Press Release

Welspun Enterprises Limited

December 04, 2020

Rating Assigned & Reaffirmed

Total Quantum Rated*	Rs. 600.00 Cr.
Long Term Rating	ACUITE AA-/ Outlook: Stable (Reaffirmed; Converted to Final)
Short Term Rating	ACUITE A1+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and converted its provisional rating to final on the Rs. 375.00 Crore Non-Convertible Debentures (NCDs) at '**ACUITE AA-**' **(read as ACUITE Double A Minus)** and assigned the short-term rating of **'ACUITE A1+' (read as ACUITE A One Plus)** on the Rs.225.00 Crore Commercial paper (CP) of Welspun Enterprises Limited (WEL). The outlook is **'Stable'**.

Welspun Enterprises Limited (WEL) is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. WEL is an operating as well as holding company, executing Engineering Procurement and Construction (EPC) 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

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 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 completed and the company has received four annuities payments till date. Out of other six HAM projects, two projects have received PCOD recently. Additionally, one project received the long awaited appointment date in October 2020. Historically, the company has demonstrated its ability to attain financial closure of awarded project well within the prescribed timelines. Presently, the company has attained financial closure for all the projects. The company had two projects under BOT Model, namely, Himmatnagar Bypass which is has attained the end of concession period in August 2020 and Dewas Water Supply Project, having concession period up to June 2037, which has been reconstructed and is operational since April 2019. In June 2020, the company has acquired a BOT project. The company as a part of its risk management policy focuses more on HAM projects vis-a-vis BOT model. WEL has strong order book of Rs. 4,371 Cr. as on September 30, 2020, 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. Acuité believes that WEL's demonstrated execution capabilities and healthy order book will support its business risk profile.

• **Healthy order book providing medium-term revenue visibility**

WEL, has a total unexecuted order book of Rs.4,371 Cr as on September 30, 2020 vis-à-vis Rs.4862 Cr as on March 31, 2020. The order book remains strong at Rs.4,371 Cr as on September, 2020 which is executable over the next 18-24 months; providing medium term revenue visibility. Majority of the order book, i.e. around 80 percent (Rs.3,520 Cr) is expected to be completed by FY2022. The portfolio of the company consists of 9 projects as on September 30, 2020 (7 HAM and 2 BOT projects); 77 percent of order book is HAM and remaining 23 percent is from BOT. Of 7 HAM projects, 1 project - Delhi Meerut Expressway (DME) is operational and received its 4th annuity from NHAI on time. Out of the other 6 projects, 2 projects achieved PCOD before the scheduled timeline. The projects - 'Gangagalheri-Saharanpur-Yamunanagar' under MBL (GSY) Road Limited and 'Chutmalpur-Ganeshpur' achieved PCOD in October, 2020 and August, 2020, respectively. To supplement this, WEL had received the long awaited appointment date for one of its HAM project - 'Sattanathapuram to Nagapattinam, TN (SNRP)' project in October, 2020. This EPC project worth Rs.1802 Cr is expected to commence its construction activity soon and is expected to contribute significantly to the revenues in FY2022 & FY2023, being its scheduled PCOD of Q3FY2023. The remaining 3 HAM projects, i.e. Chikhli Tarsod Highway (CT Project), Aunta Simaria HAM project (A-S Project) and Amravati / Akola, MH (AM2) which are under implementation have progressed well and achieved physical progress of approx. 66 percent, 22 percent and 71 percent as on September 30, 2020. Under BOT Portfolio, WEL, successfully accomplished its proposed road asset buying plans in June, 2020 - a BOT project from Essel Group Company - Mukarba Chowk - Panipat Toll Roads Limited ('MCPTRL'). The original Total Project cost was estimated to be INR 2,122 crore out of which as on acquisition date INR 1,593 crore was the balance to be incurred and the project is fully financially tied up. As on September 30, 2020, MCPTRL had completed ~53 percent of the 71.1 km long Mukarba Chowk - Panipat Highway (NH-44) project. The Company expects to complete the project by Q2FY2022. The rationale behind the buyout of this BOT project was healthy toll receipts. As per MORTH circular, all the infrastructure projects have been eligible for 3-6 months of Covid-19 extension. WEL completed its 2 projects and achieved PCOD and progressed well in other projects with an aim to finish it before the scheduled timelines. Acuité believes that the company's project management capabilities will continue to support the timely execution of the aforesaid projects and result in achievement of revenue growth as envisaged over the medium term.

