

WAPCOS Limited

January 05, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	50.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	1,450.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)
Total Bank Facilities	1,500.00 (₹ One Thousand Five Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of WAPCOS Limited (WAPCOS) factors moderation in operating performance witnessed with marginal growth in total operating income by 5% for FY22 despite having a healthy order book of Rs 9,152 crore (6.6x of TOI of FY22) as on September 30, 2022 is the consequence of delays reported in execution of projects, which is primarily attributed to delays in timely realization of receivables (419 days for FY22) from state and central government entities resulting in blockage of working capital funds. In view of above developments, the average working capital limit utilization stood above 90% and higher creditor levels for the EPC projects, which are being executed on back-to-back subcontracting basis.

Further, the operating profit margin for EPC segment has reported losses, while the engineering consulting segment reported overall operating profit margin at 29% for FY22. However, the overall operating profit margins (PBILDT) has been moderated at 5.74% in FY22 (6.65% in FY2) is due to write-off of stuck receivables from Andhra Pradesh and Telangana projects and increase in employment expenses. In order to ease the liquidity, WAPCOS has availed a working capital term loan with a tenor of 9.5 years at a concessional rate, which will be utilized to improve the liquidity at the subcontractor level by reducing the overall creditor levels. However, CARE Ratings is of the view that increase in overall external debt will result moderation in interest coverage and debt service coverage ratios.

The ratings derive strength from the ability of the company in continuously adding fresh orders through bidding and composition of orders at 50:50 with engineering consulting and construction segment respectively, diversified order book with majority of the funding from central government and state government entities for domestic orders and international orders from multilateral agencies, adequate liquidity & comfortable capital structure, strong parentage with entire ownership with Government of India (GoI), long track record of operations, experienced and professionally qualified management, dominant position in consulting services in water resources, power and infrastructure development projects and association with various international organizations. This apart, the company has taken initiatives such as (1) increasing the exposure of the order book to international orders (2) co-ordination with stakeholders for timely release of funds, which will improve overall margins and liquidity in the company. However, CARE Ratings views that expected improvement shall be seen from FY24 onwards. The rating strengths are, however, constrained by vulnerability of revenues to economic cycles, inherent challenges of the construction industry and significantly high contingent liabilities.

Rating Sensitivities

Positive Sensitivities: Factors that could lead to positive rating action/ upgrade:

- Improvement in PBILDT margins to over 15% on a sustained basis.
- Decrease in average collection period to less than 200 days on a sustained basis.

Negative Sensitivities: Factors that could lead to negative rating action/ downgrade:

- Any change in the GoI's ownership or weakening of managerial and financial linkages with GoI.
- Inability to scale up of operations while improving PBILDT margins to 6.25% by FY24.
- Interest coverage falling below 2 times.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers**Key Rating Strengths**

Government of India (GoI) ownership and long track record of operations: GoI holds 100% ownership in WAPCOS Limited. The company is a "MINI RATNA-I" Public Sector Enterprise under the aegis of the Ministry of Jal Shakti, Department of Water Resources, River Development & Ganga Rejuvenation, Govt. of India. Incorporated on June 26, 1969, WAPCOS is a technology driven Consultancy and Engineering, Procurement and Construction (EPC) organization with strong presence in India and globally in the field of Water, Power and Infrastructure sectors. Its Quality Management System conforms to ISO 9001:2015 for Consultancy Services in Water Resources, Power and Infrastructure Development Projects and Quality Management System ISO 9001:2008 for EPC Projects. The company has on-going projects across more than 50 countries.

Experienced and professionally qualified management: The company has a strong management team and an experienced workforce comprising of professionals and technical staff. The management team of WAPCOS is led by the Chairman-cum-Managing Director (CMD)- Mr. R.K. Agrawal, an engineering graduate, having specialisation and master's degree in water resources engineering and business administration. Mr. Agrawal has more than 30 years of experience in planning, design and implementation of water resources, power and infrastructure development projects in India and abroad. Mr. Pankaj Kapoor is the Director (Finance) of the company. He has more than 24 years of rich experience and has been handling various matters concerning Corporate Finance, Working Capital Management, Cost & Budgetary Control etc. Further, the board also has two Nominee Directors from the government – Shri Subhodh Yadav, from Ministry of Water Resources, River Development & Ganga Rejuvenation and Shri P. Harish, from Ministry of External Affairs. The managerial and financial linkages with GoI give support to the ratings and would continue to remain a key monitorable.

