

Press Release

Welspun Infracapital Private Limited

March 20, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1256.00	ACUITE A Reaffirmed Rating Watch with Developing Implications	-
Total Outstanding Quantum (Rs. Cr)	1256.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs.1,256.00 Cr bank facilities of Welspun Infracapital Private Limited (WIFPL). The rating is placed under "**Rating watch with Developing Implications**".

Rationale for rating action

The rating factors in the strong parentage/sponsor i.e. Welspun Enterprises Limited (WEL); demonstrated track record of WEL in executing road projects, strong sponsor support, strategic location of the project with favourable traffic volumes expected entailing low demand risk, low execution and funding risk and structured payment mechanism. The project has already achieved PCOD on 31 March, 2022 and WIFPL has already started collecting tolls from 06 April, 2022 has collected total tolls of Rs.284.58 Cr. till 28 February 2023 with average daily collection of ~87 lakh. Furthermore, the physical progress of the project reached to an overall level of ~96% and financial progress is at ~97% as on 06 March, 2023 respectively. These rating strengths are partially offset by susceptibility of toll revenue to volatility in traffic volume along with Operation & Maintenance risk.

Acuite has also placed the rating on watch with developing implication based on publicly available information regarding execution of definitive agreements by WEL towards exiting the portfolio of operating road projects to Actis Highway Infra Limited (Actis) which includes 5 HAM projects and including the BOT project of WIFPL. Actis Highway Infra Limited (Actis) is a wholly-owned subsidiary of the Actis Long Life Infrastructure Fund (ALLIF) focused on investing in private equity, energy, infrastructure and real estates. WEL has complied with all Conditions Precedents (CP) and obtained all necessary regulatory & statutory approvals for First Closing including National Highways Authority of India (NHAI), Public Works Department of Government of Maharashtra (PWD) and lenders for divestment of 100% stake in HAM assets and 49% stake in WIFPL ("First Closing") in Dec 2022. Divestment of balance 51% stake will be undertaken upon obtaining necessary regulatory and statutory approvals ("Second Closing"). WEL has already received Rs2,339 Cr. as first tranche of the amount towards the equity consideration and / or working capital receipts from SPVs. Acuite takes into consideration the change in ownership structure and the divestment decision by WEL and will remain engaged with the management to track the status of the stake sale transaction. The rating watch will be resolved on successful closure of the divestment transaction.

About the Company

Welspun Infracapital Private Limited (WIFPL), is a Special Purpose Vehicle (SPV) incorporated in September 2019. WIFPL was set up to implement the project for the design, construction,

development, operation, maintenance, management and toll collection of the 8-Laning of Mukarba Chowk Panipat Section of NH-1 (New NH-44) from 15.500 Km in Delhi State to 86.000 Km in Panipat, Haryana for a length of 70.500 Km under NHDP Phase IV through Public Private Partnership (PPP) on Build, Operate and Transfer (BOT) basis. The project includes strengthening of existing 8-lane from km 15+500 to km 29+300 and widening of existing 6-lane carriageway to 8-lane carriageway including construction of service roads along main carriageway on both sides (138.300 km), Slip Roads (31.920 km) and improvements of Bridge/Cross Drainage works, Vehicular/Cattle Underpasses and other road user facilities. The project was initially awarded to Mukarba Chowk - Panipat Toll Roads Limited (MCPTRL), an SPV of Essel Infraprojects Limited (EIL) through a Concession agreement dated 28 August 2015. The concession period was 17 years from the Appointed date, including a construction period of 2.5 years. Inability to provide technical and financial support by EIL, the project remained in completed. Therefore, under the harmonious substitution of the sponsor guidelines of the NHAI, the Substitution Agreement was executed on 08 June 2020, and the project was awarded to Welspun Enterprises Ltd (WEL) through its SPV, Welspun Infracore Pvt Ltd. Welspun Enterprises Ltd (WEL), the Parent/Sponsor Company, earlier directly holds 100 percent stake in the company. However, in Dec, 2022, WEL executed definitive agreements with Actis Highway Infra Limited (Actis) and divested 100% stake in operating road concessions ("Highway Portfolio") i.e. 5 operating HAM projects and divested 49% stake of WIFPL. As on date, WEL has 51% and Actis has 49% stake in WIFPL. The total budgeted project cost is Rs.2,175.31 Cr which is to be funded through debt, sponsor's contribution and construction support from National Highway Authority of India (NHAI) in form of grant in the ratio of 57.12 percent, 34.28 percent and 8.60 percent, respectively. The project was scheduled to achieve 100 percent COD by April 2021. The project has been facing delays due to force majeure events. The company has achieved PCOD as on 31 March, 2022 and also started collecting tolls from April 06, 2022. The company has sought approval of Extension of Time (EOT) from NHAI and the revised estimated completion date stand as 22 September, 2023.