• **Minimal impact of Covid-19 expected in FY2021 performance**

WEL reported modest revenue growth of 1.14 percent in FY2020; its total operating income increased to Rs.1,760.05 Cr in FY2020 vis-à-vis Rs.1,740.18 Cr in FY2019. The operating margins improved by 123 bps from10.52 percent in FY20219 to 11.72 percent in FY2020. The growth remained broadly-in line with Acuité estimates for FY2020. Conversely, WEL reported revenue of Rs.498.3 Cr in H1FY2021 against Rs.819.7 Cr in H1FY2020; lower by 39.2 percent on account of outbreak of COVID-19 and heavy monsoons. The construction activity is usually lower in the H1 of every FY due to monsoons; howbeit, the pandemic further added to the lower construction activity in H1FY21. With gradual unlocking post May, 2020 and lower raw material and labour disruptions, the construction activity gathered pace in Q2FY2021. Q2FY2021 achieved higher revenue Y-o-Y by 6.7 percent. To add, early arrival of monsoons and above-average rainfall too led to lower revenue in H1FY2021. Notably, as per previous trends, WEL executes around 40 percent of EPC in H1 of FY and balance around 60 percent in H2. Consequently, H2 revenue will always be higher than H1. With Sattanathapuram Nagapattinam HAM Project receiving appointment date and addition of Mukarba Chowk Panipat BOT Project, the EPC work is expected to gain momentum in H2FY2021. Additionally, to pace up and achieve higher revenue growth in H2FY2021, WEL is planning to pre-close projects named - 'Chikhali -Tarsod, MH (CT)' and 'Amravati / Akola, MH (AM2)' by Q4FY2021 against the scheduled timeline of Q1FY2022. Acuité believes that though the impact of Covid-19 was far visible in H1FY2021, WEL is likely to counterbalance the overall performance of FY2021 by clocking healthy revenue growth in H2FY2021.

- **Strong financial risk profile aided by low leveraged capital structure and healthy debt protection metrics**

The financial risk profile of the WEL is marked by low leveraged capital structure on account of asset-light model and healthy debt protection measures. WEL bids and sub-contracts 90 percent of the work to its sub-contractors which leads to minimal requirement of machinery or dependency on equipment loans or working capital limits. WEL had healthy gearing of 0.18 times as on March 31, 2020 against 0.11 times as on previous year. The gearing remained below 0.5 times over the last 3 years. Post issuance of the NCDs of Rs.375 Cr too, the overall gearing is expected to remain comfortable below 0.5 times. The gearing as on September, 2020 was 0.26 times. There are corporate guarantees extended to its subsidiaries/JVs; the adjusted overall gearing (including these corporate guarantees) as on March 31, 2020 stood at 0.4 times post termination. With no major debt-funded capex plans in place, optimal usage of working capital limits or commercial paper (CP), the gearing is expected to remain below 0.5 times over the medium term too. The healthy revenue levels coupled with stable operating margins have resulted in healthy debt protection measures with Interest Coverage Ratio (ICR) and Net cash accruals to total debt (NCATD) of 10.20 times and 0.57 times as on March 31, 2020 against 18.07 times and 0.96 times as on previous year end. However, considering significant 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 the financial risk profile to remain healthy over the medium term 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 counterparty 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. 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 a strong order book giving revenue visibility for about 2 years. Acuité believes that timely execution and buildup of strong pipeline of projects will remain crucial for stable credit profile of WEL.

- **High dependence on sub -contractors and Working capital intensive nature of operations**

WEL doesn't execute the projects on its own, high dependency on sub-contractors increases execution and O&M risk owing to the limited exposure of sub-contractors towards executing such complex projects. Besides, higher dependency on the subcontractors also limits the operating margins as compared to players executing HAM projects on their own. Therefore, WEL remains exposed to the inherent risk associated with the execution of HAM projects. However at the same time, there is tradeoff to an extent with minimal investment in capex /machinery, low overheads in view of not having own EPC, coupled with flexibility in terms, execution of projects pan India and different types of projects with selection of subcontractors depending on their expertise, location etc. Working capital requirement is immanently high in the construction industry, stated the high dependence on state and central government authorities for timely receipt of payments. The working capital cycle is marked by high Gross Current Assets (GCA) days of 226 days as on March 31, 2020 against 264 days as on March 31, 2019. High GCA days are an outcome of high receivables of 71 days and other current assets like security deposits, supplier advances as on March 31, 2020; signifying high dependence on central and state governments and multipartite agencies for timely receipt of payments. Acuité believes that given the asset-light model approach followed by WEL, the dependence on sub-contracts will remain high over the medium term along with working capital intensity in the operations.

