Welspun Enterprises Ltd

February 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	65.00	CARE A+; Stable (A Plus; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Long term / Short term Bank Facilities	750.00	CARE A+; Stable/ CARE A1+ (A Plus; Outlook: Stable/ A One Plus)	Revised from CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)
Total Facilities	815.00 (Rs. Eight hundred fifteen crore only)		
Commercial Paper	300.00 (Rs. Three Hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long term rating assigned to the bank facilities of Welspun Enterprises Limited (WEL) factors in the moderation in the capital structure owing to increase in exposure towards road assets under Hybrid Annuity Model (HAM) projects for which WEL has extended corporate guarantees and significant reliance on sub-contractors for executing such road projects resulting into heightened implementation risk for the projects. Furthermore, the revision in rating factors in the reduction in liquidity position owing to pending divestment of company's exposure in road assets/oil & gas segment, increase in working capital requirements and upfront equity commitment.

The ratings, however, continue to derive strength from the parentage of Welspun Group, experienced and resourceful promoters, established market position with good project management capabilities as demonstrated in executing projects in the past and having moderate order book position leading to moderate revenue visibility and adequate debt coverage indicators.

The ratings continue to be tempered owing to having exposure towards non-yielding assets i.e. Oil and Gas segment, inherent risks associated with execution of HAM projects and high degree of competition faced by the construction industry.

Rating Sensitivities

Positive Factors

- Improvement in operating profit margin above 16% on sustainable basis
- Substantial and Sustainable improvement in Gross current assets not exceeding 150 days
- *Improvement in leverage (adjusted gearing below 0.6x)*

Negative Factors

- *Moderation in leverage levels (adjusted gearing above 1.5x)*
- Higher than expected support to the existing projects or increase in exposure to new projects or non-core operations necessitating sizeable equity investments

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of the Welspun group with experienced & resourceful promoters

The company is a part of Welspun Group, a USD 2.7 billion diversified conglomerate, promoted by Mr. B.K. Goenka and Mr. R R Mandawewala having business interests in home & advanced textiles, large diameter line pipes, infrastructure, and flooring solutions. Further, owing to WEL's strategic importance towards implementation of the Group's business plans in the infrastructure segment, demonstrated parental support in the form of strategic, managerial and funding support in the past is expected to continue.

Established market position and demonstrated project management capabilities

Incorporated in 1995, WEL benefits from having exhibited a long track record of around more than two and a half decades in the execution of primarily road projects. In the past, company has designed and built manufacturing plants and executed BOT projects. WEL has established relations with National Highways Authority of India (NHAI; rated 'CARE AAA/Stable'), Ministry of Road Transport and Highways (MoRTH), and various state government departments by virtue of its track record of over two decades in the construction industry and executing projects on time. The company largely bids for projects floated by various government bodies.

The company has demonstrated strong project management capabilities as reflected from successful completion of its projects within or before the scheduled time and budgeted cost. The company also has a track record for having projects executed before the scheduled timeline and receive early completion bonuses from the relevant authorities. WEL, through early completion of DME project which achieved commercial operations date (COD) 11 months ahead of scheduled commercial operations date (SCOD) and received early completion bonus of Rs. 28.7 crore from NHAI. Thus, it demonstrates the company's healthy project management capabilities.

Moderate order book position with medium term revenue visibility

The company has a moderate order book of around Rs. 4,600 crore with portfolio of seven HAM projects (of 590 Kms) as on September 30, 2019. Outstanding order to revenue ratio is around 2.54 times, providing healthy revenue visibility over the medium term. The company currently has a portfolio of nine projects which comprises of seven HAM projects and two BOT projects. Of the seven HAM projects from the roads and highways sector, one is operational while six are under implementation. The two BOT projects are operational. The seven HAM projects include six awarded from NHAI and one from the Maharashtra PWD. All the projects have achieved financial closure.

Among the five NHAI awarded ongoing HAM projects, two HAM projects i.e. Gagalheri-Saharanpur-Yamunanagar (GSY Project) and Chutmalpur-Ganeshpur & Roorkee-Chutmalpur-Gagalheri (CGRG project) are nearing completion and are expected to reach SCOD in Q4FY20, while the two other HAM projects i.e. Chikhli Tarsod Highway (CT Project) and Aunta-Simaria HAM project (A-S Project) are under implementation and has achieved physical progress of about 34% and 12.5% respectively. The CT project is progressing well on time while the A-S Project is running behind schedule as work is suspended due to heavy rains in the region. The Sattanathapuram-Nagapattinam project (SN Project), concession agreement has been signed and the company is awaiting the appointed date from the authority. The financial closure is already achieved. Thus, the project management capabilities are expected to support the timely execution of these projects and result in achievement of revenue growth as envisaged over the medium term.