About the Parent Co./Sponsor

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.

Standalone (Unsupported) Rating

ACUITE BBB/Stable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of WIFPL to arrive at this rating. The rating has been notched-up by considering support from its parent/sponsor company – Welspun Enterprises Limited (WEL) in the form of shortfall undertaking, corporate guarantee amongst others.

Key Rating Drivers

Strengths

Demonstrated track record of WEL (sponsor/parent) in executing road projects

Welspun Enterprises Ltd (WEL) is the Sponsor/Parent Company, who are also the EPC

contractors for the SPV - WIFPL. WEL has demonstrated strong execution capability in road projects (both HAM and BOT) as reflected by the completion of Welspun Delhi Meerut Expressway Pvt Ltd much ahead of its scheduled time. The WEL's road asset portfolio would comprise of two under construction HAM road projects (Sattanathapuram - Nagapattinam and Aunta - Simaria Road projects)). WEL currently holds 51% stake in the SPV and rest is with Actis Highway Infra Limited. Acuité believes that the parent company's successful track record of project execution capabilities is expected to support execution of this project as well. While enumerating the support extended by WEL to WIFPL, Acuité takes cognizance of WEL's key strengths defined by its resourceful promoters, strong management team for executing highly value added work and in-house project monitoring, strong brand image, demonstrated execution capabilities in EPC segment, healthy order book providing medium-term revenue visibility, asset-light model by sub-contracting 90 percent of its EPC work, diversified revenue with execution of multiple projects in hand; exhibits lower customer concentration risk, consistent addition in operating income and profitability with strong underlying assets, demonstrated capability of buying and turning around projects with weaker balance sheet, or not closed financially or projects with delayed execution. The aforesaid strengths are countervailed to an extent by susceptibility of operating performance to timely receipt of orders and execution of projects in hand, high dependence on subcontractors and Working capital intensive nature of operations.

Acuité believes that the parent company's successful track record of project execution capabilities is expected to support execution of this project as well.

Strong sponsor support in overall execution of the project

WIFPL is of strategic importance to WEL; the same is demonstrated by the tangible support from WEL. Currently WEL has 51% percent stake in the SPV and rest 49% has been divested to Actis Highway Infra Limited. The level of WEL's management involvement is indicated by WIFPL's common brand name, common management and centralized decision making at WEL's level. WEL's has already contributed ~34% (Rs.732.16 Cr) of the total project cost of Rs.2,175.31 Cr. WEL's contribution is in the form of direct equity, optional convertible debentures (OCDs) and unsecured loans. To count on the aforesaid financial support is the unconditional and irrevocable corporate guarantee and shortfall undertaking provided by WEL. The corporate guarantee is provided for the rated debt towards a) for completing the project and overrun in the project due to any circumstances by way of equity/unsecured loans b) shortfall in debt servicing c) any shortfall in the debt service reserve account (DSRA) as stipulated in the financing documents; e) shortfall in termination payment and f) Bridge the gap in case of any cash flow mismatch. The corporate guarantee will be available until the debt serviceability period. While the shortfall undertaking affirms that WEL will meet any deficits or delays in debt servicing, debt service reserve account (DSRA) and termination payment.

