

The Western India Plywoods Limited

September 01, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	23.68 (Reduced from 31.72)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	4.50 (Reduced from 7.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	28.18 (Rs. Twenty-Eight Crore and Eighteen Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Western India Plywoods Limited (WIPL) continue to derive strength from the vast experience and long operational track record of the promoters in the wood industry, presence of WIPL as a niche player in the domestic hardboard industry, flexibility in production to manufacture diverse products, diversified customer base and its comfortable capital structure. The ratings, however, continue to be constrained by the susceptibility of profit margins to volatile raw material prices, WIPL's high inventory holding translating into longer operating cycle, exposure to subsidiaries and competition from the unorganized segment

Rating Sensitivities

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

- Consistent growth in scale of operations above the range of Rs.100 crore
- Stabilize profitability levels at PBILDT range of 9%-10%

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

- Any debt-funded capital expenditure deteriorating the capital structure leading to gearing levels >1x
- Continuous decline in the profitability margins by over 150 bps over the medium term
- Impact of Covid-19 on the demand for hardboard & plywood resulting in significant decline in revenue

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters and established track record of more than six decades

Late Mr A. K. Kaderkutty (founder of the company) was the managing director of the company from its inception till 1993. Mr. P K Mayan Mohammad (present MD and grandson of Late Mr. Kaderkutty) is associated with WIPL since 1992 and takes care of the day-to-day operations of the company. Since its inception in 1945, WIPL has expanded its operations by diversifying into manufacturing of hardboard, plywood, densified wood, pre-compressed board and softboard.

Niche player in the domestic hardboard industry

WIPL is one of India's leading manufacturers of hardboard and the 'WIP' brand is well identified and recognized in the market. In addition, various value-added products like densified moulded seats for auditorium, restaurants and engineered wood flooring have enabled the company to reinforce its image as a quality manufacturer. The hardboard industry is not as fragmented like the plywood industry, and hence the company has been able to build a strong market position for itself due to its long track record in this business.

Flexibility in production to manufacture diverse products with large customer base spread across various industries

WIPL has an integrated wood complex, and its integrated nature of operations enables WIPL to use the same raw material namely firewood/ timber logs/veneer to manufacture different end products based on market and customer requirement. This gives WIPL flexibility to manufacture various products such as plywood,

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

densified wood and various sub segments in these products in various specifications ranging from as low as 2mm to 25mm thickness. WIPL caters to diversified industries such as power, pharma packaging, railways, auto and auto ancillary which reduces the overall effect of any economic impacts on any one of the end user industries.

Comfortable credit metrics with low working capital dependence

WIPL's long-term debt equity ratio remained comfortable at 0.35x as on March 31, 2021 (PY: 0.39x). The overall gearing improved to 0.37x as on March 31, 2021 as against 0.49x as on March 31, 2020, with lower utilization of working capital limits and repayment of term loans. The debt coverage indicators stood moderate with total debt to GCA of 5.26 years on March 31, 2021, and interest coverage ratio at 3.03 for FY21.

Key Rating Weaknesses

Moderate scale of operations

The scale of operations of WIPL witnessed a de-growth by 10% in FY21 (refers to the period April 1 to March 31) to Rs.83.53 crore compared with FY20 (Rs.92.94 crore) due to loss of sales in the first quarter of FY21 on account of the lockdown imposed by Government in the wake of Covid-19. The realizations of major products, viz, hardboard, plywood as well as softboard, have witnessed consistent improvement in the last three years with hardboard realizations improving by around 15%-18% in the last three years and plywoods improving by more than 30% in the last three year. Furthermore, the realizations of softboard have also been improving by 3-4% year-on-year. The company has also planned to add a new line of softboard which will become operational at the end of present year further contributing to additional revenue.

