WEP Solutions Limited

December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15.65 (Reduced from 17.70)	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	8.05 (Enhanced from 8.00)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of WEP Solutions Limited (Wep) continue to factor in the company's established position in enterprise business wherein it enters into medium-term contract with reputed corporates to address their printing needs. CARE Ratings Limited (CARE Ratings) positively takes note of the improvement in profit before depreciation, interest and tax (PBDIT) margins of Enterprise division aided by economies of scale and several cost-control measures being undertaken. This along with completion of sale of Ricoh products on bulk basis to one of the large dealers which was done at low margins, has improved the operating margins considerably since Q3FY23 which are likely to sustain.

However, the company's another division i.e. Partner division continues to report losses due to lower capacity utilization and investments in new product development. In a recent development, the company has entered into partnership with Fujifilm for distribution of its printers. The company's ability to ramp up its production as well as increase its operations in printer distribution in Partner business would be key to its credit profile. The rating also derives strength from Wep's comfortable capital structure and steady cashflow from operations which would ensure lower reliance on debt to fund constant capex required in Enterprise division.

These credit strengths are however partly offset by the modest scale of operations and high competition from the original equipment manufacturers (OEMs) as well as unorganised segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in scale of operations above ₹200 cr with return on capital employed (ROCE) above 11.50% with total outside liabilities (TOL)/total net worth (TNW) below 0.50x.

Negative factors

- Debt-funded capex resulting in deterioration in overall gearing above 0.50x
- Decline in scale of operations or return on capital employed (ROCE) to below ₹50 crore or 7% respectively.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that Wep's business risk profile will continue to remain stable owing to its diversified revenue segments and long and established relationship with reputed clients and OEMs in Enterprise segment which would keep the capital structure and debt coverage indicators at satisfactory level despite losses in Partner segment.

Detailed description of the key rating drivers:

Key strengths

Experienced management

WeP was established in the year 1988 as a part of Wipro's domestic IT business. In September 2000, Wipro spun off its IT Peripherals business into a separate independent company Wipro e-Peripherals Limited, which was later renamed as WeP Peripherals Limited. It is one of the largest employee-owned companies in India. After a series of acquisitions, business

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

diversifications and corporate restructuring exercises, all business lines at WeP are now operating under WeP Solutions Limited, a public limited company listed at Bombay Stock Exchange. Starting primarily with Dot Matrix Printers, WeP is now diversified into emerging and growing segments like managed printing services, retail printing solutions, SaaS-based digital services and solutions. The company is promoted by Ram N Agrawal who is also the chairman of the company. Ram N Agrawal pioneered to create India's first employee-owned company Wipro e-Peripherals in 2000. He led an employee buy-out of IT Peripherals business from Wipro. During his tenure of 23 years at Wipro, he led multiple business units and functional areas. The overall management is taken care by Ashok Tripathy who is the MD and CEO of Wep Solutions Limited which was a part of Wipro for more than 24 years in which he helped in turning around degrowing global IT services, breaking into new international markets, driving profitable growth while enhancing the brand visibility of Wipro's IT infrastructure portfolio. Sandeep Kumar Goyal who is Whole Time Director & CFO of the company and has been with Wep from 2003 and has been instrumental and a key contributor in building processes and various business development initiatives taken in the past several years.

Comfortable capital structure and adequate debt service coverage metrics

The capital structure of the company is comfortable with overall gearing of 0.09x as on March 31,2023 when compared to 0.13x as on March 31, 2022. It remained comfortable during the review period owning to lower working capital limit utilisation and low term loans. The ICR and total debt (TD)/gross cash accrual (GCA) stood comfortable at 14.08x and 0.34x respectively for FY23. Despite constant capex requirements in Enterprise segment, CARE Ratings expects capital structure of the company would remain comfortable.

Improvement in the PBDIT margins

The PBDIT margins of the company are in increasing trend as compared to previous year and stood at 15.10% in FY23 and 21.36% in H1FY24 due to completion of short-term bulk order supply on behalf of Ricoh. Gradual ramp up of Enterprise segment business and cost-control endeavours made by the company in terms of improving yield, pricing revision, controlling freight and back-end system cost etc. has also led to improvement in margins. This is despite of continuous losses being incurred in Partner business due to low-capacity utilization and consistent spend towards new product development. In CARE Ratings' opinion, the company's operating margins may stabilize at around 18%-19% range as the Partner division scales up as it is relatively a lower-margin business.

