# Walchandnagar Industries Limited

**February 18, 2019**

**Rating**

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

**Detailed Rationale and Key Rating Drivers**

*The revision in the ratings to the bank facilities of Walchandnagar Industries Limited (WIL) takes into account company's improving operating margin during FY18 and 9MFY19 and revenue visibility in medium term.*

*The ratings continue to factor in 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 take a note of scheduled equity investment amounting to Rs. 200.00 crore via QIP in FY20, out of which company has plans to raise Rs. 100.00 crore.*

*However, the rating strengths are partially offset by low debt protection metrics, working capital intensive nature of operations, and susceptibility of business performance to cyclical economic conditions and intense competition in industry.*

*The ability of WIL to execute outstanding order book without any time and cost overruns along-with securing order inflows thereby providing continued revenue visibility and improving the operating performance & financial risk profile, along with improving the capital structure and effective management of working capital led by timely realisation of outstanding and new debtors are the key rating sensitivities. The ability to liquidate non-core assets is key rating monitorable.*

**Detailed description of the key rating drivers**

**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 risk profile is marked by improvement in operating margin, positive GCA***

The company registered total operating income of Rs.405.48 crore in FY18 indicating marginal y-o-y growth of 1.11% as against de-growth of ~48% registered in FY17 on account of better execution of the existing orders in hand. PBILDT margin stood at 20.48% in FY18 vis-à-vis 12.74% in FY17. Interest and depreciation stood at Rs.76.92 crore and Rs. 33.46 crore, respectively. WIL registered positive GCA of Rs. 7.64 crores during FY18 as against negative GCA of Rs. 24.84 crore during FY17.

During 9MFY19 (UA) WIL achieved a total operating income of Rs. 282.48 crores vis-à-vis Rs.287.55 crores during 9MFY18, majorly led by increase in revenue from foundry and machine shop segment. Further, the PBILDT margins of the company improved to 29.43% in 9MFY19 as compared to 18.98% in 9MFY18. Further PAT during 9MFY19 stood at Rs. 4.20 crore against net loss in FY18. This lead to the GCA of Rs.24.88 crores in 9MFY19 as against negative GCA of Rs. 2.55 crore in 9MFY18.

*Sustainability of WIL's profitability remains to be seen and is a key rating monitorable.*

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

***Revenue visibility with outstanding order book position representing 1.85x of FY18 Total operating income***

The outstanding order book of WIL as on November 30, 2018 stood at ~Rs.754 crore, equivalent to 1.85x of FY18 income comprising of orders both from the manufacturing and the EPC division. Further as on January 31, 2019 the order book increased to Rs. 856.00 crore equivalent to 2.10x of FY 18 TOI. Leading to 52% of the business is from Defence, Nuclear, Aerospace &Missile (DNAM) which is a strategic business where WIL has a strong hold. The same translates into revenue visibility over the medium term (expected to be executed within 48 months). Timely execution of these projects without any time and cost overruns would be critical for achieving projected cash accruals.

***Financial Assistance from Kohlberg Kravis Roberts (KKR)***

The company in May 25, 2017 received a sanction from KKR for Rs.243.00 crores 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 crores and Rs.57 crores 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 will commence in September 2019. Timely repayment of the said debt will be a key rating sensitivity.

***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 is required to sell the property for the repayment of the facility.
Sale of these assets and thereby reducing debt is 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***

Cash and bank balance as on March 31, 2018 stood at Rs.8.45 crore as against Rs. 10.73 crores as on March 31, 2017. Current ratio stood at 1.23x as on March 31, 2018 (PY 0.98x). The average working capital utlisation for the last 12 months ending November 30, 2018 stood at ~85%. The management’s plan to raise funds through Qualified Institutional Placement (QIP), if successfully implemented, may provide additional cash inflow for repayment of loans, plant modernization and working capital requirements.

**Key Rating Weaknesses**

***Moderate debt protection metrics and capital structure***

As on March 31, 2018 Total debt to GCA stood at 56.85x (Negative as on March 31, 2017), PBILDT interest coverage stood at 1.08x. Long term debt to equity stood at 0.74x as on March 31, 2018 (0.19x as on March 31, 2017), while overall gearing stood at 1.29x as on March 31, 2018 (1.19x as on March 31, 2017). 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 446 days as at March 31, 2018, as against 510 days as at March 31, 2017, mainly led by blockage of funds in the form of receivables majorly from two of its projects TNEB and Tendhao 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.

***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 benefits 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**

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology Manufacturing Companies

**About the Company**

Walchandnagar Industries Limited (WIL) is established by industrialist Late Seth Walchand Hirachand Doshi in the year 1908. During 1933, WIL entered in to 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 in to 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) | 9MFY19 (UA) |
|---|---|---|---|
| Total operating income | 401.04 | 405.48 | 282.28 |
| PBILDT | 51.12 | 82.74 | 83.13 |
| PAT | -79.52 | -25.82 | 4.20 |
| Overall gearing (times) | 1.19 | 1.29 | - |
| Interest coverage (times) | 0.22 | 0.64 | 1.07 |

*A: Audited UA: Un-audited*

**Status of non-cooperation with previous CRA:** Not applicable
**Any other information:** Not applicable
**Rating History for last three years:** Please refer Annexure-2

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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**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 BB+; 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | - | - | - | 1)Withdrawn (14-Nov-17) | 1)CARE D (11-Jul-16) | 1)CARE BBB- (28-Jan-16) |
| 2. | Fund-based - LT-Cash Credit | LT | 220.00 | CARE BB+; Stable | - | 1)CARE BB; Stable (15-Feb-18) 2)CARE D (14-Nov-17) | 1)CARE D (11-Jul-16) | 1)CARE BBB- (28-Jan-16) |
| 3. | Non-fund-based - ST-BG/LC | ST | 715.00 | CARE A4+ | - | 1)CARE A4 (15-Feb-18) 2)CARE D (14-Nov-17) | 1)CARE D (11-Jul-16) | 1)CARE A3 (28-Jan-16) |

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