Dominant position in consulting services in water resources, power and infrastructure and development projects albeit on a declining trend: WAPCOS provides Consultancy & EPC services with strong presence in India and globally in the field of Water, Power and Infrastructure sectors. The major services under consultancy include preliminary investigations/reconnaissance; feasibility studies/planning/project formulation; baseline and socio-economic surveys; field surveys & investigations and testing; operation and maintenance; project management and construction supervision; EPC/turnkey & deposit works, etc. In India, WAPCOS is providing Consultancy services for developmental projects in all the states and is also involved in key GoI schemes. In FY22, contribution from consulting segment was 51% of the total revenue (PY: 52%) while the balance is from the construction segment. Under the EPC segment, 100% of the contracts are outsourced to sub-contractors. Sustained higher contribution from consultancy segment attracting superior margins is a rating sensitivity.

Reputed clientele and association with various international organizations for participating in projects: WAPCOS has reputed customer base for domestic and international projects. The company primarily works with various government departments like Central Water Commission, Ministry of Water, Ministry of External Affairs, Central Ground Water Board, Water Resources Department, Central Electricity Authority, Ministry of Environment, Forests & Climate Change etc. Further, WAPCOS has successfully completed consultancy assignments in countries covering Asia, Africa, Middle East, South America, Pacific Islands with presence in more than 50 countries. In FY22, the company earned approximately 86% from domestic projects and 14% from international projects majorly from the consulting segment (PY: 82% & 18% respectively). All the international projects handled by WAPCOS are completely funded by various multi-lateral funds or are Exim Bank funded. In addition to this, WAPCOS is also registered with various international funding agencies for participating in the funded projects like World Bank, Asian Development Bank, African Development Bank, Japan Bank for International Cooperation etc.

Robust order book position: WAPCOS has a robust order book position of Rs.9153 crore as on September 30, 2022 (6.60x of FY22 TOI) to be executed in the next 2-6 years. 50% of the order book consists of projects from engineering consultancy segment and balance 50% from construction segment. Of the outstanding orders, about 85% of the orders are from domestic projects and balance 15% is from international projects. The consultancy projects attract higher margins in comparison to the orders under construction segment. Order book is diversely spread across engineering consulting and construction works of buildings, roads & bridges, water infrastructure, power transmission, development of port infrastructure. Furthermore, majority of the consulting works are done in-house, however, 100% of the construction works are executed through sub-contracting on back-to-back basis, thereby, exposing the company to the risk of delays in payments as the monies are paid after the receipt of bills from the clients as per the terms of the agreements entered with the counter parties.

Comfortable financial risk profile albeit declining operational performance during FY22: The total operating income of the company grew by 5% during FY22 to Rs.1387 crore as compared to Rs.1317 crore during FY21. The increase has been majorly on account of increase in the revenue earned from construction contracts from Rs.626 crore reported in FY21 to Rs.678 crore reported in FY22. The profitability margins of the company have however decreased from 6.65% in FY21 to 5.74% in

FY22, primarily on account of raise in input costs coupled with higher provisioning towards receivables and retention money pertaining to projects executed in Andhra Pradesh & Telangana.

Engineering consulting commands a healthy operating profit margin of about 25%-30%, however, operating profit margin in construction segment is moderate at 4%-5% due to 100% execution through subcontracting. In view of the above, timely execution of the projects within the envisaged costs and timelines and realization of debtors constitutes a key rating monitorable.

The company has moderate capital structure with minimal long-term external debt on its books. The overall gearing during FY22 stood at 0.99x, comprising of advances received from clients to the tune of Rs.513 crore (PY: Rs.446 crore) along with outstanding working capital limits of Rs.41 crore as on March 31, 2022. Other coverage indicators remained moderate at interest coverage and total debt/PBILDT at 2.96x (P.Y 2.90x) and 7.12x (P.Y 5.35x) respectively for FY22. The tangible net worth of the company stood at Rs.617 crore as on March 31, 2022, as against Rs.601 crore as on March 31, 2021. Furthermore, during FY21 and FY22, the company had distributed a healthy dividend of Rs.25 crore each (Rs.51.84 crore in FY20). Furthermore, during FY19, the company was mandated by the GoI under GOI's strategic disinvestment program to acquire M/s National Projects Construction Corporation Limited (NPCC), another Central Public Sector Enterprise under the then Ministry of Water Resources, River Development & Ganga Rejuvenation. WAPCOS acquired 98.89% shares of Government of India at a purchase consideration of Rs.79.80 crore funded out of internal accruals on March 25, 2019. CARE understands that as per management strategy, the bidding areas of NPCC and WAPCOS are clearly demarcated, wherein they would not compete with each other going forward and there is also no fungibility amongst the cash flows of the two companies.

Key Rating Weaknesses

Elongated collection period: During FY22, the construction segment contributed to 49% of the total revenues and as majority of projects are executed in Q4, the outstanding debtors of WAPCOS increased as on March 31, 2022. Further, the total outstanding receivables (excluding security deposits & retention money) stood at Rs.1613 crore as on March 31, 2022 as compared to Rs.1573 crore as on March 31, 2021.