Long-term relationship with reputed OEMs and clientele

The company has a brand agnostic approach towards printers and consumables under the Enterprise segment and supplies the product depending on the customer requirement. Furthermore, the company has reputed banking, financial services and insurance (BFSI) clientele in Enterprise business. The company is also an authorised distributor for Ricoh Printers and consumables and has also entered into partnership with Fujifilm India Pvt Ltd. CARE Ratings believes that association with diversified clients and OEMs would help the company maintaining stable business profile over the long term.

Key weaknesses

Modest scale of operations

The scale of operations of Wep remained in the range of ₹65-90 cr during the review period. Although in FY22, income grew to ₹110.88 cr when compared to ₹64.49 cr in FY21 majorly on account of temporary arrangement for distribution to a larger dealer of Ricoh (Japan) in India, it again declined in FY23 when the arrangement lapsed in FY23. With recent partnership with Fujifilm and constant endeavours being taken by the company to add new products in Partner segment as well as new customers in Enterprise segment, CARE Ratings expects the company's revenue to grow at a compounded annual growth rate (CAGR) of 15-20% over the medium term.

Asset under ownership of Wep requiring relatively high capex requirements

Wep purchases printers and deploys at customers premises. The company primarily charges to customers on per-page basis which covers for depreciation, maintenance, service etc. Wep takes care of all printing requirement except for purchase of paper. Wep's Managed Printing business model requires the company to incur regular capital expenditure for purchase of printers which are further deployed to its customers. This capital expenditure includes replacing the existing printers and for addition of new printers for the newly-added customers. Furthermore, the business model is exposed to frequent technological advancement risks in the printing devices and solutions.

High competition from local unorganised players

Wep is into the highly competitive and fragmented industry of printing which is majorly dominated by local and unorganised players. Wep is among the few organised players in the managed printing services apart from OEMs.

Liquidity: Adequate

Wep's liquidity position is supported by strong cash accruals which can be utilised for funding its capital expenditure and to expand the other business. Wep having low term debt obligations, its cash accruals would be sufficient to repay the upcoming debt obligations.

The average working capital limits utilisation stood at 11.68% during the past six months ended September 30, 2023 and its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company has healthy cash flow from operations of ₹12.82 cr in FY23 as against ₹10.90 cr in FY22.

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
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT-enabled services

Wep was incorporated on March 1, 1995, as Datanet Corporation Limited located in Bengaluru. Wep started primarily with Dot Matrix Printers which it has phased out and is now diversified into segments like managed printing services, retail printing solutions, SaaS-based digital services and solutions. The company is promoted by Ram N Agrawal who is also the chairman of the company. Ram N Agrawal pioneered to create India's first employee-owned company Wipro e-Peripherals in 2000. He led an employee buy-out of IT Peripherals business from Wipro.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	110.88	92.53	32.63
PBILDT	13.16	13.97	6.97
PAT	2.59	5.84	1.77
Overall gearing (times)	0.13	0.09	NA
Interest coverage (times)	12.01	14.08	27.88

A: Audited UA: Unaudited; NA: Not Applicable, 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

CareEdge RATINGS

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	15.00	CARE BBB-; Stable
Fund-based - LT-Term loan	-	-	-	October 2024	0.65	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	7.50	CARE A3
Non-fund-based - ST-Loan equivalent risk	-	-	-	-	0.55	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-Term loan	LT	0.65	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Mar-23)	-	-
2	Fund-based - LT-Cash credit	LT	15.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Mar-23)	-	-
3	Non-fund-based - ST-BG/LC	ST	7.50	CARE A3	-	1)CARE A3 (20-Mar-23)	-	-
4	Non-fund-based - ST-Loan equivalent risk	ST	0.55	CARE A3	-	1)CARE A3 (20-Mar-23)	-	-

*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-BG/LC	Simple
4	Non-fund-based - ST-Loan equivalent risk	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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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