

Press Release

WELSPUN MICHIGAN ENGINEERS PRIVATE LIMITED (ERSTWHILE MICHIGAN ENGINEERS PRIVATE LIMITED)

April 26, 2024



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	66.00	ACUITE A- Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	110.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	176.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) and its short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.176.00 Cr. bank facilities of Welspun Michigan Engineers Private Limited (Erstwhile Michigan Engineers Private Limited). The outlook is revised to '**Positive**' from '**Stable**'.

Rationale for Rating

The revision in the rating outlook reflects the expected augmentation in the revenues emanating from the expected healthy growth in the order book with the Welspun group's broader market reach, leveraging WMEPL's established market presence in the tunnel infrastructure market. WEL which has a track record of executing large Engineering Procurement and Construction (EPC) contracts for construction of roads, highways among others. The rating also draws comfort from stable business risk profile and financial risk profile. In 9MFY24, the company has achieved revenues of Rs. 269.68 Cr. with healthy order execution supported by improved liquidity position with Welspun group taking up the majority shareholding. The company's estimated revenue for FY24 is ~Rs. 400 Cr. Furthermore, the company has a confirmed unexecuted order book of Rs. 2036.70 Cr. as of December 2023, the order book is to be executed in next 3-4 years, providing a revenue visibility in the near to medium term. The order book stands at 6.9 times of the company's OI in FY23. The rating factors healthy financial risk profile and the adequate liquidity position of the company. The rating is however constrained by working capital intensive nature of operations and exposure to intense competition in the industry.

About the Company

Welspun Michigan Engineers Private Limited (Erstwhile Michigan Engineers Private Limited) is a Mumbai based company, established in 1973 by Mr. Saurin Patel. The company is a leading civil engineering company and specialises in trenchless technology. WMEPL also undertakes underground civil work related to pipeline rehabilitation, pipe-jacking, pipe-ramming, micro tunnelling, segment lining, water drainage, sewage projects and others. The operations are led by Mr. Saurin Patel who has more than 25 years of experience in the field of Civil Engineering and executing Projects in India with extensive experience in tunnelling and pipeline rehabilitation projects. The extensive track record of the company has helped them establish long term relations of over four decades with reputed customers including Municipal Corporation of Greater Mumbai (MCGM), Larsen & Turbo, Mumbai Metropolitan Region

Development Authority (MMRDA) and Delhi Jal Board among others. In 2023, 50.10% per cent of the shareholding was acquired by Welspun Enterprises Limited (WEL), making WMEPL a

subsidiary and subsequently in February 2024, its name was changed its current name.

About the Group

The company is a subsidiary of Welspun Enterprises Limited, flagship company of the Welspun Group. Welspun Group, promoted by Mr. Balkrishnan G Goenka and Mr. Rajesh R Mandawewala since 1985, is headquartered in Mumbai and has presence across varied business segment such as Home Textiles, Line Pipes, Infrastructure, Steel, Oil & Gas, Retail and Flooring Solutions.

Unsupported Rating

Not applicable.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of WMEPL to arrive at this rating. The rating has been notched-up by considering financial and operational support from its parent/sponsor company – Welspun Enterprises Limited (WEL)

Key Rating Drivers

Strengths

Strong parentage; change in name.

Welspun Michigan Engineers Private Limited (erstwhile Michigan Engineers Private Limited) is a Mumbai based company, established in 1973 by Mr. Saurin Patel. The company is a leading civil engineering company and specialises in trenchless technology. In 2023, 50.10% per cent of the shareholding was acquired by Welspun Enterprises Limited (WEL), making it a subsidiary and subsequently in February 2024, its name was changed to its current name. The company has a track record of executing large Engineering Procurement and Construction (EPC) contracts for construction of roads, highways among others. With the Welspun group taking over the majority ownership, the company has benefitted financially in terms of reduction in the finance cost and interim facilities against FDs from the Welspun group. Acuité believes that the company is expected to further benefit operationally and financially as the Welspun's support would be key driver for WMEPL to cater opportunities with a broader market reach, leveraging WMEPL's established market presence in the tunnel infrastructure market.

Experienced management and established track record of operations

The operations are led by Dr. Manubhai Patel who is a Civil Engineer and has an experience of over five decades in civil construction, along with his son, Mr. Saurin Patel with two decades of experience in a similar industry. The extensive track record of the company has helped them establish long term relations of over four decades with reputed customers including Municipal Corporation of Greater Mumbai (MCGM), Larsen & Turbo, Mumbai Metropolitan Region Development Authority (MMRDA) and Delhi Jal Board among others. Acuité believes that the company will continue to benefit from its experience in the infrastructure sector and its diversified order book over the medium term.

