

Press Release

Welspun Enterprises Limited

September 30, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE AA- Stable Reaffirmed	-
Commercial Paper (CP)	225.00	-	ACUITE A1+ Reaffirmed
Non Convertible Debentures (NCD)	375.00	ACUITE AA- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	700.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité 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 on the bank loan facility of Rs.100.00 Cr. of WELSPUN ENTERPRISES LIMITED (WEL). The outlook is '**Stable**'.

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

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. 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) and Hybrid Annuity Model (HAM) projects in the past and is presently focused on executing existing captive HAM and BOT projects along with diversification in external EPC contracts under road and water segment. 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 June 30, 2022, the promoter and promoter group holds 53.52 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; diversification into external road and water 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 continues to focus towards execution of projects under Hybrid Annuity Model (HAM) as well as BOT. The company has established its execution capabilities with successful completion of India's first project under HAM well ahead of the stipulated timelines and 4 others as per revised timelines (on account of Covid-19).

WEL continues to have a robust portfolio of 8 captive HAM projects, of which the India's first HAM project i.e. Delhi Meerut Expressway (DME) was completed and has received 8 annuity payments till Q1FY23. Other 4 HAM projects received PCOD ('Gagalheri-SaharapurYamunanagar' (GSY), 'Chutmalpur-Ganeshpur' (CGRG), 'Chikhali-Tarsod' (CT)) and Amravati / Akola, MH (AM2). Of these 4 projects, 2 projects (GSY and CGRG) have received 3 timely annuity payments and Chikhali-Tarsod' (CT) has received 1 timely annuity payment until Q1FY23, annuity in Amravati/ Akola is due and expected in 2 months. The balance 2 on-going HAM projects, 'Aunta-Simaria' 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 has received PCOD in March 2022 with present work execution at 85 percent of the stretch and secondly 'Dewas Water' project which is already operational. As a whole, it received 2 HAM PCODs 'Chikhali-Tarsod' (CT)) and Amravati/ Akola, MH (AM2) and in one BOT project 'Mukarba-Chowk' in FY2022.

WEL's order book as on Q1FY23 of ~Rs.11,900 Cr (excluding GST) manifest significant diversification on a positive note. The order book now consists of 54 percent of water segment orders and 46 percent from road segment vis-à-vis 70 percent in road and 30 percent in water as on Q1FY22. Notably, the diversification has come long way from deriving around 96 percent of revenue from HAM projects solely in FY2017 to now being present in multiple segments of civil construction industry.

To add, the order book no consists of 79 percent external projects and 21 percent captive HAM and BOT projects. To add, WEL has won 3 EPC contract for road and water treatment related work in Uttar Pradesh and Mumbai for EPC work of 1) Varanasi-Aurangabad (NH2' project), 2) Design, Build, Operation and Maintenance of Dharavi Wastewater Treatment Facility and 3) second phase of road works for NH2 Varanasi (from earlier executor named - Soma Indus Varanasi Aurangabad Tollway Private Limited.

Acuité believes that WEL's demonstrated execution capabilities along with its 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.11,900 Cr (excluding GST) as on June 30, 2022 vis-à-vis Rs.8,400 Cr as on March 31, 2022. The order book remains strong and is executable

over the next 2-5 years; providing long-term revenue visibility. WEL's portfolio consists of 8 executable projects as on June 30, 2022 (2 HAM, 1 BOT, 2 road EPC and 2 Water EPC project).

HAM projects i.e., Aunta Simaria HAM project (A-S Project) and Sattanathapuram to Nagapattinam, TN (SNRP) which are under implementation have achieved physical progress of ~ 41 percent and ~15 percent, respectively. These 2 projects are expected to achieve PCOD by Q3FY25 and Q2FY24. 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 has achieved ~85 percent of its physical progress for which PCOD has been achieved; balance 15 percent work in being carried on and expected to complete by Q1FY24. Under the external order book portfolio, the Varanasi NH2 EPC – Package 1 & 2, are expected to be completed by Q2FY24 and Q3FY24, respectively. The UP water project and Mumbai STP (BMC) project is expected to be completed by Q1FY25 and Q1FY28, respectively.

