

Press Release
Welspun Enterprises Limited

May 27, 2020

Rating Assigned



Total Facilities Rated*	Rs.375.00 Cr.
Long Term Rating	Provisional ACUITE AA-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of **'Provisional ACUITE AA-' (read as Provisional ACUITE double A minus)** to the Rs.375.00 crore Proposed Non-convertible debenture (NCD) issue of Welspun Enterprise Limited (WEL). The outlook is **'Stable'**.

The rating on the Rs.375.00 NCD is provisional and the final rating is subject to:

- Appointment of a SEBI registered debenture Trustee
- Receipt of the executed trust deed
- Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

Welspun Enterprises Limited (WEL) is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. Welspun Group along with infrastructure has 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). WNRPL in a joint venture with Adani Group has promoted Adani Welspun Exploration Limited. WNRPL has 4 Oil & Gas blocks of which one block is 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 31 March 2020, the promoter and promoter group holds 50.33 percent of the equity in WEL.

Analytical Approach

Acuite 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 forayed in the infrastructure segment in 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 timelines.

WEL currently has a portfolio of seven HAM projects for execution, of which one project i.e. Delhi Meerut is complete and the company has received three annuities payments there. Other six HAM projects are under execution, of which two projects are over 90% complete and expected to receive PCOD shortly. 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 all the projects.

The company has two projects under BOT Model, namely, Himmatnagar Bypass which is about to attain the end of concession period during June 2020 and Dewas Water Supply Project, having concession period is upto June 2037, which has been reconstructed and is operational since April 2019. The company as a part of its risk management policy focuses more on HAM projects viz. a viz. BOT model.

WEL has strong order book of Rs.4107 Cr. as on 31 December 2019, which is mainly under Hybrid Annuity 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.

Acuite 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 tangible net worth increased to Rs.1599.28 crore as on 31 March 2019 as against Rs.1454.05 crore as on 31 March 2018 on account of moderate accretion to reserves.

The company follows conservative leverage policy as reflected by its peak gearing of 0.11 times as on 31 March 2019. The total debt of Rs.170.90 crore as on 31 March 2019 includes term loans of Rs.13.00 crore and working capital funds of Rs.157.90 crore. 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. Since the company subcontracts the EPC work, its dependence on the banking system for working capital limits is moderate. The company is in process to issue NCD to finance its long-term working capital requirements. Acuite believes that the gearing is expected to remain below 0.50 times in future due to expectations of a healthy net worth.

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.

Acuite believes that the financial risk profile to remain healthy over the medium term mainly supported by timely execution of the orders and receipt of grants by the government.

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 company faced slight disruption in operations due to COVID 19, however, all the projects have commenced their work. Further, the six months extension given by the government for the infrastructure projects has also helped in mitigating this risk to an extent.

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 about 2 years.

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

Liquidity position: Adequate

WEL has maintained cash and cash equivalent of around Rs.528.12 Cr. as on 31 March 2020 (Provisional). WEL will maintain a DSRA (Debt Service Reserve Account) equivalent to one-quarter 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 April 2020, indicating the financial flexibility of WEL.

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

Rating Sensitivities

- Timely execution of the orders and timely receipt of government grant
- Higher than anticipated support required to be extended to its subsidiaries

Material Covenants

None

Outlook: Stable

Acuite 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 slowdown in the flow of orders, elongation of working capital cycle or significant support required to be extended to its subsidiaries.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	1,740.18	998.34
PAT	Rs. Cr.	153.69	109.74
PAT Margin	(%)	8.83	10.99
Total Debt/Tangible Net Worth	Times	0.11	0.05
PBDIT/Interest	Times	18.07	22.97

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>
- 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
10-Dec-19	Proposed Non-Convertible Debentures	Long Term	500.00	Provisional ACUITE AA (Withdrawn)
20-Aug-19	Proposed Non-Convertible Debentures	Long Term	500.00	Provisional ACUITE AA /Stable (Reaffirmed)
29-Mar-19	Proposed Non-Convertible Debentures	Long Term	500.00	Provisional ACUITE AA (SO)/Stable (Reaffirmed)
20-Dec-18	Proposed Non-Convertible Debentures	Long Term	500.00	Provisional ACUITE 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. Crore)	Ratings/Outlook
Proposed Non-convertible Debentures	Not Applicable	Not Applicable	Not Applicable	375.00	Provisional ACUITE AA-/Stable

Contacts

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About Acuite Ratings & Research:

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