

Press Release

Welspun Infracapital Private Limited

December 26, 2022



Rating Assigned

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|------------------------------|-------------------|
| Bank Loan Ratings | 1256.00 | ACUITE A Stable Assigned | - |
| Total Outstanding Quantum (Rs. Cr) | 1256.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Erratum: In the original PR dated December 20, 2021, the lender name for Rs.300.00 Cr term loan was mentioned as 'United Bank of India' instead of 'Union Bank of India'. This is now corrected and there are no further changes except the above.

Rating Rationale

Acuite has assigned 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 outlook is **'Stable'**.

The rating assigned factors in its Strong Parentage/Sponsor; Demonstrated track record of WEL in executing road projects, robust sponsor support, strategic location of the project with favourable traffic volumes expected entailing low demand risk, moderate execution risk yet low funding risk and structured payment mechanism. These rating strengths are partially offset by susceptibility of toll revenue to volatility in traffic volume and operation and Maintenance risk.

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 Infrafacility Pvt Ltd. Welspun Enterprises Ltd (WEL), the Parent/Sponsor Company, directly holds 100 percent stake in the company.

The total project cost was originally estimated at Rs. 2,122.00 Cr vis-à-vis the revised Bid project cost of Rs.2,198.84 Cr. This is to be funded through debt, sponsor's contribution and construction support from National Highway Authority of India (NHA) 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. Subsequently, extension of time (EOT) has been approved by NHAI and the revised scheduled completion date stand as December 19, 2021. The same is still unfeasible and WIFPL has almost completed 75 percent of the project work required to achieve the PCOD for the 75-80 percent of the stretch and shall avail additional EOT to achieve 100 percent COD.

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. As on 30 September 2021, the promoter and promoter group holds 53.79 percent of the equity in WEL.

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

Strong Parentage/Sponsor; Demonstrated track record of WEL 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 company currently has portfolio of 7 road projects under Hybrid Annuity Model (HAM) and 1 BOT road project (WIFPL). 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, high demonstrated capability of buying and turning around projects with weaker balance sheet, or not closed financially or execution is stuck projects, Strong financial risk profile aided by low leveraged capital structure and healthy debt protection metrics. 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 sub-contractors 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.

Robust Sponsor Support

WIFPL is of strategic importance to WEL; the same is demonstrated by the tangible support from WEL. The support has been in form of WIFPL being its 100 percent wholly-owned SPV. 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 contribution is 34.28 percent (Rs.753.84 Cr) of the project cost of Rs.2,198.84 Cr (includes NHAI grant of Rs.189 Cr). WEL's contribution is expected to be infused in form of direct equity, optional convertible debentures (OCDs) and unsecured loans. Cumulative fund support has been to the tune of Rs. 577.04 Cr as on September 30, 2021; majorly in form of equity, OCDs, share premium and unsecured loans. The balance portion of WEL's contribution is expected to be infused by FY2022.

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.

Acuité believes that WIFPL will benefit from the operational and financial support from its parent/Sponsor Company over the medium to long term.

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

The proposed 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 is currently 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. The current toll revenue for only Haryana section is about Rs. 200-250 Cr per annum. 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.

Moderate execution risk yet low funding risk

The implementation risk is moderate given the balance 20-25 percent of the physical progress is yet to complete and has been facing several hindrances such as encroachment demolitions, HT Line shifting and specially a force majeure event of farmer's agitation. The implementation risk related to the 75-80 percent is low as it has almost completed all the work required to achieve the PCOD (even at 75 percent of completion). However, the risk related to the balance work is too limited with the force majeure event coming to end recently. Albeit, with availability of almost 99 percent of the right of Way (ROW) available, WIFPL has achieved around 74.88 percent of physical progress as per the Independent Engineer (IE) as on September 30, 2021.

The funding risk is 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 September 30, 2021, 85 percent of the loan has been drawn down i.e. Rs.1,064.78 Cr. The loan disbursement is linked to the physical progress of the project. To draw down balance amount of loan (Rs.191.22 Cr) which is linked majorly to the work completion of the Delhi section (15.500 km to 30.000 km) will be depending on the construction progress in the said stretch. As indicated by the management and the lenders, the projects' funding mix is quite prudent with low weightage of debt portion being just 57.12 percent. This was sanctioned when EIPL was the concessionaire. Hence, WIFPL even has an option of refinancing it (by taking sub-debt) by taking a top-up loan and releasing a portion of its equity/unsecured loan.

On the promoter's equity contribution front, 77 percent of the equity requirement has come in of Rs.577.04 Cr out of Rs.753.84 Cr (includes incremental IDC cost of Rs.76.84 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.233.55 Cr) as on September 30, 2021. Additionally, Sponsor/Parent (WEL) has strong financial risk profile aided by low leveraged capital structure and healthy debt protection metrics. There is timely and demonstrated track record of support in form of equity to its other SPVs/JVs executing HAM /BOT projects. The above factors shall mitigate the funding risk too.

Acuité believes that WIFPL that timely approval of EOT by the NHAI for the balance work in Delhi section and subsequently successful achievement of the PCOD for the 75 percent of work completed 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

Positive

- Timely achievement of the PCOD (for the 75 percent of work completed)
- Timely approval of further EOT to help achieve 100 percent COD
- Timely financial support from its parent, WEL

Negative

- Significant delays in achieving COD or deduction in grants, resulting in weakening of coverages, and the absence of timely sponsor support on a sustained basis
- Average DSCR below 1.1x
- Non-creation of DSRA on timely basis or depletion in DSRA
- Deterioration in the NHAI's or WEL's credit profile.
- Significant negative deviation in the revised bid project cost which is expected to be approved by the regional office of NHAI.

Material covenants

WIFPL is expected to maintain certain ratios at threshold levels viz. D/E ratio to not exceed 1.86x (excluding NHAI Grant) during construction phase of time and 1.45x (including NHAI 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. WIFPL's D/E ratio was around 1.75 times as on March 31, 2021 (excluding unsecured loans from promoters). Acuité believes that liquidity will remain adequate yet improve over the medium term.

Outlook: Stable

Acuité believes that WIFPL will continue to benefit over the medium to long term due to its strong parentage, operational and financial support from WEL. The outlook may be revised to 'Positive', in case of timely commercialization of the project, leads to improvement in cash inflows, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case delay in full commercialization leads to lower-than-expected revenues and profitability or any significant delay in sponsor support leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 629.33 | 0.00 |
| PAT | Rs. Cr. | 0.00 | 0.00 |
| PAT Margin | (%) | 0.00 | 0.00 |
| Total Debt/Tangible Net Worth | Times | 3.17 | 32.00 |
| PBDIT/Interest | Times | 0.00 | 0.00 |

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

BRICKWORK Ratings vide its press release dated December 02, 2021 had denoted the rating of Welspun Infracore 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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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 | 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) |
| | Term Loan | Long Term | 300.00 | 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 Stable Assigned |
| IDFC First Bank Limited | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 350.00 | ACUITE A Stable Assigned |
| Union Bank of India | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 300.00 | ACUITE A Stable Assigned |
| Aditya Birla Finance Limited | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 100.00 | ACUITE A Stable Assigned |
| Punjab National Bank | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 65.00 | ACUITE A Stable Assigned |
| Bank of Baroda | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 55.00 | ACUITE A Stable Assigned |

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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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