Inherent risk associated with execution of HAM projects and higher dependence on sub -contractors

The Aunta-Simaria HAM project (A-S Project) has missed the first project milestone date of July, 2019 corresponding to 20% physical progress as it could only achieve 12.5% progress as work is suspended due to heavy rains in the region. This has already been factored in construction period of the project. The Sattanathapuram-Nagapattinam project (SN Project), is awaiting appointment date from NHAI since 2018 due to RoW issues. Therefore, challenges in de-scoping as well as de-linking of unavailable land beyond 180 days from appointed date would increase project execution risk. Further, as WEL doesn't execute the projects on its own, high dependency on sub- contractors increases execution and O&M risk owing to the limited exposure of sub-contractors towards executing such complex projects. Besides, higher dependency on the sub-contractors also limits the operating margins as compared to players executing HAM projects on their own. Hence, the company remains exposed to the inherent risk associated with the execution of HAM projects.

Moderation in financial flexibility

WEL's financial flexibility has moderated as characterized by deterioration in gearing levels from 0.34x as on March 31, 2018 to 0.41x as on March 31, 2019 while adjusted gearing levels (considering the guaranteed debt across its SPVs or JVs having recourse to WEL) has deteriorated from 0.41x as on March 31 2018 to 0.87x as on March 31 2019 and further to 1.07x as on September 30 2019. The PBILDT interest coverage has also moderated from 4.81x in FY18 to 4.33x in FY19 and to 3.78x in H1FY20.

Besides, the moderation in financial flexibility is also marked by narrowing of liquidity cushion as reflected from the company's cash and cash equivalents including liquid investment which stood at Rs.332.65 crore as on September 30, 2019 as compared to Rs.526.27 crore as on March 31 2019 and Rs. 743.97 crore as on March 31, 2018. Though the company is maintaining adequate liquidity to support its operations, the liquidity cushion has narrowed down significantly over the past few years owing to increase in working capital requirements and upfront equity commitment towards the on-going projects.

Working capital intensive nature of operations

Although working capital requirement is inherently large in the construction industry, given the high dependence on state and central government authorities for timely receipt of payments, Gross Current Assets of 262 days as on March 31, 2019 reflect higher working capital intensive nature of operations. Receivables of 186 days, on average has indicated high dependence on central and state governments and multilateral agencies for timely receipt of payments. Besides, TOL to TNW has increased from 0.61x to 0.96x in FY19 and to 0.98x in H1FY20. Further, with the large number of projects under execution, the working capital requirement is expected to increase support its operations. The company is actively exploring for opportunities for divestments in both oil and gas as well as Road HAM assets; timely monetisation of assets same shall remain key rating monitorable.

Considerable exposure towards non-core operations
The company has invested in Oil & Gas business as WEL owns five relevant blocks through the 35% JV Company Adani Welspun Exploration Ltd (AWEL). As on March 31 2019, the company has invested around Rs.200.33 crore (PY: FY18~ Rs. 184.60 crore) as equity and extended funds of around Rs.234.01 crore (PY: FY18~ Rs.138.10 crore) as unsecured compulsorily convertible debentures thus increasing exposure by Rs. 111.64 crore during FY19 to Rs. 434.34 core. The initial investment was made in FY15 and since blocks are at nascent stage of development/exploration, it may require further support prior to monetizing. The exposure towards such assets as compared to its networth is quite significant. Any further significant support towards such business, without commensurate strengthening of capital base would result in weakening of the credit profile of the company.
Liquidity: Adequate
As on September 30, 2019, cash and cash equivalents of Rs.33.25 crore and current investments of Rs.299.40 crore is considered to be adequate to support the operations towards existing projects.

Analytical approach: Consolidated - The entities which are consolidated are as under:

- Welspun Natural Resources Private Limited
- MSK Projects (Himmatnagar Bypass) Private Limited
- ARSS Bus Terminal Private Limited
- Welspun Delhi Meerut Expressway Private Limited
- DME Infra Private Limited
- Welspun Build-Tech Private Limited
- Welspun Amravati Highways Private Limited
- Welspun Road Infra Private Limited
- MSK Projects (Kim Mandvi Corridor) Private Limited
- Dewas Waterprojects Works Private Limited
- Welspun Aunta-Simaria Project Private Limited

Further, since WEL has guaranteed the debts of JVs, their fund based debt has been included in total debt. JV's whose debt has been included are as under:

- MBL (CGRG) Road Limited
- MBL (GSY) Road Limited
- Chikhali- Tarsod Highways Private Limited