- **Continued exposure towards non-core operations**

WEL has invested in Oil & Gas business as it owns 4 relevant blocks through the 35 percent JV Company Adani Welspun Exploration Ltd (AWEL). The blocks are at advance stage of development/exploration.

Consequently, no further large investments are expected in FY2021 and beyond. Acuité believes that the exposure towards this segment as compared to its networth is modest. Howbeit, any further significant support towards this segment may impact the credit profile of WEL.

Liquidity Position: Adequate

WEL's liquidity is adequate supported by healthy net cash accruals vis-à-vis its minimal debt obligations, minimal dependence on working capital limits and commercial paper, presence of one quarter of interest and principal as DSRA for NCD and large liquid investments in mutual fund and bonds. WEL has not availed any moratorium benefits under the Covid-19 Relief package. The presence of DSRA in the NCD structure is likely to ensure timely servicing of debt obligations. WEL has minimal dependence on working capital bank lines. The bank lines remained utilized at an average of 21 percent over the last 12 months ending October 2020 and CP being issued an average amount of Rs.80 Cr over the last 10 months ending August, 2020. Both CC and CP remained nil for the months of September and October 2020. WEL has been generating healthy net cash accruals in the range of Rs.129 Cr to Rs.179 Cr for the last 3 years ending FY2020 against debt obligations of Rs.6-29 Cr. WEL has no debt obligations until FY2022. NCD of Rs.100 Cr is repayable in FY2023 against net cash accruals of Rs.185 Cr as projected. WEL is expected to generate healthy cash flows from operations to service the total equity funding of its on-going projects which is to the tune of Rs.907.7 Cr; to be infused over a period of 3 years until the PCOD achieved. WEL sits on unencumbered cash & bank balance of Rs.16 Cr and liquid investments (bonds and mutual funds) of Rs.232.00 Cr as on September 30, 2020. To supplement, WEL has modest exposure to contingent liabilities in the form of non-fund based debt. WEL's BG limits have remained utilized at an average of 34.99 percent over the past 12 months ending October 31, 2020. Acuité believes that WEL's liquidity will remain adequate over the medium term too.

Rating Sensitivities

Positive
• Timely execution of the orders and timely receipt of government grant
• Higher-than-expected revenue on account of pre-closing of projects
• Sustainable improvement in Gross current assets (GCA) days
Negative
• Higher than expected support to the existing or new projects
• Higher- than-expected fund support to its non-core operations leading to weakening of WEL's credit profile

Outlook: Stable

Acuité believes that WEL will maintain a 'Stable' business and financial risk profile over the 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 a slowdown in the flow of orders, elongation of the working capital cycle or significant support required to be extended to its subsidiaries/JVs/non-core operations.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1760.05	1740.18
PAT	Rs. Cr.	159.34	153.69
PAT Margin	(%)	9.05	8.83
Total Debt/Tangible Net Worth	Times	0.18	0.11
PBDIT/Interest	Times	10.20	18.07

For the period H1FY2021, WEL on standalone basis, has reported a profit after tax (PAT) of Rs.37.7 Cr on total operating income of Rs.498.3 Cr against a PAT of Rs. 70.00 Cr on total operating income of Rs. 819.70 Cr for H1FY2020.

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Commercial Paper - https://www.acuite.in/view-rating-criteria-54.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
27-May-20	Proposed Non-Convertible Debentures	Long Term	375.00	Provisional ACUITE AA-/Stable (Assigned)
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. Cr.)	Ratings/Outlook
Non-convertible Debentures (NCDs)	June 2020	8.85%	Dec 2022	100.00	ACUITE AA-/Stable (Reaffirmed; converted to Final)
Non-convertible Debentures (NCDs)	June 2020	8.85%	June 2023	100.00	ACUITE AA-/Stable (Reaffirmed; converted to Final)
Non-convertible Debentures (NCDs)	May 2020	8.85%	May 2023	175.00	ACUITE AA-/Stable (Reaffirmed; converted to Final)
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:
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