

## The Western India Plywoods Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	15.85 (Reduced from 16.47)	CARE BBB; Stable	Revised from CARE BBB-; Stable
Short-term bank facilities	4.50	CARE A3+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of The Western India Plywoods Limited (WIPL) factors in the steady growth in the scale of operations over the years and improved operational performance of the company during FY23 (FY refers to the period from April 01 to March 31) The rating revision also takes note of the improvement in the operating cycle resulting in enhanced liquidity position during FY23 (refers to the period April 01 to March 31). The ratings continue to derive strength from the vast experience of the promoters and long operational track record for more than seven decades, presence of WIPL as a niche player in the domestic hardboard industry, diversified product profile and customer base, and healthy capital structure. The ratings continue to be constrained by susceptibility of profit margins to volatile raw material prices and forex risk, exposure to subsidiaries and competition from the unorganized segment.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Growth in scale of operations marked by increase in total operating income (TOI) to above ₹150 crore
- Sustained improvement in profitability margin to a range of 9% to 10%.

#### Negative factors

- Any debt-funded capex deteriorating the capital structure leading to gearing to above 1x.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects that the company is expected to sustain its financial and operational performance in the long-term deriving benefits from the vast experience of the promoters and long track record of the group.

### Detailed description of the key rating drivers:

#### Key strengths

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

Late A. K. Kaderkutty (founder of the company) was the managing director of the company from its inception till 1993. P K Mayan Mohammad (present MD and grandson of Late A. K. 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 hardboard, plywood, densified wood, pre-compressed board and softboard. The company is expected to benefit from the vast experience of the promoters and from the company's long established track record in the long-term.

##### Niche player in the domestic hardboard industry backed by diversified customer base

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 molded seats for auditorium, restaurants and engineered wood flooring have enabled the company to reinforce its image as a quality manufacturer. Being one of the oldest players in the industry, WIPL enjoys a strong and diversified customer base with the top five customers contributing 16.63% of total sales during FY23. A major portion of the company's sales are derived from the hardboard segment (51% in FY23) in which the company is a market leader and enjoys a monopoly. Due to its characteristic properties, hardboard is widely used in chemical packing industries and automobile industry for manufacture of interiors of automobiles.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### **Diversified product mix backed by flexibility in production**

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 as per customer requirement. This gives WIPL flexibility to manufacture various products such as plywood, densified wood and various sub segments in these products in various specifications ranging from as low as 2mm to 25mm thickness. The units in the plant are engineered to produce both softboard and hardboard as the first process of production alone differs for both the products and the rest of the processes are almost the same. WIPL also has an in-house R&D department which works on coming up with newer variations of the above products and improving overall quality.

### **Steady growth in scale of operations coupled with improvement in operating cycle**

The scale of operations, despite being moderate, has grown steadily, marked by growth in TOI at a compounded annual growth rate (CAGR) of 8.72% during the past three financial years to ₹107.35 crore during FY23 (FY22: ₹98.86 crore). The operating cycle of the company improved during FY23 to 107 days (PY: 131 days) primarily on account of improvement in collection period which stood at 59 days in FY23 as against 69 days in FY22. From FY23 onwards, the company has reduced the credit period being provided to the distributors. This has resulted in increased cash balance for the company with the cash balance comfortable at ₹12.76 crore as on March 31, 2023 (₹2.86 crore). The company booked income of ₹23.49 crore during Q1FY24 (refers to the period April 01 to June 30), against ₹25.09 crore during Q1FY23. With healthy demand for hardboard and softboard from both domestic and export markets, the growth is expected to be sustained in the medium term.

### **Healthy capital structure and comfortable debt coverage metrics**

The capital structure of WIPL stood healthy with an overall gearing of 0.36x as on March 31, 2023 (PY: 0.39x) with minimal reliance on working capital limits. The Total Debt/ Gross Cash Accrual (TDGCA) ratio also stood improved at 3.03x as on March 31, 2023 (PY: 5.05x). The interest coverage also stood comfortable at 5.84x in FY23 (PY: 4.00x).

### **Key weaknesses**

#### **Susceptibility of profit margins to raw material price and forex risk**

The primary raw material for manufacture of hardboard is softwood (firewood). 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, SVWL and MDL do job work for WIPL while ERA supplies veneer for WIPL's production. The overall gearing adjusted for exposure to the subsidiaries stood at 0.46x as on March 31, 2023 (PY: 0.51x). All the domestic subsidiaries are engaged in doing job work for WIPL and major portion of their sales are to WIPL.

### **Liquidity: Adequate**

The liquidity of the company is adequate marked by sufficient expected cash accruals of ₹5.07 crore in FY24 as against loan repayments of ₹1.72 crore during FY24. The company has cash and bank balance of ₹12.76 crore (PY: ₹2.86 crore). The current ratio stood comfortable at 2.85x. WIPL's nature of business requires wide range of finished stock to be held as inventory due to diverse product offerings of various categories. The operating cycle improved to 107 days (PY: 131 days) in FY23, with improvement in inventory days to 62 days (PY: 79 days) and collection period to 59 days (PY: 69 days) during the period. WIPL has working capital limits of ₹15.75 crore, the average utilisation of which stood at 13.61% during the 12 months ended July 2023.

### **Applicable criteria**

[Policy on default recognition](#)

[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 and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Forest Products

WIPL, established in 1945 by late A.K. Kaderkutty is engaged in the manufacture of hardboards, plywood, densified wood, pre-compressed boards and furniture. The company is one of the few largest integrated wood complexes in the country with an installed capacity of 34750 TPA of hardboard, 7200 TPA of softboard, 25 lakh sq meter of plywood, 3,500 TPA of densified wood and 750 TPA of pre-compressed board as of September 2023. WIPL has three domestic subsidiaries doing job work for the company and one subsidiary company in Malaysia, which commenced operations in February 2012 and supplies veneers (raw material) to WIPL. The company is managed by P.K. Mayan Mohammad (Managing Director and grandson of Late A.K. Kaderkutty).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	98.71	107.09	23.49
PBILDT	5.30	8.19	1.33
PAT	1.42	4.13	0.53
Overall gearing (times)	0.39	0.36	NA
Interest coverage (times)	3.89	5.66	5.12

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	15.75	CARE BBB; Stable
Fund-based - LT-Term loan		-	-	October 2026	0.10	CARE BBB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	4.50	CARE A3+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	15.75	CARE BBB; Stable	-	1) CARE BBB-; Stable (26-Sep-22)	1) CARE BBB-; Stable (01-Sep-21)	1) CARE BBB-; Stable (21-Sep-20)
2	Fund-based - LT-Term loan	LT	0.10	CARE BBB; Stable	-	1) CARE BBB-; Stable (26-Sep-22)	1) CARE BBB-; Stable (01-Sep-21)	1) CARE BBB-; Stable (21-Sep-20)
3	Non-fund-based - ST-Letter of credit	ST	4.50	CARE A3+	-	1) CARE A3 (26-Sep-22)	1) CARE A3 (01-Sep-21)	1) CARE A3 (21-Sep-20)

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

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: Lender details**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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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