Acuité 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.

>Monetisation of completed road projects to strengthen balance sheet

As planned, WEL has declared divestment of its 6 completed road projects to Actis Highway Infra Limited (Actis) for an aggregate enterprise value of approximately Rs. 6,000 Cr. The Highway Portfolio comprises of 5 completed HAM assets (Welspun Delhi Meerut Expressway Private Limited, Welspun Road Infra Private Limited, MBL (CGRG) Road Limited, MBL (GSY) Road Limited, Chikhali Tarsod Highways Private Limited) and 1 operating BOT-Toll asset (Welspun Infrafacility Private Limited). EV excludes construction linked milestone/ grant payments of approximately Rs. 3,000 Cr received/receivable from National Highways Authority of India and Public Works Department of Government of Maharashtra, thus, valuing the highway portfolio being exited at approximately Rs. 9,000 Cr. These 6 projects have a cumulative debt outstanding of about Rs.3,465 Cr as on March 31, 2022 covered under corporate guarantee provided by WEL; these corporate guarantees shall be released post this transaction. Post this proposed exit, the WEL's road asset portfolio would comprise of 2 under-construction HAM road projects (Sattanathapuram - Nagapattinam and Aunta – Simaria Road projects) which have a total project cost of ~Rs. 3,900 Cr.

The completion of the above transaction is subject to completion of customary and regulatory compliances and approvals from NHAI (incl. receipt of NOC post completion of 1 year (as per NHAI guidelines) from the date of completion), PWD, and lenders. Hence, the transaction is expected to be complete by FY2023 for all the projects; there might be a spill over to Q1FY24 given the PCOD for the BOT Project 'Mukarba chowk' was received in March 2022 and 15 percent of the work towards it is pending. As confirmed by the management, WEL has received NOCs from majority of the SPV lenders. The proceeds from the above transaction are expected to be utilized towards working capital purpose, reduction of debt and investments in newer SPVs/projects.

>Healthy financial profile albeit with slight moderation

WEL's financial flexibility has moderated with marginal deterioration in Tangible outstanding liabilities to Tangible networth (TOL/TNW) ratio and debt protection metrics; gearing improved marginally given the reduction in overall debt. WEL reported gearing ratio of 0.27 times as on March 31, 2022 against 0.33 times as on previous year. The debt protection measures moderated with Interest Coverage Ratio (ICR) and Net cash accruals to total debt (NCATD) at 3.40 times and 0.21 times in FY2022 against 4.44 times and 0.20 times as on previous year end. The TOL/TNW ratio increased from 0.75 times as on March 31, 2021 to 0.84 times as on March 31, 2022. The adjusted TOL/TNW ratio (TNW – Investments in SPVs + Loans & advances to SPVs) stood at ~6-7 times as on March 31, 2022. These investments and loans & advances 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.

The deterioration in gearing ratio in FY2021 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 Acuité'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; reduced to Rs.507.54 Cr as on March 31, 2022. 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 & FY2022, WEL's financial risk profile remained less leveraged with healthy capital structure on account of asset-light model accompanied by comfortable 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, 2022. Moreover, WEL bids and sub-contracts majority of construction 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.

Acuité 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 and given its established track record of majority of its projects achieving PCOD.

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 bids and sub-contracts majority of the construction 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/EPC projects. However, at the same time, there is trade-off to an extent with minimal investment in capex /machinery, 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 inherently high in the construction industry, given 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 447 days as on March 31, 2022 against 335 days as on March 31, 2021. High GCA days are an outcome of moderate receivables of 88 days and increasing other current assets like security deposits, supplier advances and loans & advances to SPVs as on March 31, 2022; 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 near term and beyond. Acuité believes that the exposure towards this segment as compared to its network is modest. However, any further significant support towards this segment may impact the credit profile of WEL.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact, as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues that are relevant include board and management compensation, transparency in related party transactions, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact.