Susceptibility of profit margins to raw material price and forex risk

The primary raw material for manufacture of hardboard is softwood (firewood). WIPL has been procuring firewood from local market from FY20 as the local prices were lower as compared to the Government prices. For manufacture of plywood, the company depends on timber logs & veneers, with veneer being imported from its Malaysian subsidiary. The prices of firewood and timber logs are volatile based on its availability. The company is also exposed to forex risk as it imports a part of its raw materials. However, since the company exports softboards and imports raw material in the same currency, there is natural hedge in place to a considerable extent.

Exposure to subsidiaries

WIPL has four operating subsidiaries, namely, Kohinoor Sawmill Ltd (KSM), Southern Veneers and Woodworks Limited (SVWL), Era & WIP Timber JV SDN BHD (ERA) and Mayabandar Doors Limited (MDL). KSM and SVWL carry out job work for WIPL, while ERA supplies good quality veneer for WIPL's production. All the domestic subsidiaries except MDL are engaged in carrying out job work for WIPL and more than 90% of their sales are to WIPL. The overall gearing adjusted for exposure to the subsidiaries stood at 0.81x as on March 31, 2020 as against 0.86x as on March 31, 2019.

Liquidity: Adequate

The liquidity of the company is adequate with sufficient cushion in accruals against moderate term debt repayment obligations of Rs. 1.46 crore in FY22. The operating cycle of the company remains moderate at 164 days during FY21 (PY 165 days). WIPL's inventory levels improved to 113 days (PY 121 days). The average working capital utilization of Fund based Limits stood below 20% for the past 12 months ended July 2021 as per banker interaction. The current ratio of the company stood at 3.57x (PY: 2.85x) as on March 31, 2021. The company had unencumbered cash and bank balance of Rs 3 Crores as on March 31, 2021. Going forward, WIPL's liquidity is expected to remain comfortable on the back of healthy cash accruals, unutilized bank limits and lower repayments.

Analytical approach: Standalone

Applicable Criteria

CARE's methodology for manufacturing companies

Criteria on assigning Outlook and Credit watch to Credit Rating

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

Liquidity Analysis of Non-Financial Sector Entities

About the Company

WIPL, established in 1945 by Late Mr Kaderkutti is one of the largest integrated wood complexes in the country with an installed capacity of 34,750 TPA of hardboard, 25 lakh sq meter of plywood, 3,500 TPA of densified wood and 750 TPA of pre-compressed board. WIPL caters to various end uses ranging including automobile interior door rims, shoe heel manufacturing, packaging, structural works, furniture, and components for transformers and floorboards for buses, railway coaches and factories.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	92.94	83.53
PBILDT	6.62	5.07
PAT	1.69	0.99
Overall gearing	0.49	0.37
Interest coverage (times)	2.87	3.03

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: NA

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	May 2022	22.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	1.68	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	4.50	CARE A3

LT – Long term; ST- Short term

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.	Fund-based - LT-Cash Credit	LT	22.00	CARE BBB-;	-	1)CARE BBB-;	1)CARE BBB-;	1)CARE BBB-;

				Stable		Stable (21-Sep-20)	Negative (13-Aug-19)	Negative (29-Nov-18)
2.	Fund-based - LT-Term Loan	LT	1.68	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Sep-20)	1)CARE BBB-; Negative (13-Aug-19)	1)CARE BBB-; Negative (29-Nov-18)
3.	Non-fund-based - ST-Letter of credit	ST	4.50	CARE A3	-	1)CARE A3 (21-Sep-20)	1)CARE A3 (13-Aug-19)	1)CARE A3 (29-Nov-18)

LT – Long term; ST- Short term

Annexure 3: Detailed Explanation of covenants of the rated instruments/facilities: N.A

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details

[Click here to view Bank Lender Details](#)

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.

Contact us

Media Contact

Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name - Ms. Swathi Subramanian
Contact no.- 0422 – 450 2399
Email ID- swathi.subramanian@careratings.com

Relationship Contact

Name: Mr. V. Pradeep Kumar
Contact no. : 044-2850 1000
Email ID : pradeep.kumar@careratings.com

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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