

WPIL Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	110.00 (enhanced from 87.21)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long term/Short term Bank Facilities	353.44 (reduced from 361.83)	CARE A; Stable/CARE A1 (Single A; Outlook: Stable / A One)	Reaffirmed
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 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, medium term revenue visibility arising from the orders in hand with reputed client base and comfortable capital structure.

The ratings also factor in the significant improvement in consolidated financial performance of the company during FY19 (refers to the period April 1 to March 31) due to improvement in performance of both domestic and foreign operations. However, the profitability has witnessed significant moderation in Q1FY20 due to overall subdued execution scenario and losses incurred on first time consolidation of FINDER Pompe S.r.l. (Finder) which was acquired in April 2019.

The ratings continue to be 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.

The ability to the company to sustain the improvement in consolidated profitability that it witnessed in FY19, maintaining capital structure and efficient management of the working capital requirement will be the key rating sensitivities.

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.

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

WPIL had an order book (standalone) of Rs.755.31 crore (as against Rs.883 crore as on Sept 30, 2018) as on June 01, 2019, being 1.45x 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 order book in various subsidiaries aggregated to about Euro 58 mn (~Rs.460 crore).

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

Improvement in the financial performance in FY19, albeit moderation in Q1FY20

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

On a consolidated level, WPIL's total operating income witnessed y-o-y growth of ~39% to Rs. 1173 crore in FY19 vis-à-vis Rs.847 crore in FY18 on account of execution of large value orders, improvement in overseas business and better performance of infrastructure division.

PBILDT margin also significantly improved to 21.39% in FY19 as against 11.67% in FY18. Interest coverage ratio improved from 4.41x in FY18 to 19.12x in FY19 on account of improvement in PBILDT level along with reduction in finance charges on account of decrease in working capital borrowings. PAT margin also improved to 13.36% in FY19 as against 4.14% in FY18. On a consolidated level, the company reported GCA of Rs.177.40 crore in FY19 (Rs. 57.60 crore in FY18).

In Q1FY20, WPIL reported net loss of Rs.5.19 crore on total income of Rs.196.55 crore on a consolidated basis as against PAT of Rs.16.74 crore on total income of Rs.272.91 crore in Q4FY19. The loss was partly on account of reduced turnover due to slow movement in orders in both Indian and international operations and partly on account of booking of additional costs related to consolidation of Finder for the first time. Going forward, profitability is expected to improve in the ensuing quarters which shall be a key rating sensitivity.

WPIL, on April 01, 2019, acquired Finder based in Italy through its European wholly owned subsidiary GRUPPO Aturia S.p.A. The acquisition is expected to yield synergies and create a prominent Italian engineered pump company post integration. 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's total operating income witnessed y-o-y growth of ~26% in FY19 to Rs.539.37 crore vis-à-vis Rs.428.56 crore in FY18. PBILDT margin improved to 22.78% in FY19 as against 16.79% in FY18. PAT margin also improved.

In Q1FY20, the company achieved operating income of Rs.86.78 crore and PAT of Rs.15.01 crore vis-a-vis and operating income of Rs.142.58 crore and PAT of Rs.24.18 crore in Q1FY19. The decline in operating income was due to slowdown in order execution which company expects to ramp up substantially in ensuing quarters.

Comfortable capital structure

On consolidated level, the capital structure of the company continued to remain comfortable with debt equity and overall gearing of 0.10x and 0.41x respectively as on Mar. 31, 2019. Total Debt/GCA also improved from 3.49x in FY18 to 0.90x in FY19. In Q1FY20, though the company has availed term debt for acquisition of Finder, the capital structure continues to remain comfortable.

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 by about Rs.134 crore on acquisition of Finder.

Stable 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**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 cyclicality 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 and moderate cash balance of Rs.0.7 Crore as on Mar.31, 2019.

On a consolidated level, WPIL generated GCA of Rs.177.40 crore in FY19 vis-à-vis repayment of Rs.18.42 crore in FY19. WPIL has debt repayment obligation of Rs.16.24 crore during FY20.

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 13% for the last 12 months ended June 30, 2019, indicating availability of liquidity in the form of unutilized limit of ~Rs.120 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

Earlier, CARE had taken standalone approach while factoring linkages with group including corporate guarantees extended to group companies.

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](#)

[Rating Methodology: Factoring Linkages in Rating](#)

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; Stable
Fund-based - LT/ ST-Packing Credit in Indian rupee	-	-	-	32.79	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	320.65	CARE A; Stable / CARE A1
Non-fund-based - ST-Forward Contract	-	-	-	0.96	CARE A1
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 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/STD	ST	15.00	CARE A1	-	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; Stable	-	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; Stable / CARE A1	-	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; Stable / CARE A1	-	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 (1s) (18-Apr-17)	1)CARE A (1s) (14-Apr-16)

6.	Non-fund-based - ST-Forward Contract	ST	0.96	CARE A1	-	1)CARE A1 (27-Nov-18) 2)CARE A1 (06-Apr-18)	-	-
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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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About CARE Ratings:

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