

WPIL Limited

March 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	87.21 (Reduced from 110.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	358.44 (Enhanced from 353.44)	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	1.50 (Enhanced from 0.96)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	447.15 (Rs. Four Hundred Forty-Seven Crore and Fifteen Lakhs Only)		
Commercial Paper (Carved out)*	15.00	CARE A1 (A One)	Reaffirmed

*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 Ltd (WPIL) continue to derive strength from the long experience of the promoters and established track record of the company in the domestic pump industry, international presence through foreign acquisitions, medium term revenue visibility arising from the orders in hand with reputed client base.

The ratings also take note of the substantial improvement in profitability in Q4FY20 (refers to the period January 1 to March 31) after the subdued performance in 9MFY20 in both domestic and overseas operations. Despite the impact of the ongoing global pandemic on consolidated operations in 9MFY21, the performance has remained more or less stable and the pace of execution of orders has been gradually improving. Further, there has been improvement in the liquidity position as indicated by almost nil utilisation of fund based working capital limits in the domestic operations and significant amount of cash balances in the overseas operations. Sale of land in one of the overseas subsidiaries in Q3FY21 for £6.5 mn has also contributed to the improvement in liquidity. CARE also takes note of the reduction in net debt level as on December 31, 2020 and comfortable debt coverage indicators on a consolidated basis.

The ratings, however, continue to remain constrained by the susceptibility of profitability to volatility in raw material prices, working capital intensive nature of operations marked by high collection period and competition in the pump industry due to fragmented industry structure.

For arriving at the ratings, CARE 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 in the subsidiaries.

Rating Sensitivities

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

- Sustained improvement in PBILDT margin, such that the margin is above 15%.
- Steady flow or orders and timely execution of order book resulting in increase in scale of operations with consolidated operating income above Rs.1,200 crore on a sustained basis.
- Substantial improvement in capital structure with overall gearing below 0.50x on a sustained basis.

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

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

Outlook: Stable

The outlook has been revised on the expectation of improvement in performance going forward considering the improvement in the pace of execution of orders and stable consolidated operating performance in 9MFY21 with comfortable debt coverage indicators.

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

Detailed description of the key rating drivers**Key Rating Strengths**

Experienced promoters and long track record of the company: WPIL has a track record of operation of more than six decades. It used to be a loss-making company till 2002. In 2002, it was taken over by Mr. Prakash Agarwal (MD) from the erstwhile promoters (B. M. Khaitan Group) and the performance of the company turnaround since 2004. Prior to acquisition of WPIL, Mr. Agarwal was engaged in manufacturing and trading of steel products for around two decades.

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

Order book position with reputed client portfolio provides revenue visibility in the medium term: As on September 30, 2020, WPIL had an order book (standalone) of about Rs.685.14 crore, being 1.85x of net sales in FY20. Furthermore, WPIL received two water supply projects aggregating Rs.851.31 crore in December 2020 to be executed over a period of 30 months. The client portfolio of the company is diversified comprising irrigation department of various states especially Telangana, Madhya Pradesh, central utilities, large PSUs and various private sector entities.

The company had unexecuted order book of around 62 million Euro in its Italian subsidiary, 10 mn AUD in Australia and around 140 million Rand in South Africa.

Improvement in profitability in Q4FY20 and stable performance in 9MFY21: On consolidated basis, WPIL's total operating income declined from Rs.1173 crore in FY19 to Rs. 913 crore in FY20 due to subdued execution scenario in both domestic and overseas market throughout the year.

Margins of WPIL were impacted in 9MFY20 due to lower execution as well as booking of additional costs related to merger of Finder Pompe S.R.L (Finder) with Gruppo Aturia SPA which was acquired in April 2019. On a consolidated basis, the performance in Q4FY20 improved significantly as compared to Q3FY20 with increase in pace of execution. However, there was some impact of Covid-19 on sales towards the end of the quarter. Further, in the current financial year, the operating performance has remained relatively stable, inspite of the impact of the pandemic on operations.

During 9MFY21, WPIL, on consolidated basis, achieved operating income and PAT of Rs.644.07 crore and Rs.49.88 respectively vis-à-vis operating income and PAT of Rs.627.45 crore and Rs.24.82 crore respectively in 9MFY20. The PBILDT margin remained relatively stable. The net profit included exceptional gain of Rs.27.2 crore on sale of property in a foreign subsidiary. On the international front, the company has major operations in Italy, France, Switzerland and South Africa. The performance of the overseas subsidiaries remains a key rating monitorable.

On standalone basis, WPIL's total operating income declined from Rs.539.37 crore in FY19 to Rs.385.39 crore in FY20 due to subdued execution scenario during the year. The same was on account of impact of elections during the year and slow lifting by customers amidst stretched liquidity scenario due to which execution got affected. However, the performance in Q4FY20 was significantly better than Q3FY20 with increase in pace of execution. PBILDT margin remained healthy at 20.02% in FY20. Interest coverage ratio though declined remained comfortable.

During 9MFY21, there was marginal impact of Covid-19 on domestic sales, though PBILDT margin remained stable.

Moderate capital structure: On a consolidated level, the capital structure deteriorated with debt equity and overall gearing 0.60x and 1.11x as on March 31, 2020 respectively as against 0.10x and 0.41x as on March 31, 2019. The overall debt level increased due to acquisition of Finder through term loan of Euro 14 million and loan taken in Italian subsidiary to buy a property which was on lease through term loan of Euro 9 million. However, the capital structure continues to remain moderate.

