

The Western India Plywoods Limited
 September 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	31.72 (Enhanced from 30.54)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed and outlook revised from negative
Short-term Bank Facilities	7.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	38.72 (Rs. Thirty eight crore and seventy two lakh 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 vast experience and long operational track record of the promoters in the wood industry, presence of WIPL as a niche player in the domestic hardwood industry, flexibility in production to manufacture diverse products catering to varied industries and its comfortable capital structure.

The ratings, however, continue to be 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.

Rating Sensitivities**Positive Factors**

- Consistent growth in the scale of operations above the range of Rs.100 crore
- Stabilize profitability levels at PBILDT range of 9%-10%

Negative Factors

- Any debt-funded capital expenditure deteriorating the capital structure leading to gearing levels > 1x
- Continuous decline in the profitability margins by over 150 bps over the medium term
- Impact of Covid-19 on the demand for hardboard & plywood resulting in significant decline in revenue

Outlook: Stable

CARE had a "Negative" outlook on the ratings as the realizations and revenue from hardboard which is a major contributor of income for the company had been declining and with increase in raw material prices, the operating margins were expected to be impacted. The outlook has been revised to "Stable", as the company has been able to consistently improve the realisations from its major product hardboard as well as stabilise its scale of operations with improved contribution from the cost-effective and relatively higher-margin softboard product in the last two years.

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 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 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. Hence, 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.

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

Flexibility in production to manufacture diverse products spread across diverse 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/veneer to manufacture different end products based on requirement. WIPL manufactures various products such as hardboards, plywood, densified wood and various sub segments in these products in various specifications ranging from as low as 2 mm to 25 mm thickness. WIPL caters to diversified industries such as power, pharma packaging, railways, auto and auto ancillary, construction, railways etc which reduces the overall effect of any economic impacts on any one of the end-user industries.

Comfortable credit metrics with low working capital dependence

WIPL's long-term debt equity ratio remained comfortable at 0.39x as on March 31, 2020 (PY: 0.40x). The overall gearing improved to 0.49x as on March 31, 2020 as against 0.61x as on March 31, 2019 with lower utilisation of working capital limits and repayment of term loans.

Key rating Weaknesses***Moderate scale of operations, however improved realizations and reduced raw material costs***

The scale of operations of WIPL witnessed a marginal de-growth by 5% in FY20 (refers to the period April 1 to March 31) to Rs.92.94 crore compared with FY19 (Rs.98.30 crores) due to loss of sales in the last week of March 2020 on account of the lockdown imposed by Government in the wake of Covid-19. The realizations of major products, viz, hardboard, plywood as well as softboard have witnessed consistent improvement in the last two years with hardboard realizations improving by around 5%-7% in the last two years and plywoods improving by more than 20% in the last year. Furthermore, the raw material cost of WIPL also dropped significantly from 43% as a proportion of sales in FY19 to 37% in FY20 with increased composition of softboards in the total sales. However, despite the improved realizations and reduced raw material costs, the PBILDT margin moderated from 8.04% in FY19 to 7.13% in FY20 due to the increase in the gratuity provisions in FY20.

Susceptibility of profit margins to raw material price and forex risk

The primary raw material for manufacture of hardboard is softwood (firewood). WIPL has been procuring firewood from local market from FY20 as the local prices were lower as compared to the Government prices. 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 volatiled 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 and SVWL carry out job work for WIPL, while ERA supplies good quality veneer for WIPL's production. All the domestic subsidiaries except MDL are engaged in carrying out job work for WIPL and more than 90% of their sales are to WIPL. The overall gearing adjusted for exposure to the subsidiaries stood at 0.81x as on March 31, 2020 as against 0.86x as on March 31, 2019.

Liquidity- Adequate

The liquidity of the company stood adequate with healthy cash accruals against repayment obligations of Rs.2.05 crore for FY21 and cash & bank balance of Rs.1.80 crore as on March 31, 2020. WIPL's average inventory days during FY20 stood at 121 days and operating cycle was at 165 days in FY20 which remained the same as FY19. However, due to KSIDC loan and reduction in working capital utilisations, WIPL's average working capital utilisation stood low at 21% (PY: 31%) for 12 month period ended June 2020. The current ratio of the company stood at 2.85x (PY: 2.34x) as on March 31, 2020 and the company has not availed any moratorium for its limits due to covid-19 pandemic except for one of its term loan from KSIDC from March –May 2020.

Impact of Covid-19

The impact of covid-19 pandemic had temporarily halted the operations of WIPL for 45 days from March 23rd, 2020. This led to a marginal decline in TOI for FY20 with loss of sale of around Rs. 4-5 crore in March 2020. The company resumed full operations on May 02, 2020, however there were hiccups in between the months of May and June 2020 due to declaration of containment zones as well as non-commutability of labour. With the unit being operational for only 45 days in Q1FY21, the sales recorded is Rs. 10.77 crore which is almost half of the Q1FY20 sale of Rs. 22.42 crore.

Industry & prospects

The Indian plywood market (Rs.195 billion in FY19) is dominated by unorganised players, commanding a 70% share. The organized players are benefitted in terms of reduced pricing difference between unorganized and organized players. In contrast, the MDF market (Rs.20 billion in FY19) has lower number of players and mainly dominated by organized players. In the past the domestic market has witnessed substantial capacity addition which has led to price war in the industry. Going forward, the ability 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 and credit watch to Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Consolidation & 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)	FY19 (A)	FY20 (A)
Total operating income	98.28	92.94
PBILDT	7.88	6.62
PAT	2.15	1.69
Overall gearing (times)	0.61	0.49
Interest coverage (times)	2.61	2.87

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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-; Stable
Fund-based - LT-Term Loan	-	-	May 2022	1.72	CARE BBB-; Stable
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (13-Aug-19)	1)CARE BBB-; Negative (29-Nov-18)	1)CARE BBB-; Negative (28-Nov-17)
2.	Fund-based - LT-Term Loan	LT	1.72	CARE BBB-; Stable	-	1)CARE BBB-; Negative (13-Aug-19)	1)CARE BBB-; Negative (29-Nov-18)	1)CARE BBB-; Negative (28-Nov-17)
3.	Non-fund-based - ST-Letter of credit	ST	7.00	CARE A3	-	1)CARE A3 (13-Aug-19)	1)CARE A3 (29-Nov-18)	1)CARE A3 (28-Nov-17)

Annexure 3: Detailed explanation of covenants of the rated facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this Company**

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

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.

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