WPIL Limited

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	107.21 (Enhanced from 87.21)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term (LT/ST) Bank Facilities	431.79 (Enhanced from 358.44)	CARE A; Positive/CARE A1 (Single A; Outlook: Positive/ A One)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	4.50 (Enhanced from 1.50)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**543.50 (Rs. Five Hundred Forty-Three Crore and Fifty Lakh Only)**		
Commercial Paper (Carved out)*	15.00	CARE A1 (A One)	Reaffirmed
Total Short Term Instruments	**15.00 (Rs. Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1

*carved out of sanctioned working capital limits of the company

Detailed Rationale & Key Rating Drivers

The ratings assigned to WPIL Limited (WPIL) continue to derive strength from its established presence in the domestic pump industry, international presence through foreign acquisitions, diversified product portfolio and medium-term revenue visibility arising from the orders in hand. The unexecuted consolidated order book stood strong at about Rs.2,570 crore as on December 31, 2021 being 2.56x of its consolidated Total Operating Income (TOI) for FY21 (refers to the period April 1 to March 31). The company continues to derive significant amount of revenue in domestic operations from various government bodies towards irrigation and water supply projects, and its order book is also skewed towards the same.

The ratings also take note of the improvement in consolidated TOI, PBILDT margin and debt coverage indicators in FY21 after having witnessed moderation in FY20. This was despite the impact of the pandemic and mainly driven by the improvement in performance of overseas subsidiaries, while the standalone performance remained relatively stable.

With increase in the pace of execution of orders along with healthy order book and gradually receding impact of the pandemic, the TOI and profitability have witnessed further improvement in 9MFY22 over 9MFY21.

The overall gearing ratio improved to 0.66x as on March 31, 2021 due to scheduled repayment of term debt and reduction in working capital borrowings driven by healthy generation of operating cash flows. Nevertheless, with significant amount of contract liabilities outstanding, the ratio of Total Outside Liabilities to Tangible Networth (TOL/TNW) remained elevated at 1.91x as on March 31, 2021 which tempers the rating.

The ratings further continue to remain constrained by the working capital intensity of its operations marked by high average collection and average inventory period. With expected increase in the contribution of turnkey projects in TOI given the significant increase in order book of the project division, the working capital intensity is expected to remain high going forward.

The ratings also factor in the susceptibility of profitability to volatility in raw material prices and competition in the pump industry due to fragmented industry structure.

Rating Sensitivities

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

- Sustaining the improvement in consolidated PBILDT margin, such that the margin remains above 15%.
- Steady flow of orders and timely execution of order book resulting in increase in scale of operations with consolidated TOI above Rs.1,200 crore on a sustained basis.
- Improvement in leverage and debt coverage indicators with TOL/TNW and Total Debt/PBILDT being below 1.50x on a sustained basis.
- Significant improvement in operating cycle.

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

- Significant elongation in its operating cycle.
- Deterioration in the debt coverage indicators or capital structure with the overall gearing ratio going above unity due to increase in working capital borrowings or significant debt-funded capex/acquisition.
- Moderation in profitability margins (PBILDT margin < 9%) on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

Outlook: Positive

The outlook on the long-term rating of WPIL has been revised to 'Positive' from 'Stable' on the expectation of healthy growth in its consolidated TOI given the current order book which is also expected to lead to improvement in consolidated PBILDT margins and debt coverage indicators. With no major capex/acquisition plans and envisaged healthy cash generation from operations, the capital structure is also expected to improve. The outlook may be revised to 'Stable' on non-achievement of the envisaged revenue growth, inability of the company to sustain the profitability margins or significant increase in borrowings (including for working capital) leading to moderation in its leverage.

Detailed description of the key rating drivers

Key Rating Strengths

Established presence of the company in the pumps industry

WPIL has a track record of operation of more than six decades in the pumps industry. In 2002, it was taken over by Mr. Prakash Agarwal (MD, current promoter) from the erstwhile promoters (B. M. Khaitan Group) and the performance of the company has witnessed a turnaround since 2004.

Besides having an established position in the domestic pump industry, the company has gradually expanded its operations globally via synergistic acquisitions or joint ventures made since 2011. WPIL has subsidiaries/JVs based in South Africa, Zambia, Australia, Singapore, Italy, France, Thailand, Switzerland and UAE.

Diversified product portfolio and healthy order book position providing revenue visibility in the medium term; albeit concentrated order book

The company is engaged in manufacturing of different types of pumps, spares & accessories and execution of water supply projects on a turnkey basis mainly for industrial units, municipalities, power utilities, irrigation departments, etc. While the domestic operations are mainly driven by water pumps, it also has presence in nuclear pumps and pumps relating to oil & gas sector apart from water and industrial pumps in its overseas operations.

As on December 31, 2021, WPIL had standalone unexecuted order book of around Rs.2248 crore, being about 6x of its standalone TOI for FY21, ensuring revenue visibility over the medium term. However, three large turnkey contracts comprised about 62% of the order book, indicating concentration in the order book.

