

WAPCOS Limited
October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating¹	Rating Action
Long Term Bank Facilities	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	1,450.00 (Enhanced from 1,000.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	1,500.00 (Rs. One Thousand Five Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of WAPCOS Limited (WAPCOS) takes into account its strong parentage with entire ownership with Government of India (GoI), long track record of operations, experienced and professionally qualified management, dominant position in consulting services in water resources, power and infrastructure development projects, reputed clientele and association with various international organizations. The rating also factors in its robust order book position, comfortable financial risk profile marked by strong capital structure and robust liquidity. The rating strengths are, however, constrained by its declining profitability margins, elongated collection period, vulnerability of revenues to economic cycles, inherent challenges of the construction industry and significantly high contingent liabilities.

Rating Sensitivities**Positive Sensitivities: Factors that could lead to positive rating action/ upgrade:**

- Improvement in PBILDT margins to over 15% on a sustained basis.
- Decrease in average collection period to less than 200 days on a sustained basis

Negative Sensitivities: Factors that could lead to negative rating action/ downgrade:

- Significant increase in Total outside Liabilities to Net worth beyond 3.50x on a sustained basis
- Any change in the GoI's ownership or weakening of managerial and financial linkages with GoI
- Decline in operating margins to below 7%

Detailed description of the key rating drivers**Key Rating Strengths****Government of India (GoI) ownership and long track record of operations**

GoI holds 100% ownership in WAPCOS Limited. The company is a "MINI RATNA-I" Public Sector Enterprise under the aegis of the Ministry of Jal Shakti, Department of Water Resources, River Development & Ganga Rejuvenation, Govt. of India. Incorporated on June 26, 1969, WAPCOS is a technology driven Consultancy and Engineering, Procurement and Construction (EPC) organization with strong presence in India and globally in the field of Water, Power and Infrastructure sectors. Its Quality Management System conforms to ISO 9001:2015 for Consultancy Services in Water Resources, Power and Infrastructure Development Projects and Quality Management System ISO 9001:2008 for EPC Projects. The company has on-going projects across more than 50 countries.

Experienced and professionally qualified management

The company has a strong management team and an experienced workforce comprising of professionals and technical staff. The management team of WAPCOS is led by the Chairman-cum-Managing Director (CMD)- Mr. R.K. Agrawal, an engineering graduate, having specialisation and master's degree in water resources engineering and business administration. Mr. Agrawal has more than 30 years of experience in planning, design and implementation of water resources, power and infrastructure development projects in India and abroad. Mr. Pankaj Kapoor is the Director (Finance) of the company. He has more than 24 years of rich experience and has

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

been handling various matters concerning Corporate Finance, Working Capital Management, Cost & Budgetary Control etc. Further, the board also has two Nominee Directors from the government – Shri Subhodh Yadav, from Ministry of Water Resources, River Development & Ganga Rejuvenation and Shri P. Harish, from Ministry of External Affairs. The managerial and financial linkages with GoI give support to the ratings and would continue to remain a key monitorable.

Dominant position in consulting services in water resources, power and infrastructure and development projects albeit on a declining trend

WAPCOS provides Consultancy & EPC services with strong presence in India and globally in the field of Water, Power and Infrastructure sectors. The major services under consultancy include preliminary investigations/reconnaissance; feasibility studies/planning/project formulation; baseline and socio-economic surveys; field surveys & investigations and testing; operation and maintenance; project management and construction supervision; EPC/turnkey & deposit works, etc. In India, WAPCOS is providing Consultancy services for developmental projects in all the states and is also involved in key GoI schemes. In FY21, contribution from consulting segment was 53% of the total revenue (PY: 58%) while the balance is from the construction segment. Under the EPC segment, 100% of the contracts are outsourced to sub-contractors. Sustained higher contribution from consultancy segment attracting superior margins is a rating sensitivity.

