Acuité had reaffirmed 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 March 29, 2019, 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 WEL by 90 days.

**The rating is provisional and will be converted into 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**

WEL is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. Besides Infrastructure, Welspun Group have interest 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 and water infrastructure. 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 four Oil & Gas blocks of which one block is in Kutch, two blocks in Mumbai (under AWEL) and one block is in Palej (under WNRPL).

WEL's equity shares are listed on Bombay Stock Exchange and National Stock Exchange. As on June 30, 2019, the promoter and promoter group holds ~47 per cent of the equity in WEL.

**Analytical Approach**

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

## **Key Rating Drivers**

### **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 from operations of Rs.1740.18 Cr. in FY2019 as against Rs.998.34 Cr. in FY2018 with operating margin of 10.52 per cent in FY2019. The company has reported operating income of Rs.515.91 Cr. for the period April to June 30, 2019.

WEL currently has a portfolio of six HAM projects for execution, of which two projects have already received three-milestone payments and one project has received one milestone payment from NHAI. Historically, the company has demonstrated its ability to attain financial closure of awarded project well within the prescribed time lines. The company has attained financial closure for all six projects under execution.

Presently, the company has two projects under BOT Model, namely, Himmatnagar Bypass which is operational and Dewas Water Supply Project which has achieved PCOD on 30th April, 2019 and commercial operation has commenced. 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.5357 Cr. As on 31 March, 2019. 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**

The financial risk profile of the WEL is marked by healthy tangible net worth and debt protection measures and low gearing. The net worth of the company stood around Rs.1599.28 crore as on 31 March, 2019 as against Rs.1454.05 crore in 31 March, 2018. The increase in net worth is on account of healthy accretion to reserves. The company has followed a conservative financial policy as reflected by peak gearing of 0.11 times over the last three years through 2018-19. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.62 times as on 31 March, 2019 as against 0.31 times as on 31 March, 2018. The healthy revenue levels coupled with stable operating margins have resulted in healthy debt protection measures with Interest Coverage Ratio (ICR) stood at 18.07 times in FY2019. 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 per cent of the project is funded on milestone basis by the counter party and the remaining 60 per cent 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 around Rs.473 Cr. as on 31 March 2019. 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 moderately utilised for last six months ended June 2019, 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1,740.18	998.34	301.10
EBITDA	Rs. Cr.	183.01	71.57	(20.33)
PAT	Rs. Cr.	153.69	109.74	43.27
EBITDA Margin (%)	(%)	10.52	7.17	(6.75)
PAT Margin (%)	(%)	8.83	10.99	14.37
ROCE (%)	(%)	15.02	10.97	4.27
Total Debt/Tangible Net Worth	Times	0.11	0.05	0.06
PBDIT/Interest	Times	18.07	22.97	10.08
Total Debt/PBDIT	Times	0.67	0.37	1.02
Gross Current Assets (Days)	Days	264	130	534

### 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>
- Securitized Transactions - <https://www.acuite.in/view-rating-criteria-29.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
29-March-19	Proposed Non-Convertible Debentures	Long term	500.00	ACUITE AA Provisional (SO) /Stable (Reaffirmed)
20-Dec-18	Proposed Non-Convertible Debentures	Long term	500.00	ACUITE AA Provisional (SO) /Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE AA Provisional (SO) /Stable (Reaffirmed)

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**About Acuité Ratings & Research:**

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