Welspun Enterprises Ltd

May 12, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long term Bank Facilities	65.00 (enhanced from 55)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE A (Single A)**
Long-term/Short-term Bank Facilities	360.00 (enhanced from 165)	**CARE A+; Stable /CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**	**Revised from CARE A (Single A)/ CARE A1 (A One)**
Long term Bank Facilities- Term Loan^	-	**-**	**Withdrawn**
Total	**425.00 (Rs. Four hundred and twenty five crore only)**		

^ fully repaid

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilties of Welspun Enterprises Ltd (WEL) factors in comfortable capital structure and strong liquidity profile of the company on account of hiving off of the non-core businesses and benefits of amalgamation with its parent and fellow subsidiaries. The ratings continue to derive strength from financially strong and experienced promoters (the Welspun group) with an established track record in executing projects, diversified revenue stream from industrial, road construction, BOT/HAM projects as well as ahead of schedule progress of Delhi Meerut road project.

The ratings, however, remain constrained due to low order-book position, delay in stabilization of revenue stream for Dewas Water Supply BOT project, inherent risk associated with execution of BOT projects and high degree of competition. Ability of the company to achieve the envisaged revenue growth and profitability as well 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*:* WSL's overall gearing (including acceptances) as on March 31, 2016 stood at 0.23x as compared to 0.20x as on March 31, 2015. However, on net debt basis (including cash & liquid investments) the company was debt free.

Established track record in executing BOT projects: WEL has strong track record in the execution of BOT projects with 13 completed BOT projects since inception. Out of the completed BOT projects, ten projects were in the road segment and three projects in the industrial construction. Six projects were handed over to the government upon completion of the concession period. Further, the company has sold 3 EPC projects during FY13-FY15 period. As on December 31, 2016, the company has 4 BOT projects in hand and one Hybrid Annuity Model project.

Diversified revenue stream: In construction sector, WEL operates in three diversified segments, viz. industrial, roads and residential & other civil construction. In the past, WEL had set-up various civil and structural works for the industrial projects of various reputed companies in sectors such as petroleum refinery, oil exploration, engineering, pharmaceutical and construction. Further, WEL had five toll generating BOT projects structured in its own balance sheet as of March, 31,

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

2016. Contract receipts and toll receipts accounted for 33% and 32% of consolidated total income respectively in FY15 as compared to 40% and 36% respectively in FY15.

Government's focus on HAM projects and strong balance sheet to drive WEL's future EPC revenue growth: As per NHAI, 28 projects of 1,661 km length and costing Rs.26,007 crore have been awarded under HAM model. Further, the bidding for 25 projects worth Rs.30,900 crore is under way and another 18 projects worth Rs.22,830 crore are in pipeline for bidding.(as on December 31, 2016) 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.

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 March 31, 2017, WEL has approximately completed 20% of work. The 1st project milestone (10% physical progress) was to be achieved within 180 day from the Appointed Date i.e. by May 27th, 2017 whereas the Project has not only achieved its 1st Project Milestone but also achieved its 1st Payment milestone i.e. 20% Physical Progress on March 25th, 2017 and NHAI has released 1st instalment 8% of bid project cost of Grant as per the provisions of Concession Agreement. The progress of the project is much ahead of the schedule and the same is acknowledged by NHAI. As per our interaction with the management, WEL expects to complete the entire project 6 to 9 months ahead of allocated 30 months.

Key Rating Weaknesses

Current EPC order consist of only one HAM project which is being executed by company's own SPV: As on December 31, 2016, WEL had an order book of Rs.810 crore of EPC work to be executed in next 18 months. The order-book comprises of order from the WEL's own SPV (Rs 841.5crore). WEL has won a road project (Phase I of Delhi Meerut Expressway Project for Rs 841.5 crore) under Hybrid Annuity Model (one of the first companies to win the project under this recently introduced model). With the substantial cash on the balance sheet, the company will now focus on bidding for road projects under Hybrid Annuity Model. The ability of the company to win bids under this model and execute them in a timely and profitable manner remains an key rating sensitivity.

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. The project had been operating at very low efficiencies due to leakage of water en route during transportation. The company had put forward a proposal to GoMP to develop a new BOT project from this fresh source of water to supply to its industrial customers. The Cabinet Committee also recommended that outstanding debt (of Rs.59 crore) of the existing project loan to be transferred to the New Project, where it would be serviced by the cash flows of the New Project. Bidding for the revised project is in process, the stabilisation of revenues from this project remains a key rating sensitivity.

Inherent risk associated with execution of BOT projects: Slow progress in projects and delayed payments from the customers have resulted in elongated working capital cycle for infrastructure companies, thereby increasing reliance of the companies on external funds leading to deterioration in their capital structure. Going forward, with increase in competition, profitability of infrastructure companies is expected to remain under pressure in the short to medium term.

Analytical approach:
Along with WEL, the following companies have been consolidated 1) Welspun Himmatnagar Bypass Ltd 2) MSK Projects (Kim Mandvi Corridor) Private Limited (KMC) 3)Welspun Delhi Meerut Expressway Pvt Ltd, which are wholly owned subsidiaries of the company having significant operational linkages.

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

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. It has two key segments – EPC business and BOT business. The company undertakes EPC business for both Welspun Group companies and outside entities.

Currently, WEL (including its subsidiaries and JVs) has five operational BOT projects, out of which four are in the road segmentand one pertains to industrial water supply. The company also has stake in Adani Welspun Enterprises Ltd (35% stake) which is an oil & gas exploration company and is currently exploring 4 Oil & gas blocks (2 in Mumbai Offshore,and 2 in Kutch OffShore).
During FY16, the company reported consolidated total income of Rs.304 crore and net profit of Rs.1.73 crore as compared with total income of Rs.890 crore (includes sales from Welspun Maxsteel Ltd, which was sold off in FY15) and net profit of Rs.0.67 crore crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:

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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
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based-Long Term	-	-	-	65.00	CARE A+; Stable
Non-fund-based-LT/ST	-	-	-	360.00	CARE A+; Stable / 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	-	-	-	1)CARE A (11-Apr-16)	-	1)CARE A- (SO) (Under Credit Watch) (02-Mar-15)
2.	Term Loan-Long Term	LT	-	-	-	1)CARE A (11-Apr-16)	-	1)CARE A- (SO) (Under Credit Watch) (02-Mar-15)
3.	Fund-based-Long Term	LT	65.00	CARE A+; Stable	-	1)CARE A (11-Apr-16)	-	1)CARE BBB+ (Under Credit Watch) (02-Mar-15)
4.	Non-fund-based-LT/ST	LT/ST	360.00	CARE A+; Stable / CARE A1+	-	1)CARE A / CARE A1 (11-Apr-16)	-	1)CARE BBB+ / CARE A3+ (Under Credit Watch) (02-Mar-15)
5.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (02-Mar-15)

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