

Wires and Fabriks (SA) Limited

October 27, 2021

Rating

| Facilities/Instruments | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|----------------------------|---------------------|--|
| Long Term / Short Term Bank Facilities | - | - | Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus ; Outlook: Stable / A Four Plus ISSUER NOT COOPERATING*) and Withdrawn |
| Long Term Bank Facilities | - | - | Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn |
| Short Term Bank Facilities | - | - | Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*) and Withdrawn |
| Total Bank Facilities | 0.00 (Rs. Only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB+; Stable/CARE A4+'; Issuer Not Cooperating [Double B Plus; Outlook: Stable/ A Four Plus; Issuer not Cooperating] assigned to the bank facilities of Wires and Fabriks (SA) Limited with immediate effect. The above action has been taken at the request of Wires and Fabriks (SA) Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

The ratings, prior to the withdrawal, takes into account vast experience of promoter in technical textile industry, its established track record of operations in the niche segment of paper machine clothing and supply of chemicals used in paper manufacturing as well as its long-standing relationship with its clientele and moderate capital structure & debt coverage indicators.

The ratings, however, continue to remain constrained on account of its moderate scale of operations, moderate profitability and project implementation risk associated with predominantly large size debt funded capex.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters in the technical textile industry & established track record of operations in paper machine cloth manufacturing:

WFL has established track record of more than five decades in manufacturing paper machine clothing which finds application in filtration and drying process in paper manufacturing. Incorporated in 1957, WFL started commercial operations at its manufacturing facility located at Jhotwara, Jaipur in 1963. Over the years, WFL has invested in technology up-gradation of its manufacturing facility which has helped it in maintaining robust position in domestic market while increasing exports as well. WFL started with manufacturing single layer metal fabric in collaboration with a German company, and gradually upgraded to multi-layered synthetic textile. WFL is also into trading of industrial chemicals used in paper industry. Top management is assisted by qualified and experienced second tier management in running day-to-day operations.

Operates in the niche segment with strong association with leading paper manufacturers:

WFL manufactures synthetic fabric (technical textile) which is one of the critical inputs in the paper manufacturing process. WFL is one of the largest players in manufacturing of technical textiles for paper industry in the organized sector in India. Accredited with ISO 9001:2002 certification and a Government of India recognized R&D facility, WFL has a major market share in forming fabric in domestic market and mainly faces competition from imports. WFL has been associated with its customers since long and has been continuously providing customized products as per their requirements. Although WFL has major market share in the domestic market, its scale of operations are modest due to its presence in niche Indian paper machine clothing segment. The growth of WFL is limited by the demand of its products from the paper industry.

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

Moderate capital structure and debt coverage indicators; albeit expected to deteriorate due to large size predominantly debt funded capex:

WFL's capital structure stood moderate with an overall gearing of 0.71x as on March 31, 2021. It improved from 0.90x as on March 31, 2020, due to lower outstanding working capital limits as on FY21 end. Further, debt coverage indicators stood moderate in FY21 with total debt to GCA of 4.08x and PBILDT interest coverage of 4.49x.

However, considering the proposed debt to be availed for the on-going project, overall gearing and debt coverage indicators might moderate going forward. WFL's operations continue to remain highly working capital intensive as demonstrated by elongated operating cycle of 175 days in FY21 as against 169 days in FY20 mainly on account of increase in collection period. Cash flow from operating activities stood at Rs.10.41 crore in FY21 (Rs.9.16 crore in FY20).

Key Rating Weaknesses***Project implementation risk associated with predominantly large size debt funded capex though the same gets mitigated to some extent on account of past experience of implementing such projects:***

During FY20, the company had undertaken a modernization-cum-capacity enhancement project which included setting up of weaving loom, finishing table as well as modernization of existing looms/finishing machine and other equipments at a total cost of Rs.79.97 crore to be funded through term loan of Rs.56 crore and remaining through a mix of internal accruals as well as unutilised portion of working capital limit. As per publicly available information, capex is stated to be completed by March 2022 (As against March 21 considered by CARE during last review) and financial closure for the same has been achieved.

The company undertook this project in order to manufacture special designs of multi shat fabrics i.e. known as Suit Support Binder products (SSB) as per the latest developed technology. The said project after completion is expected to increase the revenue and margins going forward as SSB products are expected to yield higher margins as compared to conventional fabrics/cloths.

Timely completion of this project within envisaged time and cost parameters, considering high cost of project, will be crucial in addition to risk pertaining to stabilization of operations and achievability of the envisaged scale and profitability. However, the said risk gets partially mitigated as the management has undertaken such projects in the past and was able to successfully complete the project and commence the operations.