WEL has adequate policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has designated committees for CSR, Risk management, stakeholders relationship, nomination and remuneration amongst others. The company has a total of 8 number of board of directors out of which 4 number are independent and 2 number are female directors. The company has 3 independent members in its audit committee. Under its environment initiatives, the company has a policy in place for reduction in air pollution and waste. The social initiatives of WEL include policies on human rights and service quality standards. WEL has an ESG & CSR Committee constituting 5 members. Welspun group has planned key initiatives such as incorporation of ESG into the overall governance structure, environmental Initiatives, ESG Data Governance and whistle blower platform to facilitate anonymous reporting.

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

Material covenants

None

Liquidity: Adequate

WEL's liquidity is adequate supported by comfortable 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. The presence of DSRA in the NCD structure is an additional comfort. WEL has minimal dependence on working capital bank lines. The bank lines remained utilized at an average of 37 percent over the last 12 months ending August 2022 with no outstanding Commercial Paper. WEL has been generating healthy net cash accruals in the range of Rs.101 Cr to Rs.180 Cr for the last 3 years ending FY2022 against debt obligations of Rs.7-40 Cr. WEL is expected to generate better cash flows from operations to service the total equity funding requirement of its on-going projects that has to be infused over a period of 2 years or until the PCOD achieved. WEL has unencumbered cash & bank balance and liquid investments (bonds and mutual funds) aggregating to Rs.86 Cr as on March 31, 2022. However, WEL's BG limits have remained comparatively highly utilized at an average of 77 percent over the past 12 months ending August 31, 2022 as compared to ~30 percent over the same period last FY; this is given the higher exposure towards the non-captive EPC projects since FY2022.

Acuité believes that WEL's liquidity will remain adequate over the medium term given the expected completion of the monetization transaction with Actis.

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 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1306.94	1410.19
PAT	Rs. Cr.	93.44	107.45
PAT Margin	(%)	7.15	7.62
Total Debt/Tangible Net Worth	Times	0.27	0.33
PBDIT/Interest	Times	3.40	4.44

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 Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Jul 2022	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Term Loan	Long Term	100.00	ACUITE AA- Stable (Assigned)
	Commercial Paper Program	Short Term	225.00	ACUITE A1+ (Reaffirmed)
	Non Convertible Debentures	Long Term	75.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
07 Oct 2021	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	75.00	ACUITE AA- Stable (Reaffirmed)
	Term Loan	Long Term	100.00	ACUITE AA- Stable (Assigned)
	Commercial Paper Program	Short Term	225.00	ACUITE A1+ (Reaffirmed)
04 Dec 2020	Commercial Paper Program	Short Term	225.00	ACUITE A1+ (Assigned)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	100.00	ACUITE AA- Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	175.00	ACUITE AA- Stable (Reaffirmed)
27 May 2020	Proposed Non Convertible Debentures	Long Term	375.00	ACUITE Provisional AA- Stable (Assigned)
10 Dec 2019	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE Provisional AA (Withdrawn)
20 Aug 2019	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE Provisional AA Stable (Reaffirmed)
29 Mar 2019	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE Provisional AA (SO) Stable (Reaffirmed)
20 Dec 2018	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE Provisional AA (SO) Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A1+ Reaffirmed
Union Bank of India	INE625G07010	Non-Convertible Debentures (NCD)	01-06-2020	8.85	01-05-2023	100.00	ACUITE AA- Stable Reaffirmed
Central Bank of India	INE625G07010	Non-Convertible Debentures (NCD)	27-05-2020	8.85	27-05-2023	75.00	ACUITE AA- Stable Reaffirmed
Bank of Baroda	INE625G07028	Non-Convertible Debentures (NCD)	27-05-2020	9.75	27-05-2023	100.00	ACUITE AA- Stable Reaffirmed
Bank of Baroda	INE625G07028	Non-Convertible Debentures (NCD)	30-06-2020	9.75	30-06-2023	100.00	ACUITE AA- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	27-02-2021	8.01	31-03-2027	100.00	ACUITE AA- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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