The client portfolio of the company is moderately diversified comprising irrigation and water departments of various states especially Telangana, Madhya Pradesh, Assam, Maharashtra, West Bengal, central utilities, PSUs and various private sector entities.

In addition to the above domestic orders, the company had unexecuted order book of around 28 million Euro in its Italian subsidiary, 9 million AUD in Australia and around 80 million Rand in South Africa. The consolidated order book stood at around 2.56x of its consolidated TOI for FY21.

Improvement in TOI and profitability in FY21 and 9MFY22

On a consolidated basis, WPIL's TOI improved to Rs.1002.75 crore in FY21 from Rs.913.21 crore in FY20 due to improved order execution scenario in both domestic and overseas market. Continued healthy profitability in standalone operations and improvement in profitability in overseas subsidiaries led to increase in PBILDT margin in FY21 to 15.47% as against 13.68% in FY20. In FY21, net profit also included exceptional gain of Rs.20.43 crore on sale of property in one of the foreign subsidiaries.

During 9MFY22, WPIL on consolidated basis reported a y-o-y growth of around 18% in its TOI to Rs.759 crore. Despite the impact of the increase in raw material cost, PBILDT margin improved to 15.66% in 9MFY22 as against 11.12% in 9MFY21; albeit it witnessed moderation in Q3FY22.

Improvement in overall gearing ratio and debt coverage indicators; albeit high TOL/TNW

On a consolidated basis, the debt equity and overall gearing of WPIL improved to 0.43x and 0.66x respectively as on March 31, 2021 after having deteriorated to 0.60x and 1.11x as on March 31, 2020.

WPIL had acquired Finder Pompe S.R.L (Finder) through Gruppo Aturia SPA in April 2019. Term loan of Euro 14 million was availed to acquire Finder and another term loan of Euro 9 million was taken in FY20 in Italian subsidiary to buy a property which was on lease earlier. The additional term debt and increase in working capital borrowings had resulted in moderation in capital structure in FY20. However, with scheduled repayment of term debt and significant reduction in working capital borrowings due to healthy cash flow generation and sale proceeds from sale of property, the overall gearing improved; albeit its TOL/TNW continued to remain elevated at 1.91x as on March 31, 2021.

Interest coverage improved to 6.89x in FY21 as against 5.95x in FY20. Total debt/PBILDT which had previously moderated during FY20 improved to 2.05x as on March 31, 2021.

Stable long term industry outlook

The domestic and global pumps industry is expected to grow at a steady rate driven by rising government expenditure toward water infrastructure. The growing utilization of different types of pumps across different sectors such as chemical, oil & gas, water & wastewater treatment plants, and general industries including power generation, food & beverages, mining, pulp & paper, etc., is expected to drive the market growth.

Key Rating Weaknesses

Working capital intensive nature of operations

WPIL's business is inherently working capital intensive with long operating cycle. It receives 10-15% of the contract value on finalization of design, 50-60% on delivery of pump and the balance on successful erection and commissioning. Further, the clients withhold a percentage (generally 10-15%) of the contract price as retention money and the same is paid after six to 12 months of completion of contract. The average collection period remained high at 187 days in FY21 (179 days in FY20). Average inventory period also remained at 113 days in FY21 (108 days in FY20). The high collection period and inventory period was matched to an extent by longer credit period allowed by its suppliers. Further, the company has significant amount of contract liabilities as against the contract assets and debtors in form of advances received from customers and billing in advance. With expected increase in revenue from project segment going forward, the working capital intensity is expected to remain high especially with most of its clients being irrigation and water supply departments of various State Governments.

Profitability susceptible to volatility in raw material prices
Raw materials are the major cost driver of WPIL, accounting for about 45-50% of total cost of sales in FY21. Given that the prices of steel products (major raw material) are volatile in nature; the profitability of the company is susceptible to volatility in prices of raw material. However, the company has cost escalation clauses in most of its long-term contracts for supply of engineered pumps and execution of turnkey contracts. However, in the shorter-tenure fixed price contracts (about 30% of orderbook) it is exposed to price volatility risk.

Intense competition in the pump industry
The global and Indian pumps industry is characterized by co-existence of small and large manufacturers and a few established players. Moreover, the company is also exposed to competition from cheaper imports. Further, the company is also exposed to the demand cyclicality which is inherent to the economy and end-user industries.

Liquidity: Adequate
WPIL's liquidity is adequate with sufficient cushion expected in cash accruals vis-à-vis term debt repayment obligations. Further, WPIL's routine capex is expected to be met out of internal accruals. Its standalone fund-based working capital bank limits were utilized to the extent of average 7% in the past 12 month ended December 31, 2021, indicating availability of liquidity in the form of unutilized limits. However, non-fund based working capital limit utilization remained relatively high at around 60%. The cash and equivalents as on September 30, 2021 stood at around Rs.202 crore. However, any large capex or acquisition could lead to moderation in its liquidity.

