

WPIL Limited
 February 25, 2020
Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	110.00	CARE A; Negative (Single A; Outlook: Negative)	Rating Reaffirmed; Outlook revised from Stable to Negative
Long term/Short term Bank Facilities	353.44	CARE A; Negative/CARE A1 (Single A; Outlook: Negative /A One)	
Short term Bank Facilities	0.96	CARE A1 (A One)	Reaffirmed
Total Facilities	464.40 (Rs. Four hundred and sixty four crore and forty lakh only)		
Commercial Paper*	15.00 (Rs. Fifteen crore only)	CARE A1 (A One)	Reaffirmed

*Details of instruments/facilities in Annexure-1 *carved out of sanctioned working capital limits of the company*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of WPIL Ltd (WPIL) continue to derive strength from the long experience of the promoters and established track record of the company in the domestic pump industry, international presence through foreign acquisitions and medium term revenue visibility arising from the orders in hand with reputed client base.

However, the ratings take note of decline in profitability and scale of operations in 9MFY20 (refers to the period April 1 to December 31). The ratings also take note of the moderation in capital structure and debt coverage indicators on a consolidated basis with additional term debt availed in overseas subsidiary and subdued profitability.

The ratings continue to remain constrained by the susceptibility of profitability to volatility in raw material prices, working capital intensive nature of operations marked by high collection period and competition in the pump industry due to fragmented industry structure.

For arriving at the ratings, CARE has taken a consolidated approach as all subsidiaries/step down subsidiaries are in similar line of business with operational and managerial linkages. Further, WPIL has extended corporate guarantee for majority of debt availed in the subsidiaries.

Rating Sensitivities**Positive Factors**

- Sustained improvement in PBILDT margin resulting from improvement in performance of overseas subsidiaries, such that the margin is above 23%.
- Steady flow of orders and timely execution of order book resulting in increase in scale of operations with consolidated operating income above Rs.1500 crore on a sustained basis.
- Substantial improvement in capital structure with overall gearing below 0.25x on a sustained basis.

Negative Factors

- Increase in working capital intensity with elongation of operating cycle beyond current level or significant increase in gross current assets days.
- Deterioration in the debt coverage indicators or capital structure with the overall gearing going above unity due to increase in working capital borrowings or significant debt-funded capex undertaken.
- Further decline in profitability margins.

Outlook: Negative

The outlook has been revised to "Negative" on the expectation of continued weak financial performance in Q4FY20 with significantly lower than envisaged sales and operating profitability resulting from subdued execution scenario in both the domestic and overseas operations and restructuring of overseas operations after the acquisition of Finder Pompe S.R.L (Finder) in Italy. The outlook may be revised to stable if WPIL is able to increase its operating income and profitability with planned execution of the consolidated order book and stabilisation of Italian operations.

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

Detailed description of the key rating drivers**Key Rating Strengths*****Experienced promoters and long track record of the company***

WPIL has a track record of operation of more than six decades. It used to be a loss making company till 2002. In 2002, it was taken over by Mr. Prakash Agarwal (MD) from the erstwhile promoters (B. M. Khaitan Group) and the performance of the company turnaround since 2004. Prior to acquisition of WPIL, Mr. Agarwal was engaged in manufacturing and trading of steel products (cast iron) for around two decades. The company has a qualified management team who take all decisions under the guidance and supervision of the promoter (MD).

WPIL has an established position in the domestic pump industry. Further, the company has expanded its operations globally via synergistic acquisitions or joint ventures made since 2011. WPIL has subsidiaries/JVs based in UK, South Africa, Zambia, Australia, Singapore, Italy, France, Thailand, Switzerland and UAE.

Order book position with reputed client portfolio provides revenue visibility in the medium term

As in February 2020, WPIL had an order book (standalone) of about Rs.1000 crore (as against Rs.755.31 crore as on June 01, 2019), being 1.92x of net sales in FY19. Majority of the same is expected to be executed over a period of next 12 – 18 months. The client portfolio of the company is diversified comprising irrigation department of various states especially Telangana, Madhya Pradesh, central utilities, large PSUs and various private sector entities. In addition to the above, the company had unexecuted order book of ~ 60 million Euro in its Italian subsidiary Gruppo Aturia, 4 mn Euro in Sterling Pumps Pty Ltd (Australia) and ~120 million Rand in WPIL SA (South Africa).