Further, there has been reduction in debt level as on December 31, 2020 with improved cash flow from the business and funds realised from sale of premises of Mathers Foundry, UK for £6.50 million in December 2020. The sale proceeds are being utilised to reduce debt.

On standalone basis, the capital structure of the company continued to remain comfortable as WPIL doesn't have any major term debt apart from small amount of vehicle loan and total debt majorly comprises working capital borrowings availed from the bank. The overall gearing marginally deteriorated but remained comfortable at 0.27x as on March 31, 2020 as against to 0.15x as on March 31, 2019. However, as on March 31, 2020, WPIL has given Corporate Guarantee aggregating to Rs.131.39 crore for loans availed by subsidiary and stepdown subsidiaries.

Stable long term industry outlook: Global pumps market is continuously growing marked by increasing demand from building & construction, oil & gas and mining industries over the past few years. Increasing investments in developing economies which leads to industrialization in Asia Pacific and Latin American regions has also led to increase in demand.

The prospects of the company are dependent upon its ability to increase the scale of operation, sustain profitability and efficient management of working capital.

Key Rating Weaknesses

Profitability susceptible to volatility in raw material prices: Raw materials are the major cost driver of WPIL, accounting for about 45% of total cost of sales in FY20. 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 contracts for supply of engineered pumps & execution of EPC contracts. However, in fixed price contract (about 30% of orderbook) it is exposed to volatility risk, but the expected variation is already factored in the pricing.

Working capital intensive nature of operation: WPIL's business is 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 increased in FY20 to 179 days due to outbreak of COVID-19 in end of FY20 and subdued execution scenario during the year leading to lower sales. Average inventory period also increased to 108 days in FY20 as against 79 days in FY19. The high collection period and inventory period was matched to an extent by increase in creditors days. Further, the company has significant amount of contract liabilities as against the contract assets and debtors.

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 imports. Most of the manufacturers in the unorganized segment cater to the agricultural sector. Thus, WPIL is facing competition from the organised as well as unorganised sector players. 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 in accruals vis-à-vis repayment obligations. Further, WPIL does not have major capex plans in the medium term and the routine capex would be met out of internal accruals. Its fund-based bank limits were utilized to the extent of average 50% through the past 12 month ended December 31, 2020, indicating availability of liquidity in the form of unutilized limits. The utilisation level has been negligible post December 2020 due to funds received from sale of premises in Mathers Foundry. WPIL has debt repayment obligation of about Rs.27 crore during FY21 and it achieved cash accruals of about Rs.65 crore in 9MFY21. Further, the company had significant cash balance of about Rs.130 crore in overseas subsidiaries as on December 31, 2020 which support its liquidity profile.

Analytical approach: Consolidated

CARE 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. Following entities have been considered for consolidation:

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	53.00%	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
	Global Pump Services (FZE)	61.53%	UAE
	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
	LE – WPIL JV	25%	India
	IVRCL – Batpasco – WPIL MHI JV	25%	India
	WPIL – MHI JV	95%	India
	RANJIT – WPIL JV	15%	India
	WPIL-SARTHI JV	80%	India

Type	Name of companies	% Equity Interest	Country of incorporation and operation
	WPIL-JWIL JV	60%	India

Applicable Criteria

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

[Criteria on assigning Outlook and credit watch to credit ratings](#)

[Criteria for Short Term Instruments](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Consolidation](#)

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

About the company

WPIL, incorporated in 1952 by Johnston Pump Company Inc., USA, is engaged in manufacturing & 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.

WPIL-Consolidated- Brief Financials (Rs. in crore)	FY19 (A)	FY20 (A)
Total Operating Income	1173.07	913.21
PBILDT	250.88	123.07
PAT	157.33	53.84
Overall Gearing	0.41	1.11
Interest Coverage	19.12	5.86

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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	-	-	-	87.21	CARE A; Stable
Fund-based - LT/ ST-Packing Credit in Indian rupee	-	-	-	32.79	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	325.65	CARE A; Stable / CARE A1
Non-fund-based - ST-Forward Contract	-	-	-	1.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Carved out)	ST	15.00	CARE A1	-	1)CARE A1 (25-Feb-20) 2)CARE A1 (07-Oct-19)	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)	1)CARE A1 (18-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	87.21	CARE A; Stable	-	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)	1)CARE A; Stable (18-Apr-17)
3.	Fund-based - LT/ ST-Packing Credit in Indian rupee	LT/ST	32.79	CARE A; Stable / CARE A1	-	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)	1)CARE A; Stable / CARE A1 (18-Apr-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	325.65	CARE A; Stable / CARE A1	-	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)	1)CARE A; Stable / CARE A1 (18-Apr-17)
5.	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	-	1)Withdrawn (06-Apr-18)	1)CARE A (1s) (18-Apr-17)
6.	Non-fund-based - ST-Forward Contract	ST	1.50	CARE A1	-	1)CARE A1 (25-Feb-20) 2)CARE A1 (07-Oct-19)	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)	-

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 the 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

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

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

Analyst Contact

Ms. Mamta Muklania
Contact no. : +91-33-40181651/98304 07120
Email ID : mamta.khemka@careratings.com

Relationship Contact

Mr. Lalit Sikaria
Contact no. : +91-33-4018 1607
Email ID : lalit.sikaria@careratings.com

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