



## Rating Rationale

19 July 2022

### Welspun Enterprises Limited

**Brickwork Ratings reaffirms the ratings of the NCD issues aggregating Rs.375 Cr, Commercial Paper Program of Rs.225 Cr and bank loans of Rs. 2321 Cr.**

#### Particulars

Borrowing Type	Previous Amt (Rs. Cr)	Present Amt (Rs. Cr)	Tenure	Previous Rating (July 28, 2021)	Present Rating (Reaffirmation)
Commercial Paper	225	225	Short Term	BWR A1+	<b>BWR A1+</b>
Fund Based Bank Loan	238.18	485	Long Term	BWR AA- (Stable)	<b>BWR AA- (Stable)</b>
Non-Fund Based WC Limits#	1100	1836	Long Term/ Short Term	BWR AA- (Stable) / A1+	<b>BWR AA- (Stable) / A1+</b>
NCD (listed in BSE)	375	375	Long Term	BWR AA- (Stable)	<b>BWR AA- (Stable)</b>
<b>Total</b>	1938.18	<b>2921.00</b>	<b>Two Thousand Nine Hundred Twenty One Crore Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

Details of Bank loans given in Annexure I and details of NCD given in Annexure II

#Non-fund based limits of Rs.1836 Cr are in the form of Bank Guarantees/ Letter of Credit and fund based limits of Rs.485 Cr are one way interchangeable from fund based to non-fund based

#### RATING ACTION / OUTLOOK

**BWR reaffirms the rating of the NCD issues aggregating Rs.375 Cr, Commercial Paper Programme of Rs. 225 Cr and bank loan of Rs.2321 Cr of Welspun Enterprise Ltd. (WEL)**

The rating factors in, inter alia, experienced promoters (Welspun Group) and the established track record of WEL in road construction and in the timely execution of large-sized Build-Operate-Transfer (BOT) and Hybrid Annuity Model projects (HAM), revenue visibility with strong EPC order book, divestment of the completed road projects to Actis Highway Infra Ltd. (Actis) for the Enterprise Value of Rs.6000 Cr which is expected to add to the liquidity of the Company and also improve the capital structure with the release of Corporate Guarantees provided for this completed project.

However, the rating is constrained by increasing exposure to projects special purpose vehicles (SPV) in the form of Corporate Guarantees provided, inherent cyclical trends associated with the construction sector and working-capital-intensive nature of operations.

The Stable outlook indicates sustainability of performance going forward taking into consideration current order book position and enhanced working capital limits for smooth



execution of the projects. The company is expected to achieve substantial growth of revenue from EPC services in FY23 as estimated considering the current order book position and sanction of enhanced working capital limits for smooth execution of the projects.

## **Description of Key Rating Drivers**

### **Credit Strengths:-**

**Experienced and resourceful promoters:** WEL is part of the Welspun group, a USD 2.7 billion diversified group promoted by Mr. B.K. Goenka and Mr. R.R. Mandawewala and having an established track record in fields such as steel pipes, home textiles and steel manufacturing through various group companies.

**Established track record of executing infrastructure projects:** The company benefits from over a decade of experience in the infrastructure/road construction sector and established/or demonstrated work execution with the National Highways Authority of India, various State Government / Road Development Boards. In FY20 the company completed the Delhi Meerut Expressway HAM project well before the due date. In FY21, WEL has achieved PCOD for Chutmalpur-Ganeshpur and Roorkee- Chutmalpur-Gagalheri (CGRG) and Gagalheri-Saharanpur-Yamunanagar (GSY) projects which were the projects bought by WEL from MBL Infrastructure Ltd. as per scheduled completion dates. In FY22, the company achieved PCOD for Chikhali Tarshod (CT) Road project, Maharashtra Amravati Road project (AM) and Mukarba Chowk – Panipat BOT Project.

The Company's main focus is towards following the asset-light model with minimal plant and machinery as the execution of EPC work is done by subcontractors selected by the board-approved contracts committee based on stringent internal parameters, including their competencies and past experience, among other factors. This enables WEL to focus on project management consultancy, low working capital and debt requirement, leading to low leverage and a high ROCE.