Moderate capital structure though debt level increased in 9MFY20

On a consolidated level, the capital structure of the company was comfortable with debt equity and overall gearing of 0.10x and 0.41x respectively as on Mar.31, 2019. Total Debt/GCA had also improved from 3.49x in FY18 to 0.90x in FY19.

Term debt level was expected to increase due to loan of 14 mn Euro availed for acquisition of Finder in April 2019. However, the company availed additional term loan of 9 mn Euro in Q3FY20 to finance purchase of land on which the factory of Gruppo Aturia is situated and was earlier on lease. Further, the consolidated working capital utilisation was higher on a reduced turnover. However, the capital structure continues to remain moderate.

On a standalone level, the overall gearing improved to 0.15x as on March 31, 2019 vis-à-vis 0.32x as on March 31, 2018. However, WPIL has extended corporate guarantee to its overseas subsidiaries. Though the balance of corporate guarantee extended was Rs.13.86 crore as on Mar.31, 2019, it increased in April 2019 by about Rs.134 crore on acquisition of Finder.

Stable long term industry outlook

Global pumps market is continuously growing marked by increasing demand from building & construction, oil & gas and mining industries over the past few years. Increasing investments in developing economies which leads to industrialization in Asia Pacific and Latin American regions has also led to increase in demand.

The prospects of the company are dependent upon its ability to increase the scale of operation, sustain improvement in profitability and efficient management of working capital.

Key Rating Weaknesses***Decline in operating income and profitability in 9MFY20***

The consolidated performance of WPIL had improved significantly in FY19 with improvement in performance of the Italian and South African subsidiary as well as better standalone performance.

However, in 9MFY20, the consolidated operating income of WPIL substantially declined to Rs.627.45 crore as against Rs.884.13 crore in 9MFY19 with subdued execution scenario in both domestic and overseas market. Further, PBILD and PAT margin also deteriorated to 10.39% and 3.95% respectively in 9MFY20 vis-à-vis 22.73% and 15.90% in 9MFY19. Margins were impacted in 9MFY20 due to lower execution as well as booking of additional costs related to merger of Finder with Gruppo Aturia SPA which was acquired in April 2019.

WPIL acquired Finder, Italy through WPIL's European wholly owned subsidiary Gruppo Aturia SPA (step down subsidiary) in April 2019 and same was merged with Gruppo Aturia SPA during Q3FY20. The impact of the performance of Finder on consolidated financials going forward and integration of operations with WPIL is a key rating monitorable.

On standalone basis, WPIL achieved operating income of Rs.271.54 crore and PAT of Rs.41.99 crore in 9MFY20 as against operating income of Rs.385.79 crore and PAT of Rs.62.16 crore in 9MFY19.

Profitability susceptible to volatility in raw material prices

Raw materials are the major cost driver of WPIL, accounting for ~51% of total cost of sales in FY19. Given that the prices of steel products (major raw material) are volatile in nature; the profitability of the company is susceptible to volatility in prices of raw-material. However, the company has cost escalation clauses in most of its contracts for supply of engineered pumps & execution of EPC contracts.

Working capital intensive nature of operation

WPIL's business is working capital intensive with long operating cycle. It receives 10-15% of the contract value on finalization of design, 50-60% on delivery of pump and the balance on successful erection and commissioning. Further, the clients withhold a percentage (generally 10-15%) of the contract price as retention money, and the same is paid after six to 12 months of completion of contract. This leads to high collection period (136 days in FY19) which was matched to an extent by creditors days of 80 days in FY19. The operating cycle was 136 days in FY19 as against 179 days in FY18 on a consolidated basis. Standalone operating cycle was 121 days in FY19.

Intense competition in the pump industry

The global and Indian pumps industry is characterized by co-existence of small and large manufacturers and a few established players. Moreover, the company is also exposed to cheaper imports of pumps from China & Korea. Most of the manufacturers in the unorganized segment cater to the agricultural sector. Thus, WPIL is facing competition from the organised as well as unorganised sector players. Further, the company is also exposed to the demand cyclicity which is inherent to the economy and end-user industries.

Liquidity: Adequate

WPIL's liquidity is adequate with sufficient cushion in accruals vis-à-vis repayment obligations.

WPIL has debt repayment obligation of about Rs.16.24 crore during FY20 and it achieved cash accruals of about Rs.44 crore in 9MFY20.

The company does not have major capex plans in the medium term and the routine capex would be met out of internal accruals. Its bank limits are utilized to the extent of average 29% for the last 12 months ended December 31, 2019, indicating availability of liquidity in the form of unutilized limit of ~Rs.100 crore.