Reputed clientele and association with various international organizations for participating in projects

WAPCOS has reputed customer base for domestic and international projects. The company primarily works with various government departments like Central Water Commission, Ministry of Water, Ministry of External Affairs, Central Ground Water Board, Water Resources Department, Central Electricity Authority, Ministry of Environment, Forests & Climate Change etc. Further, WAPCOS has successfully completed consultancy assignments in countries covering Asia, Africa, Middle East, South America, Pacific Islands with presence in more than 57 countries. In FY21, the company earned approximately 82% from domestic projects and 18% from international projects majorly from the consulting segment (PY: 81% & 19% respectively). All the international projects handled by WAPCOS are completely funded by various multi-lateral funds or are Exim Bank funded. In addition to this, WAPCOS is also registered with various international funding agencies for participating in the funded projects like World Bank, Asian Development Bank, African Development Bank, Japan Bank for International Cooperation etc.

Robust order book position

WAPCOS has a robust order book position of ~ Rs.8000 crore as on September 30, 2021 (5.97x of FY21 TOI) to be executed in the next 2-6 years. This includes orders of Rs.6197 (78%) from construction segment and Rs.1793 crore from consulting segment (22%). The consultancy projects attract higher margins in comparison to the orders under construction segment. During FY21, with the decline in the contribution of consultancy segment affected majorly by Covid-19 pandemic, the company witnessed moderation in its operating margins.

Comfortable financial risk profile albeit declining operational performance during FY21

The total operating income increased at a compounded annual growth rate (CAGR) of 19% during FY17-FY20 (refers to the period from April 1 to March 31). During FY21, the total operating income, however, witnessed a decline of 16% to reach Rs.1336.32 crore vis-à-vis Rs.1597.01 crore in FY20. The decline has been majorly due to the activities of the company getting affected during H1FY21, owing to Covid-19 led restrictions throughout the country. The profitability margins have been in the range of 13% and have remained stable over FY17-FY20. However, the segmental profitability from consulting and construction segment came down to 7% during FY21 on account of lower number of projects executed in FY21. Ability of the company to ramp up its pace of execution and achieve pre-covid level margins constitutes a key rating monitorable.

The company has a strong capital structure with no long-term external debt on its books. The overall gearing stood at 0.82x, comprising of advances received from clients to the tune of Rs.456.04 crore (PY: Rs.408.96 crore) along with O/s working capital limits of Rs.48 crore as on March 31, 2021. The tangible net-worth of the company stood at Rs.616.50 crore as on March 31, 2021, as against Rs. 600.22 crore as on March 31, 2020. Further, during FY21, the company had distributed a healthy dividend of Rs.25 crore (Rs.51.84 crore in FY20). During FY19, the company was mandated by the GoI under GoI's strategic disinvestment program to acquire M/s National Projects Construction Corporation Limited (NPCC), another Central Public Sector Enterprise under the then Ministry of Water Resources, River Development & Ganga Rejuvenation. WAPCOS acquired 98.89% shares of Government of India at a purchase consideration of Rs. 79.80 crore funded out of internal accruals on March 25, 2019. CARE understands that as per management strategy, the bidding areas of NPCC and WAPCOS are clearly demarcated, wherein they would not compete with each other going forward.

Key Rating Weaknesses

Elongated collection period

During FY21, the construction segment contributed to 47% of the total revenues and as majority of projects are executed in Q4, the outstanding debtors of WAPCOS increased as on March 31, 2021. Further, the total outstanding receivables (excluding security deposits & retention money) stood at Rs.1530.17 crore as on March 31, 2021 as compared to Rs.1433.541 crore as on March 31, 2020.

The average working capital cycle of the company deteriorated at 104 days in FY21 (PY: 65 days). Though the collection period increased to 414 days in FY21 from 312 days in FY20, the average creditors also rose to 310 days from 247 days in FY20, on account of back-to-back arrangements with the creditors. The creditors are mainly the sub-contractors to whom WAPCOS outsources the core construction activities. Timely collection of the receivables thereby easing the working capital continues to remain a key rating sensitivity.