**Divestment of completed road projects:** WEL announced divestment of 6 completed road projects to Actis for an aggregate Enterprise Value of approximately Rs.6000 Cr. The Highway Portfolio comprises 5 completed HAM projects which includes – Welspun Delhi Meerut Expressway Private Limited, Welspun Road Infra Pvt. Ltd. (Maharashtra Amravati), MBL CGRG Road Ltd., Chikhali Tarsod Highways Pvt. Ltd. (CT), MBL (GSY) Road Ltd. and One operating BOT-Toll asset -Welspun Infracapacity Pvt. Ltd. (Mukarba Chowk – Panipat (MCP)).

The completion of the above transaction is subject to completion of customary and regulatory compliances and approvals from NHAI, PWD, and lenders.

Presently, Cumulative Debt (without considering termination reimbursement) for such proposed to be sold SPVs as on 31.03.2022 is ~Rs 3,464 Crore covered under Corporate Guarantee provided for these projects is Rs.3,919 Cr, which will be eliminated once the transaction is completed.

The cash flows are expected to be utilized for repayment of debt on priority basis while balance cash flows will be available to the Company to be utilized for its regular working capital purpose as well as venturing into new projects to tap suitable business opportunities.



For the completion of the transaction, approval is required from the lenders and NHAI, which is expected to be received by 2Q/ 3Q FY23 and the entire transaction is expected to be completed by 31 March 2023.

WEL will continue to provide EPC services for the projects which have achieved PCOD till the completion of the projects.

Post this proposed exit, the Company's road asset portfolio would comprise of two under-construction HAM road projects (Sattanathapuram - Nagapattinam and Aunta – Simaria Road projects) which have an executable order value of ~Rs. 2,100 cr.

**Operating Performance:** For FY22, the company reported revenue of Rs. 1345 with EBITDA margin of 13.5% as compared to the revenue of Rs.1439 Cr in FY21 with EBITDA margin of 14.1%. Revenue and profitability were impacted in FY22 due to various unexpected and uncontrollable reasons like continuing lockdowns/ disruptions caused by severe 2<sup>nd</sup> wave of COVID-19 pandemic in majority period of Q1 of FY 2021-22 coupled with prolonged heavy rains in almost all project areas alongwith continuing force majeure events like farmers agitation NGT (National Green Tribunal) intervention in large BOT project viz. Mukarba Chowk project and delays caused due to regulatory reasons. Because of the above reasons, the company could not achieve the desired level of operational performance and overall construction work on its existing road projects were severally hampered. However, despite of these continuing operational challenges, the company managed to successfully achieve the PCOD for its Chikhali – Tarsod and Maharashtra AM2 projects in H1- FY 2021-22 and PCOD for Mukarba Chowk project in Mar2022, making total six projects under operation including earlier operational projects of Delhi Meerut, CGRG and GSY.

After achieving PCOD on 31<sup>st</sup> Mar2022, Mubarka Panipat Toll road project has started generating revenues from April 6, 2022 with average toll revenue of Rs.80 Lakhs per day.

Revenues are expected to increase substantially as estimated by the management considering the current order book position of Rs.10,300 Cr to be executed in next two to three years and sanction of enhanced working capital limits is already in place for smooth execution of the orders.

**Revenue visibility backed by Order book position:** As on date, the order book is of Rs.10310 Cr with Rs.4688 Cr from water segment and balance from road segment. Of these orders, 24% are from captive projects and balance are external. The orders are required to be executed in next two to three years providing revenue visibility.

#### **Credit Risks:-**

##### **High Corporate Guarantees:**

As the sponsor of a project, the company may case to case basis need to offer a corporate guarantee in favour of the lender (SPV) to that project. Based on construction milestone completion, the concession agreement provides the termination payment even in the case of a concessionaire default, which is expected to reduce the company's effective liability towards the availed / outstanding debt amount.

As on March 31, 2022, the amount of Corporate Guarantees provided was Rs.5697 Cr, of which Rs. 3969 Cr pertains to completed projects which are already generating revenues and value



related to projects under divestment is ~Rs 3,919 Crore. On completion of divestment, the Corporate Guarantees for these projects will be released. Outstanding Corporate Guarantees for under construction projects is Rs.1728 CR with outstanding debt of ~Rs 278 Crore as on 31<sup>st</sup> March 2022.

