

**WALCHANDNAGAR INDUSTRIES LIMITED**

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Website: www.walchand.com Email: wil@walchand.com

Ref. No. : WIL: SEC : 2024

Date : March 21, 2024

National Stock Exchange of India Ltd.
Corporate Action Department
Exchange Plaza, 5th floor,
Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051.
Fax :26598237/38, 66418126/25/24
Scrip Code : WALCHANNAG

BSE Ltd.,
Corporate Relations Department
1st floor, New Trading Ring,
Rotunda Bldg P. J. Tower,
Mumbai 400 001
Fax:: 22723121/2039/2037
Scrip Code : 507410

Dear Sirs,

Sub.: Disclosure under Regulation 30(6) read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

With reference to the above subject, we wish to inform you that **India Ratings and Research Private Limited**, the Credit Rating Agency, have upgraded the credit rating of the Company vide its email dated March 20, 2024 as given below:

| | Fund-based working capital limit (Rs. in Million.) | Non-fund-based working capital limit (Rs. in Million.) |
|----------------------------------|---|---|
| Total Rated Quantum | 1,964.10 | 4,445.60 |
| Rating/Outlook | IND B+/Stable/IND A4 | IND A4 |
| Most recent Rating Action | Long-term rating upgraded; short-term rating affirmed | Affirmed |

In this regard, please find enclosed herewith Published rating dated March 20, 2024 issued by **India Ratings and Research Private Limited**.

You are requested to kindly take the above information on record please.

Thanking you,
Yours faithfully,

For Walchandnagar Industries Ltd.

G. S. Agrawal
Whole Time Director & Company Secretary
DIN: 00404340
Encl.: As above

India Ratings Upgrades Walchandnagar Industries' Bank Facilities to 'IND B+'/Stable

Mar 20, 2024 | Industrial Products

India Ratings and Research (Ind-Ra) has upgraded Walchandnagar Industries Limited's (WIL) long-term debt rating to 'IND B+' from 'IND B' with a Stable Outlook while affirming the short-term debt rating at 'IND A4' as follows:

Details of Instruments

| Instrument Type | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|--------------------------------------|------------------|-----------------|---------------|--|----------------------|---|
| Fund-based working capital limit | - | - | - | INR1,964.10 (reduced from INR2,145.40) | IND B+/Stable/IND A4 | Long-term rating upgraded; short-term rating affirmed |
| Non-fund-based working capital limit | - | - | - | INR4,445.60 (reduced from INR4,595.60) | IND A4 | Affirmed |

Analytical Approach

Ind-Ra continues to take a standalone view of WIL for the rating purpose.

Detailed Rationale of the Rating Action

The upgrade reflects continuous liquidity support available to WIL, stemming from the sale of non-current assets and equity infusions. A proposed equity infusion by FY26 will further aid the liquidity of the company. Ind-Ra also expects an improvement in WIL's profitability and liquidity during FY25-FY27, on account of a likely improvement in the scale of operations, while the disruptions in operations in 3QFY24 will affect the FY24 financials.

List of Key Rating Drivers

Strengths

- Issuance of share warrants and capex plans to mitigate delay in sale of non-core assets
- Successful execution of standstill conditions

Weaknesses

- Expected decline in revenue due to labour strike
- Weak profitability due to disruption in operations
- Weak credit metrics
- Elongated working capital cycle

Detailed Description of Key Rating Drivers

Issuance of Share Warrants and Capex Plans to Mitigate Delay in Sale of Non-Core Assets: Out of the total projected sale of non-core assets to the tune INR1,101.40 million by FY24, WIL could sell assets worth INR534.69 million only and expects to sell the remaining assets by FY25. However, WIL issued 2,17,18,203 share warrants at INR114 per unit amounting to INR2,475.85 million in November 2023; and of the total amount, INR315.85 million will be adjusted towards promoters loan. The anticipated net cash flow is INR2,160 million; of which, the company has planned to utilise INR1,050 million towards capex; INR410 million towards repayments of term loan and working capital facility; INR500 million towards working capital requirement and balance INR200 million towards general corporate purpose.

Till December 2023, one-third of the issue size amounting to INR825.3 million has already been subscribed; out of which, INR620 million has been received and INR205.3 million has been adjusted against the promoters debt. The remaining two-third share warrants are exercisable within 18 months from the date of allotment. Thus, timely exercise of remaining share warrants is a key monitorable.

