

Weizmann Forex Limited
 October 08, 2018

Rating			
Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities – Term Loan	21.63	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long term Bank Facilities – Working Capital	227.50	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities – Non-fund based	8.50	CARE A2 (A Two)	Reaffirmed
Total Facilities	257.63 (Rupees Two Hundred & Fifty Seven crore Sixty Three lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in ratings continue to factor in WFL's position as one of the leading foreign exchange dealers in India with a strong domestic branch and sub-agent network, its long track record of operations and new tie ups in the inward remittance business. Further, the rating takes into account consistent profitability and comfortable liquidity position.

The ratings, however, remain constrained by margin pressures in remittance and money changing business due to high competition, moderate exposure to credit and market risk and exposure to non-core group companies. Growth in business volumes, profitability, solvency and earnings diversification are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

WFL's position as one of the leading foreign exchange dealers in India with a strong domestic franchise

Weizmann Forex Ltd. (WFL) is one of India's leading foreign exchange dealers with significant presence across retail and wholesale segments of the market. Under the money changing business, the company is involved in purchase & sale of Foreign Currency Notes, Travellers Cheques and Prepaid Foreign Currency Travel Debit Cards. Under the inward remittance business, the company is one of the largest principal agents of Western Union Money Transfer (WUMT) for its remittance business. Under the WUMT business, WFL ranks second in terms of business volumes in India and first in terms of branch network (incl. sub agent network) across the world. WFL's business volumes under both money changing and money transfer businesses are supported by its strong domestic franchise. As on March 31, 2018, the company had over 200 own outlets catering to money changing and money transfer businesses as the case may be and about 61000 plus touch points for money transfer. The company, through Western Union Business Solutions, also provides money transfer services to the importers/exporters in the medium and small business category. In order to augment its money changing business, company has increased opening counters at Hyderabad, Cochin, Goa and Chandigarh. The company also earns commission by selling other tour and travel related services like air ticket booking, packaged tours and travel insurance.

Strengthening of inward remittance business through additional tie ups

The company is a leading principal agent of Western Union Money Transfer and has by far largest number of agent locations for Western Union in the World. Western Union is largest money transfer company in the World in terms of agent locations and is present in over 200 countries and territories with over 5 lakh agent locations across the globe. During H1FY18, the company tied up with other leading global money transfer players viz. Moneygram, Ria Money Transfer and Xpress Money and Transfast. These additional tie ups will help the company in increasing its remittance business volumes and reduce concentration risk on account of high dependence on single principal for its money transfer business segment.

Long track record of operations

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

The company has a long track record of over 20 years as a foreign exchange dealer. During the previous five years, despite of intense competition, the company has been reporting consistent profitability and business volumes. Going forward, business volumes from remittance business is expected to grow substantially on account of recent tie up with other leading global money transfer players.

Consistent profitability

The company has prepared financials of FY18 (as per IndAS). Improvement in earning profile is majorly attributable to increased net income from money changing/outward remittance business which was offset by increased employee benefit expenses. However, the company's operating expenses to average total assets reduced during FY18 and stood at 44.79% (FY17:56.87). The company's other operating income / other income which primarily consists of interest income, commission on sale of travel insurance and sale of wind power has shown a rise in FY18 which stood at Rs. 33.04 crores as against Rs.27.19 crores in FY17. Also IndAS requires valuation of equity instruments in lines with market valuation which is classified as other comprehensive income(OCI) after providing for the estimated tax on the same. OCI stood at Rs. 20.12 crores in FY18. Overall, the company's profitability parameters stood stable during FY18. The company reported PAT of Rs.34.13 crore during FY18 as against PAT of Rs.23.00 crore during FY17. During FY18, the company's Return on Networth and Return on total assets continue to remain robust at 21.53% (FY17: 20.92%) and 9.86% (FY17: 8.33%), respectively.