**Working-capital-intensive operations:** Working capital requirement is inherently higher in the EPC industry, given the high dependence on central and state government authorities for the timely receipt of payments.

Till FY 2022, majority of the projects handled by the company are HAM road projects under its SPVs however in past few quarters Company has increased its focus on EPC projects mainly in water segment also resulting into two orders (one UP-JJM Project and other one is Mumbai- STP Project) in water segment. Keeping this strategy, going forward too, the Company will be more focused on EPC projects in both road and water segments, while continuing to look for better opportunities in Road segment as a developer.

**Inherent risk associated with execution of HAM projects:** The Company currently has two under construction HAM projects which exposes the Company to the inherent risk associated with the execution of HAM projects. However, once the projects are completed, the risk to lenders reduces significantly.

**LIQUIDITY PROFILE (ADEQUATE):** As on March 31 2022, WEL had cash and cash equivalents including Fixed deposits of Rs.117 Cr and standby liquidity in the form of unused bank lines of Rs.234 Cr with no amount outstanding under the CP programme of Rs.225 Cr. The Company does not plan to raise CP in near future.

The company continues to have sufficient liquidity meet the current debt maturities of Rs.120 Cr during FY23. Further, with the closure of WEL's divestment deal with Actis (which is expected to be concluded in FY 2023 itself), the overall liquidity position would be substantially improved which would help the company to further strengthen its overall financial standing.

### **Analytical Approach**

BWR has considered a standalone financial risk profile along with Corporate Guarantees provided for its SPVs, for analyzing WEL. The company is the EPC service provider and the SPVs are infra projects which generate its own independent revenue and EBITDA for debt servicing.

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities:**

**Credit Positive:** The company's ability to achieve projected revenue and profitability, its timely execution of the order book with envisaged costs, the ability to sustain profitability margins and the timely divestment of declared HAM projects to free-up the capital to take up new projects and improve its debt protection matrix at stand alone and consolidated level will be credit positive.



**Credit Negative:** A delay in the execution of projects leading to time and cost overruns, affecting the profitability margins and an inordinate delay in the divestment of declared HAM projects, along with a material impairment in profitability and liquidity will be credit negative.

### About the Company

Welspun Enterprises Limited was incorporated on 20th December, 1994 in Gujarat. WEL is a part of Welspun Group and is primarily engaged in construction, developing and maintaining BOT/HAM projects. Welspun Enterprises Ltd currently has two business interests, including the construction/operation of roads, highways and other EPC business activities including in water segment and oil and gas exploration activities through the JV with Adani Group. In Infrastructure, WEL has developed and operates PPP projects in various sectors such as roads, water supply, and urban infrastructure. The company has successfully completed many prestigious projects, and its key clients include the NHAI, Madhya Pradesh Road Development Corporation Ltd (MPRDC) and the Ministry of Road Transport and Highways.

### Company Financial Performance

(Rs n Cr)	Standalone		Consolidated	
	FY21	FY22	FY21	FY22
	Audited	Audited	Audited	Audited
Total Operating Income	1439	1345	1672	1575
EBITDA	199	182	313	323
PAT	107	93	130	126
Total Debt	602	502	2233	2515
Tangible Net Worth*	1814	1883	290*	(39)*
Total Debt/Equity (Times)	0.3	0.3	7.7	-

\*Tangible net worth is negative as toll rights of Mukarba toll road project acquired in FY22 is accounted as Right to Use assets of Rs.11.05 Cr and Intangible assets under development of Rs.1768 Cr as in March 31, 2022. Excluding that, net worth is Rs.1793.76 CR.