Moderate scale of operations with moderate profitability along with low return ratio:

During FY21, TOI declined by around 9% to Rs. 89.52 Crore on y-o-y basis mainly due to impact of Covid-19 pandemic. Also, PBILDT margin of the company reduced by 150 bps to 10.91% due to reduction in TOI of the company. While the profitability margin remained moderate, its return ratio marked by return on capital employed continued to remain low. Furthermore, during Q1FY22, TOI of the company stood at Rs. 19.98 crore compared to Rs. 16.64 crore in Q1FY21. Despite growth in scale of operations, PBILDT margin moderated to 13.36% in Q1FY22 as against 16.05% in Q1FY21 which resulted in stable cash accruals of around Rs.2 crore.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Withdrawal of Ratings](#)

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

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

About the Company

WFL was established in 1957, as a Private limited Company by Mr. B. K. Khaitan, Mr. K. K. Khaitan and Mr. M.K. Khaitan. Subsequently Mr. B. K. Khaitan retired in August 2014 and WFL's operations are managed by Mr. M. K. Khaitan and Mr. K. K. Khaitan. WFL is mainly engaged in manufacturing of technical textiles (particularly paper machine clothing) used in filtration and drying process in paper industry at its facility in Jhotwara, Jaipur. Over the years, WFL has enhanced its product capabilities by manufacturing different varieties of paper machine cloth (i.e., double and triple layered synthetic fabrics) and it has increased manufacturing capacity through continuous technology up-gradation. Apart from manufacturing, WFL is also engaged in trading of industrial chemicals that are used in paper industry. As on March 31, 2019, WFL had five windmills having aggregate installed capacity of 4.25 MW to meet captive power requirement.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|------------------------------|----------|----------|
| Total operating income | 98.56 | 89.52 |
| PBILDT | 12.32 | 9.76 |
| PAT | 1.59 | 0.47 |
| Overall gearing (times) | 0.92 | 0.71 |
| Interest coverage (times) | 6.97 | 4.49 |

A: Audited

As per Q1FY22 published results, WFL reported net profit of Rs.0.14 crore on total operating income (TOI) of Rs.19.98 crore as against net profit of Rs.0.14 crore on TOI of Rs.16.64 crore during Q1FY21.

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 for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|------|------------------|-------------|---------------|-------------------------------|---|
| Term Loan-Long Term | | - | - | - | 0.00 | Withdrawn |
| Non-fund-based-Short Term | | - | - | - | 0.00 | Withdrawn |
| Fund-based - LT/ ST-CC/PC/Bill Discounting | | - | - | - | 0.00 | Withdrawn |
| Non-fund-based-LT/ST | | - | - | - | 0.00 | Withdrawn |

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 | Term Loan-Long Term | LT | - | - | 1)CARE BB+; Stable; ISSUER NOT COOPERATING* (01-Oct-21) | 1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (24-Mar-21)2)CARE BBB; Stable (02-Apr-20) | 1)CARE BBB+; Stable (01-Apr-19) | - |
| 2 | Non-fund-based-Short Term | ST | - | - | 1)CARE A4+; ISSUER NOT COOPERATING* (01-Oct-21) | 1)CARE A3; ISSUER NOT COOPERATING* (24-Mar-21)2)CARE A3+ (02-Apr-20) | 1)CARE A3+ (01-Apr-19) | - |
| 3 | Fund-based - LT/ST-CC/PC/Bill Discounting | LT/ST* | - | - | 1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (01-Oct-21) | 1)CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* (24-Mar-21)2)CARE BBB; Stable / CARE A3+ (02-Apr-20) | 1)CARE BBB+; Stable / CARE A3+ (01-Apr-19) | - |
| 4 | Non-fund-based-LT/ST | LT/ST* | - | - | 1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (01-Oct-21) | 1)CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* (24-Mar-21)2)CARE BBB; Stable / CARE A3+ (02-Apr-20) | 1)CARE BBB+; Stable / CARE A3+ (01-Apr-19) | - |

Annexure 3: Covenants of rated instrument/facility: Not Applicable

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

| Sr. No | Name of instrument | Complexity level |
|--------|--|------------------|
| 1 | Fund-based - LT/ ST-CC/PC/Bill Discounting | Simple |
| 2 | Non-fund-based-LT/ST | Simple |
| 3 | Non-fund-based-Short Term | Simple |
| 4 | Term Loan-Long Term | 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. Nikita Goyal

Contact no: +91-79-4026 5670

Email ID: nikita.goyal@careratings.com

Relationship Contact

Mr. Deepak Prajapati

Contact no.: +91-79-4026 5656

Email ID: deepak.prajapati@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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.

Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades

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