



Press Release

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

July 26, 2024

Rating Assigned and Reaffirmed

Product	Quantum	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE A- Positive Assigned	-
Bank Loan Ratings	63.00	ACUITE A- Positive Reaffirmed	-
Bank Loan Ratings	137.00	-	ACUITE A2+ Assigned
Bank Loan Ratings	113.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	325.00	-	-

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 Limited (Erstwhile Welspun Michigan Engineers Private Limited). The outlook is '**Positive**'.

Acuite has assigned 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.149.00 Cr. bank facilities of Welspun Michigan Engineers Limited (Erstwhile Welspun Michigan Engineers Private Limited). The outlook is '**Positive**'.

Rationale for Rating

The rating recommendation takes into consideration augmentation in the revenues emanating from the expected growth in the order book with the Welspun group's broader market reach, leveraging WMEL'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 FY24, the company has achieved revenues of Rs. 408.99 Cr. with order execution supported by improved liquidity position with Welspun group taking up the majority shareholding. Furthermore, the company has a confirmed unexecuted order book of Rs. 1897.78 Cr. as on March 2024, 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 4.00 times of the company's OI in FY24. In addition to confirmed unexecuted order book of Rs1897.78 cr , company is having the pipeline of bidding tenders of Rs 229.00 Cr. in the stream of rehabilitation to the client like BMC and AMC. Out of bidding tender of Rs 229 cr, Rs 160 cr L1 stage is also cleared. The rating factors 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 Limited (Erstwhile Welspun 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. WMEL 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 WMEL a subsidiary and subsequently in February 2024, its name was changed to Welspun Michigan Engineers Limited.

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 WMEL 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 Limited (Erstwhile Welspun 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 WMEL to cater opportunities with a broader market reach, leveraging WMEL's established market presence in the tunnel infrastructure market.

Experienced management and established track record of operations

Late Dr Manubhai Patel had started the company who was a Civil Engineer and had an experience of over five decades in civil construction . Currently operations of the company are carried out by his son, Mr. Saurin Patel having experience in a similar industry from two decades. 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, healthy order book position albeit decline in profitability

The operations of the company reported a growth of 39.15% in operating income by

achieving the revenue of Rs. 408.99 crore in FY24 as against Rs. 293.93 crore in FY23. In 9MFY24, the company has achieved revenues of Rs. 269.68 Cr. and was expecting to close the year at ~Rs. 400 Cr. in FY2024 and the company had surpassed the projections with 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, marines and roads. Segmental Lining and micro tunnelling contributes the highest at 92.74%, others (construction of railways, bridges and roads) contribute 4.09% and rehabilitation contributes 3.17 % to the total revenue in FY2024.

The operating profit margin of the company stood at 23.43% in FY24 against 23.81% in FY23. However, the PAT margins of the company declined and stood at 4.41% in FY24 compared to 11.97% in FY23. The decline in the profitability is mainly due to creating provision for service tax liability and interest amounting to Rs 43.77 cr. (i.e Rs.12.72 cr. and Rs.31.05 cr. respectively) and the same has been classified under the exceptional items being one time event. This was done as new management had indicated to capture the same in the books of accounts as a prudent measure; there has been no fund outflow for the same.

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. 1897.78 Cr. as on March 2024, 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 4.00 times of the company's OI in FY2024. The management expects the order book to grow further mainly in FY2025 with the wide network and reach of the Welspun group. In addition to confirmed unexecuted order book of Rs 1897.78 cr , company is having the pipeline of bidding tenders of Rs 229 cr in the stream of rehabilitation to the client like BMC and AMC. Out of bidding tender of Rs 229.00 cr, Rs 160.00 cr. L1 stage is also cleared.

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. 216.98 crore in FY24 as compared to Rs.199.21 crore in FY23. The total debt of the company stood at Rs. 34.37 crore in FY24 as against Rs. 11.35 crore in FY23.

The gearing of the company remained low at 0.16 times in FY24 as against 0.06 times in FY23 and 0.02 times in FY22. The TOL/TNW increased and stood at 0.90 times in FY24 as against 0.47 times in FY23 on account of avilment of long-term debt in the FY24. The debt protection metrics remains comfortable though there is declined in debt service coverage ratio of 4.42 times in FY24 as against 6.62 times in FY23 and interest coverage ratio stood at 8.35 times in FY24 as against 10.40 times in FY23. 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 is however improved and stood at 233 days in FY24 as against 268 days in FY23. 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 receivable days improved and stood at 20 days for FY24 as against 37 days for FY23. The inventory levels of the company increased and stood at 135 days during the same period compared against 110 days for FY23. The creditor days of the company improved and stood at 229 days for FY24 as against 307 days for FY23. The average bank limit utilisation by the company remains moderate at ~21% and ~74% for fund based, and non-fund-based facilities for eleven months ended May 2024 despite working capital intensive nature of operations.

Exposure to intense competition in a fragmented industry

WMEL 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 substantially 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.36.41 crore against matured debt obligations of Rs. 3.16 crore during the same period. Furthermore, the average bank limit utilisation by the company remains moderate at ~21% and ~74% for fund based, and non-fund-based facilities for eleven months ended May 2024 despite working capital intensive nature of operations.

Outlook: Positive

Acuité believes that the company will maintain 'positive' outlook over the medium term 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	408.99	293.93
PAT	Rs. Cr.	18.02	35.17
PAT Margin	(%)	4.41	11.97
Total Debt/Tangible Net Worth	Times	0.16	0.06
PBDIT/Interest	Times	8.35	10.40

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
26 Apr 2024	Cash Credit	Long Term	40.00	ACUITE A- Positive (Reaffirmed (Stable to Positive))
	Cash Credit	Long Term	20.00	ACUITE A- Positive (Reaffirmed (Stable to Positive))
	Bank Guarantee/Letter of Guarantee	Short Term	70.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE A- Positive (Reaffirmed (Stable to Positive))
01 Sep 2023	Cash Credit	Long Term	40.00	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)
	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	20.00	ACUITE A- Stable (Upgraded from ACUITE BBB Stable)
10 Jul 2023	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	70.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	40.00	ACUITE A3+ (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	20.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Demand Loan (WC DL)	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
18 Feb 2022	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)
	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)
	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	43.00	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	32.00	ACUITE A2+ Assigned
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
Yes Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A2+ Assigned
Not Applicable	Not avl. / Not appl.	Proposed Bank Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	55.00	ACUITE A2+ Assigned
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE A- Positive Assigned
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	23.00	ACUITE A- Positive Reaffirmed

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

Sr.No.	Company Name
1	Welspun Enterprises Limited
2	Welspun Michigan Engineers Limited (Erstwhile Welspun Michigan Engineers Private Limited)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Divya Bagmar Analyst-Rating Operations Tel: 022-49294065 divya.bagmar@acuite.in	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in

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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