

Walchandnagar Industries Limited

October 04, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long term bank facilities	220.00	CARE B; Stable [Single B; Outlook: Stable]	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Short term bank facilities	715.00	CARE A4 [A Four]	Reaffirmed
TOTAL	935.00 [Rs. Nine Hundred Thirty Five Crore Only]		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of Walchandnagar Industries Limited (WIL) takes into account delay in interest payment of term loan sanctioned by a private equity investor (not rated by CARE Ratings) due to liquidity constraints. Further, the ratings continues to factor in un-envisaged loss in Q1FY20 (refers to the period April 2019 – June 2019), low debt protection metrics, working capital intensive nature of operations and deferment of scheduled equity investment amounting to Rs.200.00 crore via Qualified Institutional Placement (QIP) out of which company had plans to raise Rs.100.00 crore by Q1FY20.

The ratings, however, continue to derive strength from company's long track record of over a century in heavy engineering industry and long term experience of promoters in the line of business, improved revenue mix on the back of increased order execution in the Defence, Nuclear, Aerospace & Missile (DNAM) segments and financial assistance from Kohlberg Kravis Roberts (KKR) amounting to Rs.237.00 crore (Rs.180.00 crore term loan + Rs.57.00 crore un-listed NCD). The ratings also takes into account FY19 (A) (refers to April 2018 to March 2019) performance of the company.

Going forward, the ability of WIL to turn profitable by executing outstanding order book without any time and cost overruns; along-with securing new orders thereby providing continued revenue visibility, improving the capital structure, effective management of working capital led by timely realisation of outstanding & new debtors are the key rating sensitivities. Also the ability to liquidate non-core assets is key rating monitorable.

Key Rating Weaknesses

Delay in interest servicing

Delay in interest payment on term loan (not rated by CARE Ratings) as on September 30, 2019.

Deterioration in financial risk profile marked by un-envisaged loss in Q1FY20, declining operating margin coupled with below average liquidity

WIL registered total operating income (TOI) of Rs.67.35 crore in Q1FY20 (UA) registering a y-o-y decline of 10.97% as against TOI of Rs. 75.65 crore in Q1FY19 led by decline in heavy engineering business by 6.52% in Q1FY20. Also execution of some portion of DNAM business was deferred to next quarters. PBILDT margin in Q1FY20 declined by 2331 bps and stood at 11.45% vis-à-vis 34.76% during Q1FY19. Majorly impacted by increase in raw material costs in foundry division and sales mix variance dominated by low margin orders as compared to Q1FY19. Further, WIL registered un-envisaged loss of Rs.20.49 crore in Q1FY20. This was mainly on account of high interest cost of Rs.22.27 crore in Q1FY20 corresponding to term loan and working capital borrowings. Depreciation cost also stood high at Rs.5.93 crore for Q1FY20.

Interest coverage in Q1FY20 stood below at 0.35x. as against 1.37x in Q1FY19. Major interest cost was for cash credit facility and bank guarantee and letter of credit charges.

During FY19 (A), WIL registered total operating income of Rs.388.97 crore indicating y-o-y de-growth of 4.07% as against TOI of 405.48 crore during FY18 (A). Albeit WIL registered PBILDT margin of 27.10% in FY19 vis-à-vis 20.41% in FY18. On account of high Interest and depreciation cost of Rs.80.51 crore and Rs.27.03 crore, respectively WIL incurred a loss of Rs.2.14 crore in FY19. However GCA stood positive at Rs.24.89 crore during FY19 as against GCA of Rs.7.64 crore during FY18.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Moderate debt protection metrics and capital structure

As on March 31, 2019 Total debt to GCA stood at 16.83x, PBILDT interest coverage stood at 1.31x. Long term debt to equity stood below unity at 0.62x as on March 31, 2019 (0.74x as on March 31, 2018), while overall gearing stood stable at 1.29x as on March 31, 2019. Improvement in debt protection metrics is key rating sensitivity.

Working Capital intensive nature of operations

WIL operates in working capital intensive industry, although improved, working capital cycle remained elongated at 389 days as at March 31, 2019, as against 447 days as at March 31, 2018, mainly led by blockage of funds in the form of receivables majorly from two of its projects TNEB and TENDAHO Phase I & Phase II. Improvement in bank line utilization levels and realization of stuck debtors is key rating monitorable.

Inherent cyclical nature of the industry

The heavy engineering industry including Defense Aerospace Nuclear & Missile industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of raw material like steel risk associated to mismatch of supply side to demand side. The producers of heavy engineering are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Deferment of Asset Sale

The company has also undertaken to sell the non-core assets properties. The company within the period of 24 months from the disbursement of the facility from KKR was required to sell the property for the repayment of the facility. Although the sale of the same has been deferred on account of un-favorable market conditions Sale of these assets and thereby reducing debt is key rating monitorable.