WIL has planned INR1,050 million capex for the period FY25-FY26 mostly for its aerospace, nuclear and gear divisions; the remaining capex will be for the upgradation of machinery.

Successful Execution of Standstill Conditions: WIL had delayed the servicing of KKR India Financial Services Private Limited's (KKR) term loan and the non-convertible debentures issued to KKR India Debt Opportunities Fund II in FY21. On 31 March 2022, KKR assigned the entire debt of INR2,073 million to Assets Care and Reconstruction Enterprise Limited (ACRE) for a settlement value of INR720 million, of which INR620 million was funded by ACRE and the remaining INR100 million was funded by WIL, via inter-corporate deposits. As per the standstill agreement between WIL and ACRE, which was signed on 19 July 2022, all the existing event of default would be waived during the standstill period of 12 April 2022 to 12 April 2023. WIL would have to pay monthly interest of INR8.27 million during the standstill period, and an aggregate payment of INR250 million at the end of the standstill period. Furthermore, WIL needed to issue 7% of the total issued and paid-up share capital in favour of ACRE.

WIL has complied with the conditions imposed by the latter. WIL has to repay the remaining INR370 million along with payment-in-kind loan of INR39.2 million by 31 March 2025. The company has to repay the same through the sale of non-core assets. In case of any shortfall, it expects to use equity infusion resources.

Expected Decline in Revenue due to Labour Strike: For 9MFY24, WIL reported INR2,109.69 million in revenue; of which 62.57% pertains to the heavy engineering division (HED); 28.81% pertains to the foundry division and the remaining pertains to the instrumental division. The labours had called a strike for 43 days i.e. from 22 November 2023 to 3 January 2024 and the operations of the company at Walchandnagar Plant were partially impacted. However, the operations were normalised thereafter. Also, contractual workers at the Walchandnagar Plant were working to their capacity and the Satara and Dharwad plants were running at full capacity. WIL has lost revenue of around INR300 million and the overall profitability thus has been impacted for FY24. As on 31 December 2023, WIL had unexecuted orders worth INR9,257.8 million of which INR2,786.50 million pertains to Nuclear division.

In FY23, the company's revenue marginally improved to INR3,220.90 million (FY22: INR2,991.90 million; FY21: INR3,256.40 million) due to an increase in the number of orders executed. HED contributed 75.69% to the total

revenue in FY23 (FY22: 79.95%; FY21: 86.19%), foundry division contributed around 17.77% (14.05%; 10.62%) and the instrumentation division accounted for the remaining revenue. Within HED, the gear business contributed around 17.04% to the total revenue in FY23 (FY22: 10.46%; FY21: 10.47%), the aerospace and missile business contributed 17.03% (23.83%; 29.39%), and the crushing and grinding business contributed 15.94%% (9.57%; 9.25%). Furthermore, in HED, the revenue from the nuclear business increased to INR134.59 million in FY23 (FY22: INR32.37 million; FY21: INR322.81 million), taking its share in the total revenue to 4.18% (1.09%; 9.91%).

Ind-Ra expects revenue for FY24 to remain lower than the FY23 level due to the disruptions in the operations as a result of the labour strike, and to improve gradually in the medium term on the back of the timely execution of the high-value orders and purchase of machinery.

Weak Profitability due to Disruptions in Operations: WIL incurred an EBITDA loss of INR346.40 million in FY23 (FY22: EBITDA of INR221.10 million, margin of 7.39%; FY21: INR197.50 million, 6.06%), due to an increase in the cost of goods sold and one-time adjustment for writing-off old non-moving work-in-progress inventory worth INR196.4 million and a provision of INR241.84 million for doubtful debts. After excluding the one-time adjustment, the adjusted EBITDA margin stood at 2.85% and the adjusted EBITDA stood at INR91.84 million for FY23. Also, ROCE remained negative at 8.71% in FY23 (FY22: negative 0.02%; FY21: negative 0.47%).

Till 9MFY24, WIL reported 0.62% EBITDA margin with absolute EBITDA amounting INR13.17 million which includes INR54.90 million Industrial Promotion Subsidy received during 3QFY24. The EBITDA margin has been impacted due to the operating loss incurred during 1QFY24 and 3QFY24. EBITDA margin is generally low or negative in 1Q owing to delays in government approvals, allocation of funds and budgetary approvals, while in 3QFY24 owing to the labour strike, the company generated EBITDA losses. Ind-Ra expects profitability to remain weak in the near term and gradually improve in the medium term owing to expected improvement in the scale of operations.

