

Press Release

Welspun Enterprises Limited

October 07, 2021



Rating Assigned & Reaffirmed

Total Quantum Rated*	Rs. 700.00 Cr.
Long Term Rating	ACUITE AA-/ Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A1+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE AA-**' (read as **ACUITE Double A Minus**) on the Rs. 375.00 Cr Non-Convertible Debentures (NCDs) and has also assigned a long-term rating of '**ACUITE AA-**' (read as **ACUITE Double A Minus**) to the bank loan facility of Rs.100.00 Cr. Acuite has reaffirmed its short-term rating of '**ACUITE A1+**' (read as **ACUITE A One Plus**) on the Rs.225.00 Cr Commercial paper (CP) of Welspun Enterprises Limited (WEL). The outlook is '**Stable**'.

The rating takes in account WEL's demonstrated execution capabilities in EPC segment, diversification in order book, healthy order book providing long term revenue visibility and healthy financial risk profile. These rating strengths are partially offset by its susceptibility of operating performance to timely receipt of orders and execution of projects in hand, high dependence on sub - contractors and working capital intensive nature of operations.

About the Company

Incorporated in 1994, Mumbai based 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) along with its recent diversification into water segment as an EPC contractor. WEL has an established presence in road infrastructure through various SPVs, and 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 June 2021, the promoter and promoter group holds 53 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; diversification into water segment projects**

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 6 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 towards execution of projects under Hybrid Annuity Model (HAM) and was awardee of India's first HAM project Delhi - Meerut Expressway Package I in the year 2019. The company has established its execution capabilities with successful completion of India's first project under HAM well ahead of the

stipulated timelines.

WEL currently has a robust portfolio of 7 HAM projects for execution, of which one project i.e. Delhi Meerut Expressway (DME) is completed and has received 6 annuity payments till date. Out of the other 6 HAM projects, 3 projects have received PCOD ('Gagalheri-Saharapur-Yamunanagar' (GSY), 'Chutmalpur-Ganeshpur' (CGRG) and 'Chikhali-Tarsod' (CT)). Of these 3 projects, 2 projects (GSY and CGRG) have received its 1st annuity payments too. Other 3 HAM projects, 'Aunta-Simaria', 'Amravati/Akola' (AM2, MH) and 'Sattnapuram-Nagapattinam' (rated ACUITE A/Stable) are under execution and are yet to achieve the PCOD. Besides executing HAM projects, WEL has 2 BOT projects – firstly, 'Mukarba-Chowk' which is under review with NHAI and secondly 'Dewas Water' project which is already operational. Further, WEL has won an EPC contract for road related work in Uttar Pradesh for EPC work of Varanasi-Aurangabad (NH2' project) worth Rs.2,336 Cr.

Of late, WEL, in a joint venture (JV) with Kaveri Infraprojects Limited, Hyderabad, has forayed into water segment and was empaneled by the UP State Water and Sanitation Mission, Namami Gange and Rural Water Supply Department (SWSM) for execution of rural water supply projects. The estimated value of the entire project is ~Rs.2,544 Cr. Preparation of DPR and construction of the project is to be progressively completed in 21 to 24 months and thereafter, operated and maintained by the WEL for a period of 10 years.

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 its on-going projects. Acuite believes that WEL's demonstrated execution capabilities along with its recent diversification into water segment will support its business risk profile over the medium term.

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

WEL, has a total unexecuted order book of Rs.8,102 Cr as on June 30, 2021 vis-à-vis Rs.8,437 Cr as on March 31, 2021 and Rs.4,371 Cr as on September 30, 2021. The order book remains strong and is executable over the next 2-3 years; providing long-term revenue visibility. WEL's portfolio consists of 11 projects as on June 30, 2021 (7 HAM, 2 BOT, 1 road EPC and 1 Water EPC project); 33 percent of order book is HAM, 30 percent is water EPC, 26 percent of other EPC and 10 percent of BOT. In broader terms, 70 percent of outstanding order book is road and 30 percent of water projects.

HAM projects i.e., Aunta Simaria HAM project (A-S Project) and Amravati / Akola, MH (AM2) which are under implementation have achieved physical progress of approx. 28 percent and 85 percent, respectively while Sattnapuram-Nagapattinam is in its initial stage of development as on June 30, 2021. These 3 projects are expected to achieve PCOD by Q2FY24, Q3FY22 and Q1FY24. The project Aunta-Simaria and sattnapuram-Nagapattinam have been running behind schedule due to multiple reasons such as delay in receipt of ROW, change in scope of work, covid-19 related disruptions, extended monsoons amongst others. Under BOT Portfolio, Mukarba chowk project had achieved 75 percent of its physical progress and is expected to be completed in FY22. The Varanasi NH2 EPC contract and water project in UP are expected to be completed by Q2FY24 and Q1FY25, respectively.

Acuite believes that WEL'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.