Key Rating Strengths**Experienced Promoters, long track record**

Walchandnagar Industries Limited (WIL) a company with a track record of over 100 years was promoted by industrialist Late Seth Walchand Hirachand Doshi. Seth Doshi was one of the renowned industrialists of pre-independence India. He promoted and established business ventures in various sectors like Automobiles, civil engineering, aircraft manufacturing, ship building, construction of dams and bridges and organized farming under "Walchand Group". Presently the group is spearheaded by Mr. Chakor L. Doshi in the capacity of Chairman. Mr. C. L. Doshi is an M.Sc (Op. Research and Industrial Engineering) from USA and has been associated with WIL since more than three decades. He is ably supported by Mr. G.K. Pillai (CEO and Managing Director), having business experience of over three decades. Prior to WIL Mr. Pillai was associated with Heavy Engineering Corporation Limited, Ranchi as Chairman & Managing Director. The top management of WIL is ably supported by a team of qualified and experienced professionals.

Financial Assistance from Kohlberg Kravis Roberts (KKR)

The company in May 25, 2017 received a sanction from KKR for Rs.243.00 crore in the form of a term loan of Rs.186.00 crore and unlisted non-convertible debentures (NCD) of Rs.57.00 crore against which the company has availed Rs.237.00 crore as on May 25, 2017; (term loan of Rs.180 crore and Rs.57 crore of NCD). The said funds received from KKR have been utilized for the repayment of the term loans, and regularizing the working capital limits. Repayment of these funds commenced in September 2019. Going forward, timely repayment of the said debt along with interest would remain a key rating monitorable.

Project execution capability with strong technical tie-ups

WIL is an ISO 9001:2015 company with proven project execution capability in the heavy engineering business segment. The manufacturing facility of the company is located in 'Walchandnagar' town Maharashtra with area under crane of 56,000 square meters (sq. mt.) in its fabrication shop.

Liquidity- Stretched

WIL's liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits at ~99% of the sanctioned limits and low cash balance.

The management's plan to raise funds through Qualified Institutional Placement (QIP) has been currently delayed due to suppressed market conditions, if successfully implemented, may provide additional cash inflow for repayment of loans, plant modernization and working capital requirements.

Industry Outlook

The Indian engineering sector is divided into two major segments - heavy engineering and light engineering. The initiatives of the government through various programs including Smart City Initiative, Make in India and Domestic

Preference Policy to support companies and manufacturing units to produce and procure locally will benefit companies which are looking to grow in power, nuclear, railways, defense etc in the long run.

Companies engaged in the engineering sector are virtually on a roll. Capacity creation in sectors like infrastructure, power, mining, oil & gas, refinery, steel, automotive, and consumer durables has been driving demand in the engineering sector.

Analytical approach: Standalone

Applicable criteria

[CARE's Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Walchandnagar Industries Limited (WIL) is established by industrialist Late Seth Walchand Hirachand Doshi in the year 1908. During 1933, WIL entered into organized farming business and also started a sugar manufacturing unit. WIL established its foundry in Satara, Maharashtra in the year 1940 and from 1956 onwards, entered into heavy engineering segment with manufacturing for sugar industry related machinery at its Walchandnagar unit. WIL's heavy engineering division is engaged in the engineering, fabrication and manufacture of machinery for heavy-duty gears for equipment for the Indian space, defense and nuclear power plants along with the sugar plants, cements plants, boilers. WIL's foundry and machine shop division manufactures casting and undertakes machining of precision components.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	FY19 (A)	Q1FY20 (UA)
Total operating income	401.04	405.48	388.97	67.35
PBILDT	51.12	82.74	105.40	7.71
PAT	-79.52	-25.82	-2.14	-20.49
Overall gearing (times)	1.19	1.29	1.29	NA
Interest coverage (times)	0.22	0.64	1.31	0.35

A: Audited UA: Un-audited; NA- Not Available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	220.00	CARE B; Stable
Non-fund-based - ST-BG/LC	-	-	-	715.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (14-Nov-17)	1)CARE D (11-Jul-16)
2.	Fund-based - LT-Cash Credit	LT	220.00	CARE B; Stable	1)CARE BB; Stable (16-Aug-19)	1)CARE BB+; Stable (18-Feb-19)	1)CARE BB; Stable (15-Feb-18) 2)CARE D (14-Nov-17)	1)CARE D (11-Jul-16)
3.	Non-fund-based - ST-BG/LC	ST	715.00	CARE A4	1)CARE A4 (16-Aug-19)	1)CARE A4+ (18-Feb-19)	1)CARE A4 (15-Feb-18) 2)CARE D (14-Nov-17)	1)CARE D (11-Jul-16)

Note on complexity levels of the rated instrument: 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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