Strategic location of the project stretch with favourable traffic volumes expected entailing low demand risk

The toll road stretch is a part of the NH-44 corridor that starts from Mukarba Chowk in Delhi state (15.500 Km) and ends at Panipat in Haryana State (86.00 Km). NH 44 is aligned in North - South direction and traverse through entire country, connecting some of the most important cities of Haryana, Punjab, Chandigarh, Himachal Pradesh, Jammu and Kashmir, Ladakh amongst others in North India and with parts of Delhi, Uttar Pradesh, Rajasthan, Madhya Pradesh amongst others and Kanyakumari, Coimbatore, Bangalore and Hyderabad in South India. Major Industrial estates fall along the project road such as Kundli, Rai, Sonipat, Murthal, Barhi, Samalkha and Panipat. This is an existing 6-lane road where traffic is already plying, and the NHAI has been collecting the toll through Bhagan Toll plaza is in Sonipat district of Haryana. This is the only toll plaza on the project road which is located at km 53.600 near Bhagan village in Sonipat District. The average annual daily traffic (AADT) for the aforementioned stretch is around 1 lakh passenger car units (PCUs) as of FY2021 which constitutes roughly cars/LMV and remaining being others. After achieving PCOD of the project for 53.763 km out of the total 70.500 km on 31 March, 2022; the company has been collecting tolls from April 06, 2022 and has collected total tolls of Rs.284.58 Cr. till 28 February

2023 with average daily collection of ~87 lakh. Upon achieving COD (commercial operations date) for both Haryana and Delhi section, WIFPL expects to collect higher toll.

Acuité believes that WIFPL will benefit from strategic location and moderate traffic volumes upon achieving the COD.

Low execution and funding risk

The implementation risk is low as WIFPL has already completed ~96% of the project as on 28 February, 2022 and the balance ~4% of the physical progress is yet to complete. The company has been facing several hindrances such as encroachment demolitions, HT Line shifting and specially a force majeure event of farmer's agitation which led to delay in completing the project. The implementation risk remain low as it has already completed majority of the work and has also achieved PCOD on 31 March, 2022. The funding risk is also low as the debt was sanctioned in the year 2016 to previous concessionaire (EIPL) and was then transferred to WIFPL through harmonious substitution. As on 06 March, 2023, ~97 percent of the loan has been drawn down i.e. Rs.12,16.80 Cr. The loan disbursement is linked to the physical progress of the project. On the promoter's equity contribution front, 100 percent of the equity requirement has come in which stood at Rs.732.16 Cr. This in form of direct equity (Rs.24.19 Cr), Unsecured subordinate loan (Rs.140.39 Cr), Share premium (Rs.178.91 Cr) and additional unsecured loan from promoters (Rs.388.67 Cr) as on 06 March, 2023. Additionally, Sponsor/Parent (WEL) has strong financial risk profile aided by low leveraged capital structure and healthy debt protection metrics.

Acuité believes that WIFPL that timely approval of EOT by the NHAI for the balance work and 100 percent COD will be key rating sensitivity factor over the medium term.

Explicit waterfall mechanism through TRA/Escrow account with creation of DSRA & Major maintenance reserve (MMR)

As per the consortium sanction terms, Debt service Reserve account (DSRA) equivalent to 1 quarters of debt service obligation (Principal + Interest) until PCOD is achieved and 2 quarters post COD. If in anytime, amount in DSRA is utilized to make payment towards debt obligations, the same is to be immediately replenished by WIFPL from surplus cash flows. WIFPL shall maintain Trust and retention account (TRA)/ESCROW account for cash flow management. The TRA shall be defined by presence of waterfall mechanism for prioritizing withdrawals during the construction and operational period. Apart from the first charges on movable and intangible assets, escrow, DSRA, MMR, corporate guarantee, term loans are also secured by way of pledging of 51 percent of the borrower's share held by the sponsor and creation of security by way of Indenture of mortgage (IOM) for perfection of security. Additionally, there is further support for the lenders by way of presence of Cash sweep option; wherein, 50 percent of excess cash flows (PAT +Depreciation-Loan repayment-cash earmarked towards MMR/DSRA) shall be utilised towards prepayment of loan in the inverse order of maturity.

