

Successful Turnaround & Exit for a Heavy Engineering Company

Background

- ACRE invested INR 72 Cr in April 2022 for acquiring debt of Walchandnagar Industries Limited ('Borrower') from Kohlberg Kravis Roberts & Co. (KKR)
- Debt acquired at 40c of OPB & 100% cash transaction funded by ACRE & a globally reputed Qualified Institutional Buyer (QIB)
- Borrower is a listed manufacturing & heavy engineering player with a strong lineage engaged in 2 business segments
 - DNAM: Manufacturing & heavy engineering for defence, nuclear, aerospace & missiles (DNAM)
 - Non-DNAM: Manufacturing of gears, centrifugal, foundry, cement spares & instrumentation for other industries

Investment Thesis

- Strong business case: a) DNAM business with key clients as DRDO, ISRO, Indian Navy, NPCIL, BDL, BEML and BEL; b) Non-DNAM business churns regular EBIDTA for debt servicing
- Investment thesis was to resolve the issues being faced by the Borrower by providing flexibility to service debt
- Underwritten basis restructuring of debt along with monetization of non-core assets
- ACRE correctly anticipated that Borrower would benefit from sectoral tailwinds due to strong Government focus on indigenous manufacturing in defence sector, which is of strategic importance

Resolution Plan

- Resolution scheme encompassing of 2 phases with door-to-door tenor of 3 years
 - Standstill phase [Year 1]: Borrower to pay lower coupon for 1st year & 1st principal payment only at end of 1st year. This helped Borrower in stabilizing operations & meeting WC requirements
 - Restructuring Phase [Year 2 & Year 3]: Some portion of debt was converted into equity in order to right-size the debt of the Company and to provide potential upside to ACRE. The debt was restructured keeping cognizance of company's requirements, with payment of coupon on monthly basis and principal repayments in half-yearly instalments.

Current Status

- ACRE fully exited its entire exposure in the Borrower in mid-July 2024 as a result of refinancing thereby providing an early exit to ACRE by 9 months
- ACRE's strong underwriting skills along with a deep sense of commitment to revitalising stressed assets enabled the Borrower to exit ARC framework
- With improvement in business operations & return to normalcy, Borrower was able to multiply its enterprise value & ACRE achieved a MoIC of 1.72x