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CARE REVISES / REAFFIRMED RATING ASSIGNED TO BANK FACILITIES OF WELSPUN PROJECTS LTD & MSK PROJECTS (KIM MANDVI CORRIDOR) PVT LTD. AND PLACES THE RATING ON CREDIT WATCH

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	5.35	**CARE A-(SO)[@] [Single A Minus (Structured Obligation)] (under credit watch)**	Reaffirmed and placed on credit watch
Long term Bank Facilities	14.31	**CARE A-(SO)[$] [Single A Minus (Structured Obligation)] (under credit watch)**	Reaffirmed and placed on credit watch
Long term Bank Facilities	55.00	**CARE BBB+ (Triple B Plus) (under credit watch)**	Revised from CARE BBB (Triple B) and placed on credit watch
Short term Bank Facilities	165.00	**CARE BBB+/CARE A3+ (Triple B Plus/ A three plus) (under credit watch)**	LT rating revised from CARE BBB; ST rating reaffirmed and placed on credit watch
Total Facilities	**239.66**		

[@]Rating is backed by first charge on escrow of toll receipt of Hosangabad-Harda-Khandwa (H-H-K) project
[$] Rating is backed by first charge on escrow of toll receipt of Raisen-Rahatghar project (R-R)

Linked rating
MSK Projects (Kim Mandvi Corridor) Private Limited (KMC)

Facilities	Amount (Rs. crore)	Ratings[^]	Remarks
Long term Bank Facilities	30.23	**CARE BBB+(SO) [Triple B Plus (Structured Obligation)] (under credit watch)**	Revised from CARE BBB SO [Triple B (Structured Obligation)] and placed on credit watch

[^] *The rating is backed by unconditional and irrevocable corporate guarantee provided by the parent company, Welspun Projects Limited to the lenders of KMC.*

Rating Rationale

The revision in long-term rating factors in expected benefits of merger exercise with its parent and fellow subsidiaries which on successful completion would enhance the balance sheet size, improve capital structure and liquidity profile of the company.

The standalone ratings continue to derive strength from financially strong and experienced promoters (the Welspun group) with an established track record in executing BOT projects, diversified revenue stream from industrial, road and residential construction as well as BOT projects and comfortable capital structure.

The ratings, however, remain constrained due to abating business profile of WPL as reflected by low order-book position, delay in stabilization of revenue stream for Dewas Water Supply BOT project, working capital intensive nature of operations, inherent risk associated with execution of BOT projects and high degree of competition. Successful completion of the merger exercise and resulting improvement in credit profile of WPL as expected as well as ability to the company to improve its operating performance remain the key rating sensitivities. The ratings for the project-specific loans continue to consider credit enhancement in the form of first charge on escrow of present/future toll receivables of the respective BOT projects and the repayment mechanism.

Further, CARE has placed the ratings assigned to the bank facilities on credit watch on account of pending formalities for merger exercise and its potential impact on the overall credit profile of WPL post-merger. CARE will assess the likely impact of this merger on the credit quality of the company and take a final view on the rating once the implications of the above merger exercise on the overall credit profile of WPL are clear.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Background

Established in 1994 in Vadodara (Gujarat), Welspun Projects Ltd. (WPL) is part of Welspun Group and is primarily engaged in construction, developing and maintaining BOT projects. It has two key segments – EPC business and BOT business. EPC business accounted for around 67% of total revenue in FY14 (refer to period from April 1 to March 31). The company undertakes EPC business for both Welspun Group companies and outside parties. Currently, WPL (including its subsidiaries and JVs) has nine operational BOT projects, out of which six are in the road segment, two are in urban transport infrastructure (Bus Terminal) and one is in industrial water supply.

Recent Development

WPL has announced a Composite Scheme of Arrangement ('Scheme') to consolidate by way of merger exercise with its parent and fellow subsidiaries wherein Welspun Enterprises Ltd (WEL), Welspun Infratech Limited (WITL), Welspun Infra Projects Private Limited (WIPPL, a subsidiary of WITL) and Welspun Plastics Private Limited (WPPL, a step down subsidiary of WEL), will merged into WPL with an appointed date as April 1, 2014. Rationale for such a merger would be primarily to consolidate and simplify the group structure, eliminate of multiple companies in the group; enhance net worth of the combined business to capitalise on future growth potential and efficient use of funds available at different level within the group companies. The scheme is pending for various approvals from High Court, Exchange and Shareholders. On successful completion, the merger exercise is likely to enhance the balance sheet size, improve capital structure and liquidity profile of the company.

During FY14, WPL posted a total income of Rs.228.11 crore with a net loss of Rs. 58.23 crore as compared to a total income of Rs.388.88 crore and a PAT of Rs.5.46 crore during FY13. Furthermore, during 9MFY15, the company posted a total income of Rs.99.23 crore and a net loss of Rs.3.86 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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