Analytical approach: Consolidated
CARE Ratings Ltd has taken a consolidated approach as all subsidiaries/step down subsidiaries are in similar line of business with operational and managerial linkages. Further, WPIL has extended corporate guarantee for part of debt availed by group entities. The list of entities consolidated in WPIL are placed at **Annexure-6**.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
WPIL, incorporated in 1952 by Johnston Pump Company Inc., USA, is engaged in manufacturing and sale of different types of pumps, spares & accessories and execution of water supply projects on a turnkey basis for industrial units, power utilities, irrigation departments, etc. In 2002, Mr. Prakash Agarwal of Kolkata acquired controlling stake in the company from B. M. Khaitan group.
WPIL has two operational manufacturing units in Kolkata, one unit in Ghaziabad, UP and two units in Maharashtra. Since 2011, WPIL has expanded its operation in the international market by acquiring pump companies in different regions of the world.

Brief Consolidated Financials (Rs. crore)	March 31, 2020 (A)	March 31, 2021(A)	9MFY22 (UA)
Total operating income	913.21	1002.75	759.25
PBILDT	124.93	155.12	118.93
PAT	53.84	98.69	57.52
Overall gearing (times)	1.11	0.66	NA
Interest coverage (times)	5.95	6.89	7.60

A: Audited; UA: Unaudited; NA: Not available
Ratios are classified as per CARE Ratings 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
Fund-based - LT-Cash Credit		-	-	-	107.21	CARE A; Positive
Fund-based - LT/ ST-Packing Credit in Indian rupee		-	-	-	12.79	CARE A; Positive / CARE A1
Non-fund-based - LT/ ST-BG/LC		-	-	-	419.00	CARE A; Positive / CARE A1
Non-fund-based - ST-Forward Contract		-	-	-	4.50	CARE A1
Commercial Paper-Commercial Paper (Carved out)		-	-	7-364 days	15.00	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 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	Commercial Paper-Commercial Paper (Carved out)	ST	15.00	CARE A1	-	1)CARE A1 (02-Mar-21)	1)CARE A1 (25-Feb-20) 2)CARE A1 (07-Oct-19)	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)
2	Fund-based - LT-Cash Credit	LT	107.21	CARE A; Positive	-	1)CARE A; Stable (02-Mar-21)	1)CARE A; Negative (25-Feb-20) 2)CARE A; Stable (07-Oct-19)	1)CARE A; Stable (27-Nov-18) 2)CARE A; Stable (06-Apr-18)
3	Fund-based - LT/ ST-Packing Credit in Indian rupee	LT/ST*	12.79	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (02-Mar-21)	1)CARE A; Negative / CARE A1 (25-Feb-20) 2)CARE A; Stable / CARE A1 (07-Oct-19)	1)CARE A; Stable / CARE A1 (27-Nov-18) 2)CARE A; Stable / CARE A1 (06-Apr-18)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	419.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (02-Mar-21)	1)CARE A; Negative / CARE A1 (25-Feb-20) 2)CARE A; Stable / CARE A1 (07-Oct-19)	1)CARE A; Stable / CARE A1 (27-Nov-18) 2)CARE A; Stable / CARE A1 (06-Apr-18)
5	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	-	-	1)Withdrawn (06-Apr-18)
6	Non-fund-based - ST-Forward Contract	ST	4.50	CARE A1	-	1)CARE A1 (02-Mar-21)	1)CARE A1 (25-Feb-20) 2)CARE A1 (07-Oct-19)	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT/ ST-Packing Credit in Indian rupee	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Annexure 6: Details of entities consolidated as on March 31, 2021

Type	Name of companies	% Equity Interest	Country of incorporation and operation
Subsidiaries/step down subsidiaries	Aturia International Pte Limited	61.53%	Singapore
	Mathers Foundry Limited	61.53%	United Kingdom
	Sterling Pumps Pty Limited	72.00%	Australia
	UCP Australia Pty Ltd	72.00%	Australia
	WPIL SA Holdings Pty Limited	61.53%	South Africa
	APE Pumps Pty Limited	61.53%	South Africa
	Mather & Platt (SA) Pty Limited	61.53%	South Africa
	PSV Zambia Limited	61.53%	Zambia
	Gruppo Aturia S.p.A	61.53%	Italy
	Rutschi Fluid AG	61.53%	Switzerland
	Pompes Rutschi SAS	61.53%	France
Joint Venture	WPIL (Thailand) Co. Limited	30.15%	Thailand
Associate	Clyde Pumps India Private Limited	40%	India
Jointly Controlled Operations	WPIL – SMS JV	100%	India
	WPIL- Sarthi JV	80%	India
	WPIL-JWIL JV	60%	India
	WPIL – MHI JV	95%	India
	RANJIT – WPIL JV	15%	India

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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