

The Western India Plywoods Limited

September 26, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	16.47 (Reduced from 23.68)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	4.50	CARE A3 (A Three)	Reaffirmed
Total bank facilities	20.97 (₹ Twenty crore and ninety-seven lakh only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and 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 for more than seven decades, presence of WIPL as a niche player in the domestic hardboard industry, flexibility in production to manufacture diverse products, diversified customer base and comfortable capital structure. The ratings, however, continue to be constrained by the moderate scale of operations, susceptibility of profit margins to volatile raw material prices and forex risk, exposure to subsidiaries and competition from the unorganised segment.

Rating sensitivities

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

- Consistent growth in the scale of operations above the range of ₹100 crore.
- Stabilise 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 above 1x.

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 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 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 recognised 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 hence is not as fragmented as 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 and veneer to manufacture different end products based on market and 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. 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. The top 5 customers contribute to 6% (PY: 22%) of income in FY22.

Comfortable capital structure and debt coverage metrics

The company's capital structure remained comfortable with overall gearing of 0.39x as of March 31, 2022 as against 0.37x as on March 31, 2021 with minimal reliance on working capital borrowings. The interest coverage also stood comfortable at 4.01x in FY22 (PY: 3.03x).

Key rating weaknesses

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

Moderate scale of operations

The scale of operations of WIPL remained moderate despite the company being operational for over seven decades with operating income of ₹98.86 crore in FY22 albeit increased from ₹85.53 crore in FY21. Furthermore, in Q1FY23 (refers to the period April 01 to June 30), the company booked income of ₹25.09 crore vis-à-vis ₹19.11 crore in Q1FY22.

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 Saw Mill 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 good quality veneer for WIPL's production. The overall gearing adjusted for exposure to the subsidiaries stood at 0.51x as on March 31, 2022 as against 0.49x as on March 31, 2021. All the domestic subsidiaries are engaged in doing job work for WIPL and more than 90% of their sales are to WIPL.

Liquidity: Adequate

The liquidity of the company is adequate marked by sufficient accruals of ₹3.63 crore in FY22 as against repayment obligations of ₹1.19 crore in FY23. The company has cash and bank balance of ₹2.86 crore as on March 31, 2022. The operating cycle days improved to 131 days in FY22 from 164 days in FY21 due to improved collection and inventory period. 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 inventory holding reduced to 79 days in FY22 from 113 days in FY21 due to better movement of finished goods following recovery in demand. The company has been sanctioned with working capital limit of ₹15.75 crore and the average utilisation stood low at 10% for last 12 months ended July 2022.

Analytical approach: Standalone

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

WIPL, established in 1945 by Late Mr Kaderkutty 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 floor boards for buses, railway coaches and factories.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (P)
Total operating income	83.54	98.86	25.09
PBILDT	5.09	5.47	1.85
PAT	1.00	1.58	0.88
Overall gearing (times)	0.37	0.39	NA
Interest coverage (times)	3.03	4.01	5.97

A: Audited; P: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook

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Fund-based - LT-Cash Credit		-	-	-	15.75	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March 2023	0.72	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	15.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Sep-21)	1)CARE BBB-; Stable (21-Sep-20)	1)CARE BBB-; Negative (13-Aug-19)
2	Fund-based - LT-Term Loan	LT	0.72	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Sep-21)	1)CARE BBB-; Stable (21-Sep-20)	1)CARE BBB-; Negative (13-Aug-19)
3	Non-fund-based - ST-Letter of credit	ST	4.50	CARE A3	-	1)CARE A3 (01-Sep-21)	1)CARE A3 (21-Sep-20)	1)CARE A3 (13-Aug-19)

*LT-Long term/ST-Short term.

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

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

Sr. No.	Name of 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 for this company

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

Note on 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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