• **Moderation in financial risk profile, yet it remains healthy**

WEL's financial flexibility has moderated with marginal deterioration in its debt-to-equity (gearing) ratio, Tangible outstanding liabilities to Tangible network (TOL/TNW) ratio and debt protection metrics. WEL reported gearing ratio of 0.33 times as on March 31, 2021 against 0.18 times as on previous year. The debt protection measures moderated with Interest Coverage Ratio (ICR) and Net cash accruals to total debt (NCATD) at 4.44 times and 0.20 times in FY2021 against 10.20 times and 0.57 times as on previous year end. The TOL/TNW ratio increased from 0.54 times as on March 31, 2020 to 0.75 times as on March 31, 2021. The adjusted TOL/TNW ratio (TNW – Investments in SPVs + Loans & advances to SPVs) stood at 6.71 times as on March 31, 2021 vis-à-vis 1.66 times as on previous year. WEL's long term investments and loans & advances to SPVs increased from Rs.1,168.27 Cr as on March 31, 2020 to Rs.1,614.88 Cr as on March 31, 2021, while short term loans to SPVs increased to Rs.331.59 Cr as on March 31, 2021 from Rs.42.56 Cr as on previous year. These investments by WEL are towards its upfront equity commitments in SPVs or short term/temporary funding given to fill up the gap at SPV level. These investments (majorly short term) are expected to be released in the near term either through divestment of completed projects or debt draw down at SPV level or top-up loan in respective SPVs.

The deterioration in gearing ratio and debt protection metrics was on account of issuance of NCDs and the interest outgo towards it, addition of fresh term loan of Rs.100.00 Cr from Axis Finance Limited and lower than Acuite's estimated revenue and profitability. These borrowings have been in return used as investments in SPVs. Total debt increased from Rs.311.54 Cr as on March 31, 2020 to Rs.604.26 Cr as on March 31, 2021. WEL prefers to infuse upfront equity in most of its SPV projects followed by debt draw down and government grants which leads to higher investments at initial levels.

Despite the moderation in FY2021, WEL's financial risk profile remained less leveraged with healthy capital structure on account of asset-light model accompanied by healthy debt protection measures. The gearing (including contingent liabilities in form of corporate guarantees extended to SPVs) has remained below 0.5 times over the last 3 years ending March 31, 2021. Moreover, 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. 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 improving revenue coupled with stable operating margins are expected to lead to better debt protection metrics over the medium term.

Acuite believes the financial risk profile to remain healthy over the medium term supported by no major debt funded capex plan, improving debt levels and higher profitability.

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 delays in budgetary allocations could lead to cashflow moderation for WEL. However, this risk is partially mitigated as the company has strong order book giving revenue visibility for about 2-3 years. Acuite 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 bids and sub-contracts 90 percent of the work to its sub-contractors. High dependency on sub-contractors increases execution 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 trade-off 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 sub-contractors depending on their expertise, location etc. However, with its vast Project Management experience in successfully completing large infrastructure projects, WEL is well equipped to get the required work done from Sub Contractors with optimized time and cost manner.

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 335 days as on March 31, 2021 against 226 days as on March 31, 2020. High GCA days are an outcome of moderate receivables of 54 days and increasing other current assets like security deposits, supplier advances and loans & advances to SPVs as on March 31, 2021; signifying high dependence on central and state governments and multipartite agencies for timely receipt of payments. Acuite 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 FY2022 and beyond. Acuite believes that the exposure towards this segment as compared to its networth is modest. However, 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 debt obligations, low dependence on working capital limits and commercial paper, presence of one quarter of interest 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 16 percent over the last 12 months ending August 2021 and unutilized CP. WEL has been generating healthy net cash accruals in the range of Rs.120 Cr to Rs.180 Cr for the last 3 years ending FY2021 against debt obligations of Rs.7-37 Cr. WEL is expected to generate healthy cash flows from operations to service the total equity funding requirement of its on-going projects which is to the tune of Rs.452 Cr; to be infused over a period of 2 years or until the PCOD achieved. WEL sits on unencumbered cash & bank balance and liquid investments (bonds and mutual funds) aggregating to Rs.36 Cr as on June 30, 2021; subsequently improved to Rs.232.00 Cr as on September 14, 2021. Besides, WEL's BG limits have remained utilized at an average of 33 percent over the past 12 months ending August 31, 2021. Acuite 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
- Timely divestment of declared HAM projects and timely release of loans & advances extended to SPVs aiding financial risk profile and liquidity

Negative

- Higher-than-expected support to the SPVs leading high reliance on external debt
- Higher- than-expected fund support to its non-core operations leading to weakening of WEL's credit profile

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 SPVs/JVs/non-core operations.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	1,410.19	1760.05
PAT	Rs. Cr.	107.45	159.34
PAT Margin	(%)	7.62	9.05
Total Debt/Tangible Net Worth	Times	0.33	0.18
PBDIT/Interest	Times	4.44	10.20

For the period Q1FY2022, WEL on standalone basis, has reported a profit after tax (PAT) of Rs.19.98 Cr on total operating income of Rs.344.16 Cr.

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
04-Dec-20	Non-Convertible Debentures	Long Term	375.00	ACUITE AA-/Stable (Reaffirmed; Converted to final)
	Commercial Paper	Short Term	225.00	ACUITE A1+ (Assigned)
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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Axis Finance Limited	Term Loan	Feb 2021	8.01%	Mar 2027	100.00	ACUITE AA-/Stable (Assigned)
Not Applicable	Non-convertible Debentures (NCDs)	June 2020	8.85%	Dec 2022	100.00	ACUITE AA-/Stable (Reaffirmed)
Not Applicable	Non-convertible Debentures (NCDs)	June 2020	8.85%	June 2023	100.00	ACUITE AA-/Stable (Reaffirmed)
Not Applicable	Non-convertible Debentures (NCDs)	May 2020	8.85%	May 2023	100.00	ACUITE AA-/Stable (Reaffirmed)
Not Applicable	Non-convertible Debentures (NCDs)	May 2020	8.85%	May 2023	75.00	ACUITE AA-/Stable (Reaffirmed)
Not Applicable	Commercial Paper (CP)	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A1+ (Reaffirmed)

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About Acuité Ratings & Research:

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