

WPIL Limited

April 18, 2017

Ratings

| Facilities/Instruments [^] | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|-------------------------------------|--|--|--|
| Long Term Bank Facilities | 53.25 (enhanced from 47.5) | CARE A; Stable (Single A; Outlook:Stable) | Reaffirmed |
| Long/Short Term Bank Facilities | 223.96 (reduced from 227.5) | CARE A; Stable/CARE A1 (Single A; Outlook: Stable /A One) | Reaffirmed |
| Total | 277.21 (Rs. Two hundred seventy seven crore and twenty one lakh only) | | |
| Issuer Rating | - | CARE A (Is); Stable [Single A (Issuer Rating); Outlook: Stable] | Rating placed on notice of withdrawal for 1 year |
| Instruments | | | |
| Commercial Paper* | 15.00 (Rs. Fifteen crore only) | CARE A1 [A One] | Reaffirmed |

[^]Details of facilities in Annexure-1

*carved out of working capital limits;

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of WPIL Ltd continue to derive strength from long experience of the promoters, strong order book position with reputed clients, stable financial performance in FY16 (refers to the period April 1 to March 31) & 9MFY17 and comfortable financial risk profile. The ratings, however, are constrained by high exposure to its subsidiaries, profitability susceptible to volatility in raw material prices, working capital intensive nature of operations marked by high collection period and intense competition in the domestic pump industry due to fragmentation industry structure. The ability of the company to increase its scale of operation, efficient management of working capital and improvement in performance of subsidiaries continues to remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: WPIL is engaged in manufacturing of pumps for more than six decades. In 2002, it was taken over by Mr. Prakash Agarwal. Prior to acquisition of WPIL, Mr. Agarwal was engaged in manufacturing and trading of steel products (cast iron) for around two decades.

Strong order book position with reputed client portfolio: The order book position increased from Rs.523 crore as on June 30, 2015 to Rs.658.71 crore as on Aug 31, 2016 (representing 3.10x of net sales in FY16). The client portfolio of the company is quite diversified comprising irrigation department of various states especially Andhra Pradesh, central utilities, large PSUs and various private sector entities.

Stable financial performance in FY16 & 9MFY17: WPIL's income from operations declined by 9.7% y-o-y to Rs.213.52 crore in FY16. PBILD margins also declined from 15.42% in FY15 to 14.06% in FY16. Despite decline in PBILD, interest coverage ratio improved from 2.94x as on March 31, 2015 to 3.07x as on March 31, 2016 due to lower bank borrowings post QIP issue of Rs.100.69 crore in Dec 2014. Overall, the company's cash accrual increased from Rs.18.97 crore in FY15 to Rs.20.49 crore in FY16 mainly driven by higher non-operating income and lower interest expense.

In 9MFY17, WPIL reported PAT of Rs.9.62 crore (as against Rs.8.14 crore in 9MFY16) on total operating income of Rs.166.34 crore (as against Rs.138.07 crore in 9MFY16).

Comfortable financial risk profile: Overall gearing marginally deteriorated from 0.09x as on Mar 31, 2015 to 0.36x as on Mar 31, 2016 due to low bank borrowings at the end of March 2015 after the equity raising of Rs.100.69 crore in Dec 2014. After the utilization of equity proceeds of Rs.63.0 crore for acquisition purpose in May 2015, the bank borrowing subsequently increased to normalized level. The average working capital utilization was comfortable at around 72% during Mar 2016 to Jan 2017. Total debt/GCA also stood comfortable at 4.05x as on Mar 31, 2016.

Key Rating Weaknesses

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

High exposure to subsidiaries: WPIL's funded exposure to group companies increased from Rs.75.87 crore as on Mar 31, 2015 (accounting for 35% of networth) to Rs.153.48 crore (accounting for 67% of networth) due to investment made in a group company for acquisition of Italian pump maker company. Moreover, WPIL has also given a corporate guarantee of Rs.159.19 crore to its subsidiaries for debt availed for the purpose of acquisition.

Profitability susceptible to volatility in raw material prices: Raw materials are the major cost driver of WPIL, accounting for ~70% of total cost of sales in FY16. Given the prices of steel products (major raw material) are volatile in nature; the profitability of the company is susceptible to the 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. 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. However, the major buyers 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.

Intense competition in the domestic pump industry: The Indian pump industry is characterized by co-existence of small and large manufacturers and a few foreign 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 intense competition from the organised as well as unorganised sector players.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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](#)

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 three manufacturing units in Kolkata and one unit in Ghaziabad, Uttar Pradesh. Since 2011, WPIL has expanded its operation in the international market by acquiring pump companies in different regions of the world.

In FY16, WPIL reported a PAT of Rs.17.18 crore (Rs.16.84 crore in FY15) on total operating income of Rs.213.52 crore (Rs.236.45 crore in FY15). During 9MFY17, the company reported a PAT of Rs.9.62 crore on a total operating income of Rs.166.34 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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.

Analyst Contact:

Name: Utkarsh Nopany

Tel : 033-4018 1605

Cell: +91-9836186474

Email: utkarsh.nopany@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 | - | - | - | 53.25 | CARE A; Stable |
| Fund-based - LT/ ST-Packing Credit in Indian rupee | - | - | - | 23.46 | CARE A; Stable / CARE A1 |
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 200.50 | CARE A; Stable / CARE A1 |
| Issuer Rating-Issuer Ratings | - | - | - | - | CARE A (Is) |
| Commercial Paper-CP/STD | - | - | 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 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 | Date(s) & Rating(s) assigned in 2013-2014 |
| 1. | Commercial Paper-CP/STD | ST | 15.00 | CARE A1 | - | 1)CARE A1 (05-Oct-15) 2)CARE A1 (06-Apr-15) | - | 1)CARE A1 (31-Mar-14) 2)CARE A1 (09-Apr-13) |
| 2. | Fund-based - LT-Cash Credit | LT | 53.25 | CARE A; Stable | - | 1)CARE A (05-Oct-15) 2)CARE A- (06-Apr-15) | - | 1)CARE A (31-Mar-14) 2)CARE A (09-Apr-13) |
| 3. | Fund-based - LT/ ST-Packing Credit in Indian rupee | LT/ST | 23.46 | CARE A; Stable / CARE A1 | - | 1)CARE A / CARE A1 (05-Oct-15) 2)CARE A- / CARE A1 (06-Apr-15) | - | 1)CARE A- / CARE A1 (31-Mar-14) 2)CARE A- / CARE A1 (09-Apr-13) |
| 4. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 200.50 | CARE A; Stable / CARE A1 | - | 1)CARE A / CARE A1 (05-Oct-15) 2)CARE A- / CARE A1 (06-Apr-15) | - | 1)CARE A- / CARE A1 (31-Mar-14) 2)CARE A- / CARE A1 (09-Apr-13) |
| 5. | Issuer Rating-Issuer Ratings | Issuer rat | 0.00 | CARE A (Is) | 1)CARE A (Is) (14-Apr-16) | - | - | - |

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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