During Q1FY19, company's profitability has continued to remain stable on the back of lower finance cost and profits from money transfer business. The company reported PAT of Rs.7.02 crore during Q1FY19 as against PAT of Rs. 6.96 (Ind AS) crore during Q1FY18. However, the total comprehensive income is negative on account of the valuation of its investments at fair value. The total comprehensive income stood at Rs. -9.62 crores as on June 30, 2018.As intimated by the management, going forward, company's profitability is expected to improve on the back of high business volumes and possible divestment of non-core wind mill business.

Comfortable liquidity position

The gearing levels are comfortable at 0.58 times as on March 31, 2018 as against 0.53 times as on March 31, 2017. The company also had cash and cash equivalents of Rs.69.14 crore as on March 31, 2018 (March 31, 2017: Rs.35.98 crore). The rise in the cash and cash equivalents is primarily due to money refunded from ICD's given and also on account of accumulation of remittances due to consistent public holidays during that period. Interest coverage ratio of the company stood comfortable at 8.66 times during FY18 (FY17: 4.62 times).

Key Rating Weaknesses

Moderate credit risk

WFL carries counterparty risk in its money changing business in case of corporate clients and other money changers. Exposure to bulk segment mitigates credit risk to some extent considering that the payment cycle in case of bulk clients is T+2 days vis-à-vis a payment cycle of 15-30 days in case of corporate clients. However, the average for the Company is 6-7 days. The share of bulk segment stood at 29.28% of total turnover in FY18 as compared to 40.01%, 45.7% and 46.4% of total turnover during FY17, FY16 and FY15 respectively. The share of corporate segment stood at 11.64% in FY18 as compared to 11.37%, 14.5% and 14.6% in FY17, FY16 and FY15 respectively. The risk associated with corporate clients is also mitigated to some extent as WFL extends credit selectively and only to those entities with proven track record of payments. The risk management department assigns internal rating to the corporate clients before taking an exposure. As on March 31, 2018, out of receivables of Rs.153.73 crore, around Rs.3.18 crore were overdue for over 6 months and Rs.10 crore were overdue for over 30days. On the inward remittance business, WFL carries counter party risk on Western Union for a payment cycle of T+2 and maximum three days (in case of a holiday/ weekend). However, letters of credit issued by Western Union help mitigate such risk. These letters of credit, taken in the form of security, are based on three days average payments and the amounts are reviewed every three months for better risk management. While WFL handles remittances of roughly 4.5 mn USD per day under Money Transfer, it has outstanding letters of credit amounting to 15.9 million USD as on March 31, 2018 and FCNR deposit of 0.05 million USD.

Moderate market risk

WFL is exposed to the currency risk; considering that the nature of its business mandates the company to carry stock of foreign currency on daily basis and an adverse movement in exchange rate can result in loss for the company. However, the market risk is mitigated to a great extent through hedging mechanism in the form of taking forward cover on the exposure. WFL has online branch-wise monitoring and reporting systems which enable the branches to report their stock positions on a daily basis, based on which, the company takes a forward cover on its exposures. There is a natural hedge on account of higher inflow of inward remittance business as compared to the outward remittance business and the company takes forward contracts for the net open position.

Low margins under money changing and remittance business

Due to competitive pressures, margin in the money transfer/inward remittance business remained low, albeit, there was improvement in margins vis-à-vis previous year. Money transfer business margin improved to 1.15% during FY18 as compared to 1.01% in FY17. However, the volume of remittances reduced by ~22% in FY18 (remittance volume stood at Rs.8901.62 crore during FY18 as against Rs.11441.11 crore during FY17). During FY18, income earned from money transfer/inward remittance business stood stable at Rs.102.15 crore as against Rs.114.35 crore during FY17. Improvement of margins in money transfer/inward remittance business was more or less offset by reduction in volume. Margins under money changing/outward remittance business stood stable during FY18 at 1.05% vis-à-vis 1.10% during FY17. However, on account of improvement in volumes, net income from money changing/outward remittance business improved to Rs.78.72 crore during FY18 as against Rs.63.84 crore during FY17.

