

The Western India Plywoods Limited

August 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	30.54 (reduced from 31.07)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Short-term Bank Facilities	7.00	CARE A3 (A Three)	Reaffirmed
Total	37.54 (Rupees Thirty Seven Crores and Fifty Four Lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Western India Plywoods Limited (WIPL) continue to derive strength from the established and long operational track record of the company, vast experience of the promoters in the wood industry, leadership position of WIPL in domestic hardwood industry, flexibility in production to manufacture diverse products and its comfortable capital structure.

The ratings are, however, constrained by the susceptibility of profit margins to volatile raw material prices with limited ability to pass on any cost increases, WIPL's high inventory holding translating into longer operating cycle, exposure to subsidiaries and competition from the unorganised segment.

Going forward, the ability of WIPL to scale up its operations by effective utilisation of installed capacities, ensuring adequate raw material availability and improving profit margins in a scenario of high competition from the unorganised segment will be the key rating sensitivities.

The outlook is 'Negative' as the revenue from hardboard which is a major contributor of income for the company has been declining and the realisations although improved marginally in FY19, still continue to be lower than the past levels. Any sharp decline in this spread and consequent impact on the liquidity or capital structure of the company may lead to a downward revision in the rating. The outlook may be revised to 'Stable' if the company is able to improve the realisations from its major product hardboard, negate the impact of the fall in revenue from hardboard with increased sale of the relatively higher margin softboard product and sustain the improvement in profit margins.

Detailed description of the key rating drivers

Key rating strengths

Vast experience of promoters and established track record of more than six decades Late Mr A. K. Kaderkutty (founder of the company) was the managing director of the company from its inception till 1993. Mr P K Mayan Mohammad (present MD and grandson of Late Mr Kaderkutty) is associated with WIPL since 1992 and is taking care of 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, softboards and pre-compressed board.

Niche market 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. The hardboard industry is not as fragmented like 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. The hardwood sales of the company contribute to 49% of WIPL's total revenues in FY19.

Flexibility in production to manufacture diverse products

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 requirement. WIPL manufactures various products such as hardboards, plywood, densified wood, softboards and various sub segments in these products in various specifications ranging from as low as 2-25 mm thickness.

Satisfactory leverage levels

WIPL's long-term debt equity ratio remained comfortable at 0.40x as on March 31, 2019 as against 0.46x as on March 31, 2018, and overall gearing improved from 0.73x as on March 31, 2019, to 0.61x as on March 31, 2019.

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

Key rating Weaknesses***Financial performance marked by moderate profitability***

The operating income increased by 5.43% y-o-y from Rs.93.20 crore in FY18 to Rs.98.28 crore in FY19. The PBILDT margins of the company which remained stable in FY17 and FY18 at 6.06% and improved to 8.02% in FY19 on the back of reduced raw material and overhead costs. Going forward, the ability of the company to scale up operations with sustainable improvement in profit margins would be a key monitorable from a credit perspective.

Raw material price and forex risk

The primary raw material for manufacture of hardboard is softwood (firewood). During FY19, imports constituted Rs.6.90 crore which is 17% of WIPL's raw material requirements as against Rs.10.62 crore in FY18 (27% of raw material requirements). Since the company exports and imports in the same currency, there is natural hedge in place.

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 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 0.86x as on March 31, 2019 as against 0.61x as on March 31, 2018.

Liquidity- Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.3.21 Crore. Its capex requirements are moderate at Rs 4-5 Crores and expected to be funded partly by term loan and balance by using internal accruals for which it has sufficient headroom. For meeting the working capital requirements, the company has availed WCTL loan from KSIDC of Rs. 15 crores which keeps the utilization of regular CC limits low at 31%, The current ratio stood comfortable at 2.34x (PY: 2.10x) as on March 31, 2019. WIPL's average inventory days during FY18 stood at 131 days and operating cycle was at 165 days as against 155 & 184 days respectively during FY18.

Industry and Prospects

In the past decades, the expenditure on furniture has increased as a result of increasing incomes, urbanisation, investment in real estate, western influence, etc. Moreover, the introduction of new designs and diverse product range of furniture have further helped in creating a demand among the consumers. Expanding distribution network and exclusive outlets of furniture manufacturers in the region has also helped in influencing the market for plywood. On the brighter side of GST's impact, the organised players, which were earlier subjected to a cumulative 30% tax incidence, are now paying only 18%, while the most of the smaller units, which were earlier exempted or avoided tax, are paying up thus creating some sort of level playing field for the sector. Going forward, the ability of the company to consistently grow its scale of operations profitably and improve its market share in the new product would be key to its prospects.

Analytical Approach: Standalone**Applicable Criteria**

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

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Factoring Linkages in Ratings](#)

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 (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	93.21	98.28
PBILDT	5.63	7.88
PAT	1.82	2.15
Overall gearing (times)	0.73	0.61
Interest coverage (times)	1.55	2.60

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	-	-	-	30.00	CARE BBB-; Negative
Fund-based - LT-Term Loan	-	-	November 2019	0.54	CARE BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	7.00	CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (29-Nov-18)	1)CARE BBB-; Negative (28-Nov-17)	1)CARE BBB- (08-Nov-16)
2.	Fund-based - LT-Term Loan	LT	0.54	CARE BBB-; Negative	-	1)CARE BBB-; Negative (29-Nov-18)	1)CARE BBB-; Negative (28-Nov-17)	1)CARE BBB- (08-Nov-16)
3.	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A3	-	1)CARE A3 (29-Nov-18)	1)CARE A3 (28-Nov-17)	1)CARE A3 (08-Nov-16)

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 clarification

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