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Definition of Default
Criteria for Short Term Instruments
Rating Methodology - Hybrid Annuity Model based road projects
Rating Methodology – Construction Companies
Rating Methodology - Infrastructure Sector
Rating Methodology - Toll Road Projects
Financial Ratios – Non financial Sector

About the Company
Welspun Enterprises Ltd. (WEL) (formerly known as Welspun Projects Ltd) established in 1994 in Vadodara (Gujarat), is primarily engaged in infrastructure (construction, developing and maintaining BOT/HAM projects in water and roads) business and offers civil engineering services. It is a part of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala having business interests in home & advanced textiles, large diameter line pipes, infrastructure, and flooring solutions. The Company was created in its current form since May 11, 2015 through the merger of Welspun Enterprises Ltd., Welspun Infratech Ltd., Welspun Plastics Private Ltd., Welspun Infra Projects Private Ltd. and Welspun Projects Ltd.
The company undertakes Engineering Procurement and Construction (EPC) work through sub-contractors for both Welspun Group companies as well as outside clients. It has designed and built manufacturing plants and executed Build Operate and Transfer (BOT) projects across India. Presently, the company has seven HAM projects (of which five are under construction) and two BOT projects (One in Road Infrastructure and One in Water Infrastructure). Order book stood at Rs. 4,600 crore for seven HAM projects (of 590 Kms) as on September 30, 2019. The company also has stake in Adani Welspun Enterprises Ltd (35% stake) which is an oil & gas exploration company having 5 Oil & gas blocks.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,146.41	1,824.49
PBILDT	159.46	231.17
PAT	69.43	126.76
Overall gearing (times)	0.34	0.41
Adjusted gearing (including guaranteed debts of SPV and Mob. Adv.)	0.41	0.87
Interest coverage (times)	4.81	4.33

A: Audited

Status of non-cooperation with previous CRA:
None
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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper (CP)	INE625G14164	01-Nov-19	8.70	14-Feb-20	50.00	**CARE A1+ (A One Plus)**
CP	INE625G14172	20-Dec-19	8.25	19-Mar-20	50.00	**CARE A1+ (A One Plus)**
CP				7-364 days	200.00	**CARE A1+ (A One Plus)**
Fund-based-LT					65.00	**CARE A+; Stable (A Plus; Outlook: Stable)**
Non-fund-based-LT/ST					750.00	**CARE A+; Stable/ CARE A1+ (A Plus; Outlook: Stable/ A One Plus)**

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.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (12-May-17)	1)CARE A (11-Apr-16)
2.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (12-May-17)	1)CARE A (11-Apr-16)
3.	Fund-based-Long Term	LT	65.00	CARE A+; Stable	-	1)CARE AA-; Stable (22-Mar-19) 2)CARE AA-; Stable (19-Sep-18) 3)CARE AA-; Stable (06-Apr-18)	1)CARE A+; Stable (12-May-17)	1)CARE A (11-Apr-16)
4.	Non-fund-based-LT/ST	LT/ST	750.00	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (22-Mar-19) 2)CARE AA-; Stable / CARE A1+ (19-Sep-18) 3)CARE AA-; Stable / CARE A1+ (06-Apr-18)	1)CARE A+; Stable / CARE A1+ (12-May-17)	1)CARE A / CARE A1 (11-Apr-16)
5.	Commercial Paper	ST	300.00	CARE A1+	-	1)CARE A1+ (22-Mar-19) 2)CARE A1+ (19-Sep-18) 3)CARE A1+ (19-Apr-18)	-	-
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (25-Dec-18) 2)CARE AA-; Stable (19-Sep-18)	-	-
7.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (25-Dec-18) 2)CARE AA-; Stable (19-Sep-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Liquidity	Current Ratio of the company shall not be lower than 1.33 at any point of time (on standalone basis).
II. Leverage	TOL/TNW shall not be higher than 3.0 at any point of time (on standalone basis).
III. Debt Serviceability	DSCR of the company shall not be lower than 1.2x at any point of time.
IV. Subordinated Debt	The unsecured loan raised by the company shall be subordinated to the credit limits sanctioned by the Working capital consortium and the same shall not be repaid during the currency of the said credit facilities.
B. Non financial covenants	
I. Management Control	The promoter shall maintain management control which means holding more than 35% of the voting share capital of the company.
II. Management Control	Borrower shall not pledge the share held by promoters' group beyond 10% of holdings for raising any loan or for securitizing any loans or advances availed/to be availed by them from any bank/FI/lender.
III. Investments	Company shall not invest in acquisition of any assets without any long term arrangement and without maintaining CR of at least 1.25 (on standalone basis).

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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