Weak Credit Metrics: WIL's credit metrics remained weak and deteriorated in FY23 owing to the fall in the adjusted EBITDA. The gross interest coverage (operating adjusted EBITDA/gross interest expense) weakened to 0.17x in FY23 (FY22: 0.31x; FY21: 0.25x) and the net leverage (total adjusted net debt/operating adjusted EBITDA) deteriorated to 31.70x (22.17x; 23.07x). Ind-Ra expects the credit metrics to remain weak in the near to medium term.

Elongated Working Capital Cycle: WIL's net cash conversion cycle remained elongated but improved to 469 days in FY23 (FY22: 692 days; FY21: 572 days), mainly due to a reduction in the inventory days to 407 (581; 493). Furthermore, during FY09, WIL had received two large-size orders, one from Tamil Nadu Electricity Board worth around INR11,250 million, and one from Tendaho Phase-I & II, Ethiopia worth INR7,000 million- 8,000 million, with a delivery period up to two-to-three years. However, the projects were delayed, leading to higher inventory and debtor period, resulting in a cash flow crisis. While the company has started receiving pending dues from Tamil Nadu Electricity Board. Ind-Ra expects the working capital cycle to remain elongated in the near to medium term on account of execution of long lead projects in the nuclear & aerospace division.

Liquidity

Poor: WIL's average maximum utilisation of the fund-based limits was 94.91% for the 12 months ended February 2024. Its cash and cash equivalent stood at INR17.80 million at FYE23 (FYE22: INR29.40 million; FYE21: INR29.20 million). While the cash flow from operations and free cash flow turned positive in FY23 at INR267.20 million (FY22: negative INR423.10 million; FY21: INR25.60 million) and INR251.50 million (negative INR454 million; negative INR41 million), respectively, due to favourable changes in the working capital, cash flow from operations remains a key monitorable considering the 9MFY24 performance. WIL has high repayment obligations of INR378.1 million and INR300 million in FY24 and FY25, respectively, which are likely to be funded through equity infusions and the sale of non-core assets.

Rating Sensitivities

Negative: Lower-than-expected profitability, or further delays in the monetisation of non-core assets or non-exercise of the remaining share warrants, leading to further deterioration in liquidity, on a sustained basis, would be negative for the ratings.

Positive: An improvement in the operating profitability, timely exercise of the remaining share warrants and the sale of non-core assets, leading to an improvement in the liquidity, on a sustained basis, would be positive for the ratings.

About the Company

Established in 1908, WIL provides engineering, procurement and construction solutions and supply's machinery and equipment to the aerospace and missile, defence, nuclear, gears, centrifugal, and sugar sectors. WIL has HED, foundry division and instrumentation division.

KEY FINANCIAL INDICATORS

| Particulars | 9MFY24 | FY23 | FY22 |
|-----------------------------|---------|----------|----------|
| Revenue (INR million) | 2109.69 | 3,220.90 | 2,991.90 |
| EBITDAR (INR million) | 13.17 | -346.40 | 221.10 |
| EBITDAR margin (%) | 0.62 | -10.75 | 7.39 |
| Gross interest coverage (x) | 0.03 | N.A. | 0.31 |
| Net leverage (x) | N.A. | N.A. | 22.17 |
| Source: WIL; Ind-Ra | | | |

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | |
|--------------------------------------|------------------------|----------------------------|----------------------|---------------------------|---------------------|----------------------|
| | Rating Type | Rated Limits (INR Million) | Rating | 22 September 2023 | 7 July 2023 | 14 November 2022 |
| Issuer Rating | Long-term | - | - | WD | IND B/Stable | IND B-/Stable |
| Fund-based working capital limit | Long-term/Short-term | INR1,964.10 | IND B+/Stable/IND A4 | - | IND B/Stable/IND A4 | IND B-/Stable/IND A4 |
| Non-fund-based working capital limit | Short-term | INR4,445.60 | IND A4 | - | IND A4 | IND A4 |

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of the Instruments

| Instrument Type | Complexity Indicator |
|---------------------------------------|----------------------|
| Fund-based working capital limits | Low |
| Non-fund-based working capital limits | Low |

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DETAILED FINANCIAL SUMMARY

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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