Acuité believes that presence of such well-defined waterfall mechanism through Escrow/TRA to ensure prioritizing of withdrawals and prompt debt repayments.

Weaknesses

Susceptibility of toll revenue to volatility in traffic volume

The project remains exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volumes over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for a toll rate hike), political acceptability of toll rate hike, development/improvement of alternate routes and the likelihood of toll leakages. Any reduction in either of these will have an adverse impact on toll collections. The cash flows of a toll-based project are dependent on traffic volumes which in turn are largely influenced by the level of economic activity in and around the area of operation. However, a clause in the concession agreement exists for modifying the concession period for the variation in actual traffic volume from targeted traffic volume, which mitigates the variation in revenue risk from traffic volume variations to some extent. In

the event of a project's cash flows being insufficient to meet its debt servicing commitments/maintenance commitments, the support would be required to be extended from WEL.

Operation & Maintenance risk

Periodic maintenance for the WIFPL will be due by FY2028 as the last periodic maintenance was due in FY2021. WIFPL's ability to execute planned major maintenance (MM) expenditures within stipulated timelines and budgeted cost will remain critical over the medium to long term.

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 relevant include board and management compensation, 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. WIFPL, a SPV formed by Welspun Enterprises Limited is executing a Build-Operate-Transfer (BOT) projects. The completion of this project is a significant step towards better connectivity and development in Delhi and Haryana states as major industrial zone falls in between this toll road. WIFPL's sponsor, 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 recently conducted a separate session for its directors on ESG familiarization and planned key initiatives such as Operationalizing ESG into the overall governance structure, environmental Initiatives, ESG Data Governance and whistle blower platform to facilitate anonymous reporting.

Rating Sensitivities

- Timely approval of further EOT to help achieve 100 percent COD
- Average DSCR below 1.1x
- 100% divestment by WIFPL to Actis

Material covenants

WIFPL is expected to maintain certain ratios at threshold levels viz. D/E ratio to not exceed 1.86x (excluding NHA Grant) during construction phase of time and 1.45x (including NHA grant) at the time of COD and thereafter for the entire tenure of the debt. Also, DSCR to not fall below 1.1x at any given point of time. Any adverse deviation from such threshold levels might attract penalty of around 1 percent per annum.

Liquidity Position Adequate

WIFPL's liquidity is expected to be adequate over the longer run. The term loan repayments have commenced from the quarter ending June 2021. The Sponsor/parent Company has provided the corporate guarantee for the SPV. The availability of corporate guarantee, the

repayment schedule and the proposed creation and maintenance of debt service reserve account (DSRA) will remain key monitorables over the medium term. Further, the liquidity of the parent company is comfortable. Acuité believes that liquidity will remain adequate yet improve over the medium term.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	414.60	629.33
PAT	Rs. Cr.	1.14	(0.08)
PAT Margin	(%)	0.27	(0.01)
Total Debt/Tangible Net Worth	Times	4.06	3.17
PBDIT/Interest	Times	169.00	0.00

Status of non-cooperation with previous CRA (if applicable)

BRICKWORK Ratings vide its press release dated June 23, 2022 had denoted the rating of Welspun Infrafacility Pvt Ltd (WIFPL) as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Dec 2021	Term Loan	Long Term	300.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	350.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	65.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	386.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	100.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	55.00	ACUITE A Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
India Infrastructure Finance Company Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	386.00	ACUITE A Reaffirmed Rating Watch with Developing Implications
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	350.00	ACUITE A Reaffirmed Rating Watch with Developing Implications
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	300.00	ACUITE A Reaffirmed Rating Watch with Developing Implications
Aditya Birla Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	100.00	ACUITE A Reaffirmed Rating Watch with Developing Implications
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	65.00	ACUITE A Reaffirmed Rating Watch with Developing Implications
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	55.00	ACUITE A Reaffirmed Rating Watch with Developing Implications

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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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