Welspun Enterprises Ltd

April 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Commercial Paper issue	100.00	**CARE A1+ (A One Plus)**	**Assigned**

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Commercial Paper issue of Welspun Enterprises Limited (WEL) factors in demonstrated execution ability of the company with respect to Hybrid Annuity Model (HAM) projects as reflected in progress of the Delhi Meerut road project well ahead of schedule, comfortable capital structure and strong liquidity profile of the company on account of sale of its stake in Welspun Energy Private Limited. The ratings continue to derive strength from financially strong and experienced promoters (the Welspun group) with an established track record in executing projects.

The ratings strengths, however, remain constrained due to delay in stabilization of revenue stream for Dewas Water Supply BOT project, inherent risk associated with execution of HAM projects and high degree of competition.

Ability of the company to achieve the envisaged revenue growth and profitability as well as any change in the capital structure of the company on account of any debt laden capex remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters: WEL is part of Welspun group, a USD 2.3 billion diversified conglomerate promoted by Late Mr. G.R. Goenka, Mr. B.K. Goenka and Mr. R.R. Mandawewala and having an established track record in fields like steel pipes, home textiles and steel manufacturing through various group companies.

Financial flexibility with low overall gearing level; debt free on net debt basis: WEL's overall gearing (including acceptances) as on March 31, 2017 stood at 0.12x as compared to 0.07x as on March 31, 2016. However, on net debt basis (including cash & liquid investments) the company was debt free. The company is expected to maintain its zero net debt position after excluding the debts raised for completed projects (i.e. debt position after removing debts backed by NHAI Annuities) over the medium term, which augurs well from credit perspective.

Government's focus on HAM projects and strong balance sheet to drive WEL's future EPC revenue growth: NHAI is expected to bid out about 95 HAM projects in the near term, valued at approximately. Rs.1 trillion. WEL will continue to selectively bid for HAM projects. Given the huge potential for HAM projects along with WEL being one of the few EPC players which has a zero debt (on net debt basis), WEL is well positioned to take advantage of the envisaged growth in its EPC business.

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

Ahead of schedule progress of Phase I of Delhi Meerut Expressway Project: The appointed date for this Nizamuddin Bridge Delhi to UP Border (8.716 Kms) project was 28th November 2016 and the schedule completion date is 26th May 2019. As on January 31, 2018, WEL has completed 94% of work. The progress of the project is ahead of the schedule and the same is expected to be completed by April 2018.

Key Rating Weaknesses

Delay in stabilization of revenue stream for Dewas Water Supply BOT project: The Dewas Water Pipeline is 120 km long between Narmada and Dewas for meeting water requirement in Dewas and adjoining areas, present outstanding term loan for the project is Rs 51.80 Crore. The project had been operating at very low efficiencies due to technical issues en route during transportation. WEL had put forward a preliminary proposal under the M.P. Swiss Challenge Policy to Government of Madhya Pradesh (GoMP) to develop a new BOT project from fresh source of water at Kshipra barrage located 8-9 Km from Dewas Industrial area to supply water to its industrial customers. The proposal has received final approval from the Cabinet awarding the Project to Welspun Enterprises Ltd. WEL has started the process and the project will be executed under SPV which will take over the project including liabilities from the company at book value. Stabilisation of revenues from this project remains a key rating sensitivity.

Inherent risk associated with execution of HAM projects: The company currently has five HAM projects with an order book of Rs.4100 crore. Thus, the company remains exposed to the inherent risk associated with the execution of HAM projects. However, so far, the company has completed substantial portion of the Delhi-Meerut project well ahead of schedule.

Analytical approach: Consolidated

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for toll road projects]

About the Company

Established in 1994 in Vadodara (Gujarat), Welspun Enterprises Ltd. (WEL) (formerly known as Welspun Projects Ltd) is part of Welspun Group and is primarily engaged in construction, developing and maintaining BOT projects. The company undertakes EPC business for both Welspun Group companies and outside clients. WEL owns four BOT projects, three in Road Infrastructure and One in Water Infrastructure. Currently, the company has an order book of Rs.4100 crore for 5 HAM projects. The company also has stake in Adani Welspun Enterprises Ltd (35% stake) which is an oil & gas exploration company and is currently exploring 5 Oil & gas blocks. Further, WEL had 15.5% stake in Welspun Energy Pvt Ltd, which it sold for Rs.286 crore in March 2017.

During FY17, the company reported consolidated total income of Rs.408.68 crore and net profit of Rs.4.96 crore as compared with total income of Rs.290.57 crore and net profit of Rs.0.63 crore in FY16.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	290.57	408.68
PBILDT	55.92	64.56
PAT	0.63	4.96
Overall gearing (times)	0.07	0.12
Interest coverage (times)	4.36	6.35

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Not Applicable

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

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.

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
Commercial Paper	-	-	-	100.00	CARE A1+

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.	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 AA-; Stable	1)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	360.00	CARE AA-; Stable / CARE A1+	1)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	100.00	CARE A1+	-	-	-	-

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