**Rating History for the last three years (including withdrawn/suspended ratings)**

S. No	Instrument / Facility	FY2022			Rating History				
		Type	Amount	Rating	FY2021		FY2020		FY19
	(Long Term/ Short Term)	(₹ Crs)	28-Jun-21		27-May-21	11-May-20	17-Mar-20	20-Aug-19	
	Fund Based								
1	Commercial Paper	Short term	225	A1+	A1+	A1+	A1+	A1+	A1+
2	NCD	Long term	175	AA-(Stable)	AA-(Stable)	AA-(Stable)	AA-(Stable)	Withdrawn	AA (SO)
3	NCD	Long Term	200	AA-(Stable)	AA-(Stable)	AA-(Stable)			
3	Fund Based Working Capital	Long Term	485	AA-(Stable)	AA-(Stable)	AA-(Stable)	AA-(Stable)	AA-(Stable)	
4	Non-Fund Based Working Capital	Long Term / Short Term	1836	A1+	AA-(Stable) / A1+	AA-(Stable) / A1+	AA-(Stable) / A1+	AA-(Stable) / A1+	
5	Bank Term Loan	Long Term	-		AA-(Stable)	AA-(Stable)	AA-(Stable)	AA-(Stable)	
6	Proposed Term Loan / Working Capital Term Debt	Long Term	-			Withdrawn	AA-(Stable)	AA-(Stable)	
	<b>Total</b>		<b>2921</b>				<b>Rs. Two Thousand Nine Hundred and Twenty One Crore Only</b>		

**Status of non-cooperation with previous CRA (if applicable)-Reason and comments: NA**

**Any other information: NA**

**Hyperlink/Reference to applicable Criteria**

- [Commercial Paper](#)
- [Approach to Financial Ratios](#)
- [General Criteria](#)
- [EPC Sector](#)
- [Rating Based on Group Support](#)
- [Short term debt](#)

**COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

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### ANNEXURE I

#### Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	Union Bank of India*	Working Capital	125	475	600
2	IDBI Bank*	Working Capital	49	181	230
3	Indian Bank*	Working Capital	50	100	150
4	IDFC First Bank	Working Capital	(40)	150	150
5	IndusInd Bank*	Working Capital	40	100	140
6	Karnataka Bank	Working Capital	(90)	90	90
7	Central Bank of India*	Working Capital	50	100	150
8	Punjab National Bank*	Working Capital	50	200	250
9	Bank of Maharashtra*	Working Capital	66	190	256
10	Canara Bank*	Working Capital	30	200	230
11	Karur Vysya Bank*	Working Capital	25	50	75
<b>TOTAL</b>					<b>2321</b>

“( )” denotes Fund Based limit as a sublimit to Non Fund Based limits

\* Interchangeability from FB to NFB

**Total Rupees Two Thousand Three Hundred Twenty One Crore Only**

**ANNEXURE II  
NCD DETAILS**

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount in Crs.</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
NCD	27-May-2020	175	8.85%	27-May-2023	INE625G07010
NCD	01-Jun-2020	200	9.75%	01-Jun-2023	INE625G07028

**ANNEXURE III – ENTITIES CONSOLIDATED**

<b>Entities Consolidated</b>	<b>Relation</b>
Welspun Delhi-Meerut Expressway Private Limited	Subsidiary
Welspun Road Infra Private Limited	Subsidiary
Welspun Amravati Highway Private Limited	Subsidiary
Welspun Build-Tech Private Limited	Subsidiary
Welspun Sattanathapuram Nagapattinam Road Private Limited	Subsidiary
Welsun Projects (Himmat Bypass) Private Limited	Subsidiary
Welspun Projects (Kim Mandavi Corridor) Private Limited	Subsidiary
Dewas Water Projects Works Private Limited	Subsidiary
Welspun Natural Resources Private Limited	Subsidiary
ARSS Bus Terminal Private Limited	Subsidiary
DME Infra Private Limited	Subsidiary
Grenoble Infrastructure Private Limited	Subsidiary
Welspun Infracility Private Limited	Subsidiary
Welspun Aunt-Simaria Project Private Limited	Subsidiary
Welsteel Enterprises Private Limited	Subsidiary
RGY Roads Private Limited	Joint Venture
MBL (GSY) Road Limited	Joint Venture
MBL (CGRG) Road Limited	Joint Venture





Corbello Trading Private Limited	Joint Venture
Chikhali- Tarsod Highways Private Limited	Joint Venture
Adani Welspun Exploration Limited	Associate

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