Average working capital cycle of the company stood at 111 days in FY22 (PY: 108 days). The collection period and average creditors days during FY22 also remained in similar lines as FY21. The collection period during FY22 stood at 419 days (PY: 422 days); whereas creditors days stood at 308 days (PY: 314 days), on account of back-to-back arrangements with the creditors. The creditors are mainly the sub-contractors to whom WAPCOS outsources the core construction activities. Timely collection of the receivables thereby easing the working capital requirements continues to remain a key rating sensitivity.

Furthermore, in-order to ease the liquidity position of the subcontractors on account of delay from the clients and to show progress in the execution, the company has taken working capital term loan of Rs.200 crore (o/s Rs 40 crore as on March 31, 2022) towards the payment of subcontractors. In view of the same, the cost of blockage of funds shall have to be absorbed by WAPCOS resulting in increase in interest outflow. Any further delays resulting in deterioration in collection days from 419 days is critical from credit perspective.

Exposure to inherent challenges in construction industry: The construction sector is inherent to challenges like fluctuation in input prices, cost overruns in the delayed projects and additional working capital requirement arising from delay in realization from clients. The sector is also marred by various other challenges on account of economic slowdown and regulatory changes, which adversely impact the financial and liquidity profile of players in the industry. However, plethora of initiatives has been undertaken by Government of India such as Make in India, Digital India, Smart City, AMRUT, Sagarmala etc. coupled with foreign investment influx in Defence sector, which have boosted the infrastructure development and revived the investment cycle. The projects pertaining to Energy Efficiency, Value addition with Integration of Natural Gas, displacement of Liquid fuels and Clean Fuels (BS-VI) projects have been undertaken in the country, which has gradually resulted in increased order inflow. Going forward, companies with better financial flexibility like WAPCOS are likely to grow at a faster rate by leveraging the potential opportunities.

High contingent liabilities: The company has significant contingent liabilities, representing claims under adjudication, demands from service tax authorities, bank guarantees given to clients to the tune of Rs.1160 crore (PY: Rs.1201 crore). While the bank guarantees largely comprise of performance bank guarantees and form part of routine business for companies operating in construction sector, other claims, if materialised, may expose the company to substantial liabilities.

Liquidity Analysis: Adequate

The liquidity position of WAPCOS remains adequate as reflected by its healthy cash and bank balances and minimal external debt as on March 31, 2022. WAPCOS had unencumbered cash and bank balance of Rs.498.06 crore (excluding bank deposits held as margin money and balances earmarked against specific projects) as on March 31, 2022. The current ratio of WAPCOS stood at 1.80x as on March 31, 2022 (PY: 1.68x). The company majorly relies on the customer advances and extension of

creditors for its working capital funding. WAPCOS normally receives ~10% of the contract price as mobilization advance against which similar value of bank guarantee is issued by the company.

Analytical Approach – Standalone. The rating also factors in the strong parentage of the company (GoI ownership).

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Construction](#)

[Policy on Withdrawal of Ratings](#)

[Service Sector companies](#)

About the Company

WAPCOS Limited is a “MINI RATNA-I” Public Sector Enterprise under the aegis of the Ministry of Jal Shakti (MoJS), Department of Water Resources, River Development & Ganga Rejuvenation, Govt. of India. Incorporated on June 26th, 1969; WAPCOS is a Consultancy and EPC organization with strong presence in India and globally in the field of Water, Power and Infrastructure sectors. WAPCOS undertakes Consultancy & EPC projects with consultancy contributing 51% & EPC Contributing 49% to its total operating income (TOI) during FY22. Further ~86% of the revenues in FY22 was from domestic projects and balance from international projects. The contribution of EPC segment is majorly from domestic projects. The quality management systems of WAPCOS comply with the Quality Assurance requirements of ISO 9001:2015 for Consultancy Services in Water Resources, Power and Infrastructure Development Projects and Quality Management System ISO 9001:2008 for EPC projects. WAPCOS has presence in 50 countries apart from India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,317.33	1,387.37	NA
PBILDT	87.54	79.64	NA
PAT	36.97	40.85	NA
Overall gearing (times)	0.86	0.99	NA
Interest coverage (times)	2.90	2.96	NA

A: Audited; UA: Unaudited; NA: Not Available

Note: The financials are classified as per CARE Ratings Ltd’s internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE A; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	1450.00	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	1450.00	CARE A; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (07-Oct-21)	1)CARE A+; Stable / CARE A1+ (11-Sep-20)	-
2	Fund-based - LT-Cash Credit	LT	50.00	CARE A; Stable	-	1)CARE A+; Stable (07-Oct-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

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