Exposure to inherent challenges in construction industry

The construction sector is inherent to challenges like fluctuation in input prices, cost overruns in the delayed projects and additional working capital requirement arising from delay in realization from clients. The sector is also marred by various other challenges on account of economic slowdown and regulatory changes, which adversely impact the financial and liquidity profile of players in the industry. However, plethora of initiatives has been undertaken by Government of India such as Make in India, Digital India, Smart City, AMRUT, Sagarmala etc. coupled with foreign investment influx in Defence sector, which have boosted the infrastructure development and revived the investment cycle. The projects pertaining to Energy Efficiency, Value addition with Integration of Natural Gas, displacement of Liquid fuels and Clean Fuels (BS-VI) projects have been undertaken in the country, which has gradually resulted in increased order inflow. Going forward, companies with better financial flexibility like WAPCOS are likely to grow at a faster rate by leveraging the potential opportunities.

High contingent liabilities:

The company has significant contingent liabilities, representing claims under adjudication, demands from service tax authorities, bank guarantees given to clients to the tune of Rs.1201.04 crore (PY: Rs.977.82 crore). While the bank guarantees largely comprise performance bank guarantees and form part of routine business for companies operating in construction sector, other claims, if materialised, may expose the company to substantial liabilities.

Liquidity Analysis: Adequate

The liquidity position of WAPCOS remains adequate as reflected by its healthy cash and bank balances and minimal external debt as on March 31, 2021. WAPCOS had unencumbered cash and bank balance of Rs.204.38 crore (excluding bank deposits held as margin money and balances earmarked against specific projects) as on March 31, 2021. The current ratio of WAPCOS stood at 1.61x as on March 31, 2021 (PY: 1.65x). The company majorly relies on the customer advances and extension of creditors for its working capital funding. WAPCOS normally receives ~10% of the contract price as mobilization advance against which similar value of bank guarantee is issued by the company.

Analytical Approach – Standalone. The rating also factors in the strong parentage of the company (Govt ownership).

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for service companies](#)

[Rating Methodology-Construction Sector](#)

[Liquidity Analysis of non-financial sector entities](#)

[Factoring Linkages Government Support](#)

About the Company

WAPCOS Limited is a "MINI RATNA-I" Public Sector Enterprise under the aegis of the Ministry of Jal Shakti (MoJS), Department of Water Resources, River Development & Ganga Rejuvenation, Govt. of India. Incorporated on June 26th, 1969; WAPCOS is a Consultancy and EPC organization with strong presence in India and globally in the field of Water, Power and Infrastructure sectors. WAPCOS undertakes Consultancy & EPC projects with

consultancy contributing 53% & EPC Contributing 47% to its total operating income (TOI) during FY21. Further ~82% of the revenues in FY21 was from domestic projects and balance from international projects. The contribution of EPC segment is majorly from domestic projects. The quality management systems of WAPCOS comply with the Quality Assurance requirements of ISO 9001:2015 for Consultancy Services in Water Resources, Power and Infrastructure Development Projects and Quality Management System ISO 9001:2008 for EPC projects. WAPCOS has presence in 47 countries apart from India.

Brief Financials-Standalone (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1597.01	1336.32
PBILDT	239.29	94.93
PAT	134.03	40.52
Overall gearing (times)	0.69	0.82
Interest coverage (times)	9.90	3.48

A: Audited; Financials have been classified as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure 4

[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
Non-fund-based - LT/ST-Bank Guarantees		-	-	-	1450.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE A+; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ST-Bank Guarantees	LT/ST*	1450.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (11-Sep-20)	-	-
2	Fund-based - LT-Cash Credit	LT	50.00	CARE A+; Stable				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
Bank Guarantee	The margin on the financial bank guarantee is 10% and nil on the performance bank guarantee.
B. Non-financial covenants	
Bank Guarantee	The purpose of issuing bank guarantees is to support the routine business requirement of the company.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

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:

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.

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