Analytical approach: Consolidated

CARE has taken a consolidated approach as all subsidiaries/step down subsidiaries are in similar line of business with operational and managerial linkages. Further, WPIL has extended corporate guarantee for majority of debt availed by group entities. Following entities have been considered for consolidation:

Type	Name of companies	% Equity Interest	Place of incorporation
Subsidiaries/step down subsidiaries	Aturia International Pte Limited	61.53%	Singapore
	Mathers Foundry Limited	61.53%	United Kingdom
	Sterling Pumps Pty Limited	53.00%	Australia
	WPIL SA Holdings Pty Limited	61.53%	South Africa
	APE Pumps Pty Limited	61.53%	South Africa
	Mather & Platt (SA) Pty Limited	61.53%	South Africa
	PSV Zambia Limited	61.53%	Zambia
	Global Pump Services (FZE)	61.53%	UAE
	Gruppo Aturia S.p.A	61.53%	Italy
	Rutschi Fluid AG	61.53%	Switzerland
	Pompes Rutschi SAS	61.53%	France
Joint Venture	WPIL (Thailand) Co. Limited	30.15%	Thailand
Associate	Clyde Pumps India Private Limited	40%	India
Jointly Controlled Operations	WPIL - SMS JV	100%	India
	LE - WPIL JV	25%	India
	IVRCL - Batpasco - WPIL MHI JV	25%	India
	WPIL - MHI JV	95%	India
	RANJIT - WPIL JV	15%	India

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

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

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

About the company

WPIL, incorporated in 1952 by Johnston Pump Company Inc., USA, is engaged in manufacturing & sale of different types of pumps, spares & accessories and execution of water supply projects on a turnkey basis for industrial units, power utilities, irrigation departments, etc. In 2002, Mr. Prakash Agarwal of Kolkata acquired controlling stake in the company from B. M. Khaitan group.

WPIL has two operational manufacturing units in Kolkata, one unit in Ghaziabad, UP and two units in Maharashtra.

Since 2011, WPIL has expanded its operation in the international market by acquiring pump companies in different regions of the world.

WPIL-Consolidated- Brief Financials (Rs. in crore)	FY18 (A)	FY19 (A)
Total Operating Income	846.73	1173.09
PBILDT	98.83	250.88
PAT	35.67	157.33
Overall Gearing	0.80	0.41
Interest Coverage	4.41	19.12

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	-	-	-	110.00	CARE A; Negative
Fund-based - LT/ ST-Packing Credit in Indian rupee	-	-	-	32.79	CARE A; Negative / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	320.65	CARE A; Negative / CARE A1
Non-fund-based - ST-Forward Contract	-	-	-	0.96	CARE A1
Commercial Paper-CP	-	-	7-364 days	15.00	CARE A1

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.	Commercial Paper-CP	ST	15.00	CARE A1	1)CARE A1 (07-Oct-19)	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)	1)CARE A1 (18-Apr-17)	-
2.	Fund-based - LT-Cash Credit	LT	110.00	CARE A; Negative	1)CARE A; Stable (07-Oct-19)	1)CARE A; Stable (27-Nov-18) 2)CARE A; Stable (06-Apr-18)	1)CARE A; Stable (18-Apr-17)	-
3.	Fund-based - LT/ ST-Packing Credit in Indian rupee	LT/ST	32.79	CARE A; Negative / CARE A1	1)CARE A; Stable / CARE A1 (07-Oct-19)	1)CARE A; Stable / CARE A1 (27-Nov-18) 2)CARE A; Stable / CARE A1 (06-Apr-18)	1)CARE A; Stable / CARE A1 (18-Apr-17)	-
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	320.65	CARE A; Negative / CARE A1	1)CARE A; Stable / CARE A1 (07-Oct-19)	1)CARE A; Stable / CARE A1 (27-Nov-18) 2)CARE A; Stable / CARE A1 (06-Apr-18)	1)CARE A; Stable / CARE A1 (18-Apr-17)	-
5.	Issuer Rating-Issuer Ratings	Issuer rat	-	-	-	1)Withdrawn (06-Apr-18)	1)CARE A (Is) (18-Apr-17)	1)CARE A (Is) (14-Apr-16)
6.	Non-fund-based - ST-Forward Contract	ST	0.96	CARE A1	1)CARE A1 (07-Oct-19)	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)	-	-

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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