High exposure to non-core group companies

As on March 31, 2018, the company had equity investments, inter-corporate deposits and corporate guarantee of Rs. 80.15 crore (PY: Rs.33.3 crore), Rs.4.83 crore (PY: Rs.24.5 crore) and Rs.31.57 crore (Including Capital commitments) (PY: Rs. 34.3 crore) respectively in associates and promoter group companies. Consequently, the company's adjusted gearing (post exclusion of ICDs and equity investments in group and promoter companies from tangible networth and inclusion of contingent liabilities in borrowings) as on March 31, 2018 stood at 0.34 times (PY: 1.58 times). However in September 2018, the company has intimated to Stock exchange regarding the divestment of its entire holding in Brahmanvel Energy Limited, Khandesh Energy Projects Limited, Weizman Corporate Services Limited, Avinaya Resources Limited, Tapi Energy Projects Limited, Chikmagalur Energy Projects Limited and Windia Infrastructure Finance Limited. The stake is to be sold to its promoter companies.

Industry Prospects

The money changing business pick up depends on the revival in the domestic economy which results in higher travel related spending by the corporate as well as tourists. The inward remittances business volume is contingent on the performance of the world economy. India is the largest receiver of remittances and WFL has a significant market share in the volume of money transfer business.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for short-term instruments](#)

[Financial ratios – Financial Sector](#)

About the Company

Weizmann Forex Ltd (WFL), incorporated in October 1985, is a RBI-licensed Authorized Dealer (AD) Category II - Money Changer. WFL is a part of the Weizmann Group which is engaged in textile processing and exports, money changing and money transfer activities, import/export payment solutions, power generation from renewable energy etc. WFL commenced its business activities in April, 2000 following the demerger of Money Changing and Money Transfer Activities carried on by Weizmann Ltd. WFL currently offers services of 1) Money Changer 2) Principal Agents for leading remittance services companies 3) Distribution of third party financial products and other travel and tourism related services. The company has also made investments in wind power plants in Tamil Nadu and Maharashtra aggregating to 7.2 MW of power generation capacities. Income from inward remittance contributed 47% (FY17: 56%) of total income while income from money changing/outward remittance contributed 36% (FY17: 31%) of total income in FY18. As on March 31, 2018, the company had over 200 own outlets catering to money changing and money transfer businesses as the case may be and about 61000 plus touch points for money transfer. The company, through Western Union Business Solutions, also provides money transfer services to the importers/exporters in the medium and small business category.

In June 2018, Board of directors approved a buyback of 4,36,467 fully paid up equity shares for an aggregate value of Rs.702 per share, the total consideration comes to Rs.30.64 crore. This represents 3.77% of the total number of outstanding shares of the company and the same has being filed with SEBI for approval.

Brief Financials (Rs. crore)	\$FY17 (Audited)	*FY18 (Audited)
Total operating income (net)	200.37	213.94
PAT	23.00	34.13
Interest coverage (times)	4.62	8.66
Total Assets	284.11	408.13
Net NPA (%)	NA	-
ROTA (%)	8.33	10.30

\$ As per AS, * As per IndAS

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.

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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-Long Term Working Capital Facilities	-	-	-	222.50	CARE A-; Stable
Term Loan-Long Term	-	-	Sep. 30, 2022	16.03	CARE A-; Stable
Non-fund-based-Short Term	-	-	-	8.50	CARE A2
Proposed Bank Facilities	-	-	-	10.60	CARE A-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term Working Capital Facilities	LT	227.50	CARE A-; Stable	-	1)CARE BBB+; Stable (03-May-17) 2)CARE A-Stable (09-Oct-17)	-	1)CARE BBB+ (09-Mar-16) 2)CARE BBB+ (15-Apr-15)
2.	Term Loan-Long Term	LT	21.63	CARE A-; Stable	-	1)CARE BBB+; Stable (03-May-17) 2)CARE A-Stable (09-Oct-17)	-	1)CARE BBB+ (09-Mar-16) 2)CARE BBB+ (15-Apr-15)
3.	Non-fund-based-Short Term	ST	8.50	CARE A2	-	1)CARE A3+ (03-May-17) 2)CARE A2 (09-Oct-17)	-	1)CARE A3+ (09-Mar-16) 2)CARE A3+ (15-Apr-15)

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