Improvement in revenues and profitability and healthy order book position

After marking a decline in the operating income in FY23 to Rs. 293.93 crores as against Rs. 317.19 crores in FY22, the company's revenues are estimated to Rs. 400 Cr. in FY24. In 9MFY24, the company has achieved revenues of Rs. 269.68 Cr. with healthy order execution supported by improved liquidity position with Welspun group taking up the majority shareholding. The company operates in 4 segments namely Segmental Lining, Micro Tunnelling, Rehabilitation, and others including construction of railways, bridges and roads. Segmental Lining contributes

the highest at 54%, others (construction of railways, bridges, and roads) contribute 29%, Micro tunnelling contributes 10% and rehabilitation contributes 7% to the total revenue as in FY2023. The operating profit margin of the company stood at 23.81% in FY23 and 23.97% in 9MFY24 compared against 17.85% in FY22. Also, the PAT margins of the company improved to 11.97% in FY23 and 12.52% in 9MFY24 as compared to 7.00% in FY22. Going forward, the operating profit margins are expected to remain in the range of 24-25 percent over the near to medium term. Furthermore, the company has a confirmed unexecuted order book of Rs. 2036.70 Cr. as on December 2023, the order book is to be executed in next 3-4 years, providing a revenue visibility in the near to medium term. The order book stands at 6.9 times of the company's OI in FY2023. The management expects the order book to grow further mainly in FY2025 with the wide network and reach of the Welspun group.

Healthy Financial Risk Profile

The financial risk profile of the company is healthy marked by high net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company stood high at Rs. 199.21 crore as on March 31, 2024 as compared to Rs. 164.88 crore as on March 31, 2022. Further, the networth of the company is expected to improve in FY24 with expected healthy accretions to the reserves. The capital structure of the company remains comfortable with gearing of the company remained low at 0.06 times as on March 31, 2023 and the gearing is expected to remain comfortable in FY24. The debt protection metrics remains comfortable with debt service coverage ratio of 6.62 times in FY23 as against 3.64 times in FY22 and interest coverage ratio stood at 10.40 times in FY23 as against 7.33 times in FY22. Acuité believes that the financial risk profile of the company will continue to remain healthy on account of healthy cash accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by high GCA days which stood at 268 days in FY23 compared against 213 days for FY22. The GCA days mainly emanated from inventory days due to the nature of the construction industry which has a higher work in progress construction projects. The inventory levels of the company stood at 110 days during the same period compared against 92 days for FY22. Simultaneously, the receivable days stood at 37 days for FY23 compared against 29 days for FY22. The creditor days of the company stood at 307 days for FY23 compared against 205 days for FY22. However, the average bank limit utilisation by the company remained low at 25% and 76% for non-fund-based facilities for the last ten months ended February 2024.

Exposure to intense competition in a fragmented industry

WMEPL is engaged in the construction of various urban underground infrastructures. The particular sector is marked by the presence of several mid to big size domestic as well as international players. The company faces an intense competition from other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the management has been operating in this since last four decades.

Rating Sensitivities

- Ability to scale up sustainably emanating from healthy growth in the order book while maintaining its profitability and capital structure
- Financial flexibility from the new investors
- Any further elongation in its working capital cycle

Liquidity Position Adequate

The liquidity position of the company remained adequate on account of adequate net cash

accruals against matured debt obligations. The net cash accruals of the company stood at Rs. 47.58 crores in FY23 against matured debt obligations of Rs. 3.16 crores during the same period. In 9MFY24, the company has cash accruals of Rs.46.47 Cr. and is estimated to generate net cash accruals of ~Rs. 70 - Rs. 80 crores in FY24 and 25 period as against maturing repayment obligations of Rs. 1.80 - Rs. 1.18 crores during the same period. Furthermore, the average fund-based utilisation by the company remains moderate at 25% and 76% for fund based and non-fund-based facilities for last eight months ended Feb 2024 despite working capital intensive nature of operations.

Outlook: Positive

Acuité has revised the outlook to Positive on account of the increasing revenues emanating from the expected healthy order book with its parent's -WEL wider network that is expected to leverage the company's long track record of operations. Acuite expects the company to have a healthy order book and comfortable financial risk profile in the near to medium term. The rating may be upgraded if the company is able to scale up substantially while maintaining its profitability.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	293.93	317.19
PAT	Rs. Cr.	35.17	22.21
PAT Margin	(%)	11.97	7.00
Total Debt/Tangible Net Worth	Times	0.06	0.02
PBDIT/Interest	Times	10.40	7.33

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

Not applicable

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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, 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
01 Sep 2023	Bank Guarantee/Letter of Guarantee	Short Term	70.00	ACUITE A2+ (Upgraded from ACUITE A3+)
	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A2+ (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	40.00	ACUITE A- Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Upgraded from ACUITE BBB Stable)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE A- Stable (Upgraded from ACUITE BBB Stable)
10 Jul 2023	Bank Guarantee/Letter of Guarantee	Short Term	70.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
05 Apr 2023	Bank Guarantee/Letter of Guarantee	Short Term	70.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
18 Feb 2022	Bank Guarantee/Letter of Guarantee	Short Term	70.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	70.00	ACUITE A2+ Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A2+ Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A- Positive Reaffirmed Stable to Positive
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	40.00	ACUITE A- Positive Reaffirmed Stable to Positive
Yes Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE A- Positive Reaffirmed Stable to Positive

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company name
1	Welspun Enterprises Limited

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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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