

Weizmann Forex Limited

October 9, 2017

Rating

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities – Term Loan	21.63 (Enhanced from Rs.16.63 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long term Bank Facilities – Working Capital	227.50 (Enhanced from Rs.205.50 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities – Non-fund based	8.50 (Reduced from Rs.48.50 crore)	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
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 revision in ratings factors in the new tie ups made by Weizmann Forex Limited (WFL) with leading global money transfer companies which is likely to boost volumes in the company's inward remittance business. The rating revision further takes into account WFL's consistent profitability and comfortable liquidity position. The ratings also factor in WFL's position as one of the leading foreign exchange dealers in India with a strong domestic branch and sub-agent network and its long track record of operations. 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 high 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 August 31, 2017, WFL had 211 own locations for its money changing as well as money transfer business and in addition a network of over 56,000 sub agents for money transfer business. The company's sub-agents are present in all the 640 districts of India. The company has shut down certain economically unviable branches in past few years and appointed sub agents at those locations. 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 (second largest money transfer company in the World in terms of global agent locations spread across more than 3.5 lakh locations), Ria Money Transfer (over 3.25 lakh global agent locations in 146 Countries and territories) and Xpress Money (over 2 lakh global agent locations). 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.

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

Long track record of operations

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.

Consistent profitability

During FY17, improvement in earning profile is majorly attributable to increased net income from money changing/outward remittance business which was partially offset by increased operating expenses and loss on sale of investment. The company's operating expenses to average total assets deteriorated marginally during FY17 and stood at close to 57% (FY16: 53%). The primary reason for increased operating expenses is the loss incurred on closure of derivatives deal relating to wind power operations that stood at Rs.8.34 crore. The company had entered into derivative transaction to hedge against dollar denominated loan for wind mill business. Currently, both derivative exposure and dollar denominated loan stands closed. Consequently, the wind power division reported segmental loss (before tax and interest) of Rs.7.88 crore during FY17 (FY16: loss of Rs.2.24 crore). Also, during FY17, the company reported additional loss on divestment of part stake in joint venture and other non-current investment amounting to Rs.1.08 crore. The company's profits from insurance sale commission increased to Rs.0.56 crore during FY17 as against Rs.0.23 crore during FY16. Overall, the company's profitability parameters stood stable during FY17. The company reported PAT of Rs.23 crore during FY17 as against PAT of Rs.21.87 crore during FY16. During FY17, the company's Return on Networth and Return on total assets continue to remain robust at 20.92% (FY16: 23.08%) and 8.33% (FY16: 8.12%), respectively.

During Q1FY18, company's profitability improved significantly on the back of lower finance cost and profitable operations of the wind power segment. The company reported EBIT of Rs.0.5 crore under wind power division during Q1FY18 as against loss of Rs.9.16 crore (majorly attributable to derivative exposure loss) during Q1FY17. The company reported PAT of Rs.6.88 crore during Q1FY18 as against PAT of Rs.0.12 crore during Q1FY17.

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 company had cash and cash equivalents of Rs.35.98 crore as on March 31, 2017 (March 31, 2016: Rs.46.98 crore). Interest coverage ratio of the company stood comfortable at 4.62 times during FY17 (FY16: 3.79 times). The company also maintained cash and bank balances of Rs.16.54 crore as on June 30, 2017. The company's average monthly CC/WCDL utilization on operating sanctions also stood favorable for the period from April to August 2017 at around 27%.

Key Rating Weaknesses

Moderate credit risk

WFL is exposed to carries counterparty credit 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. The share of bulk segment stood at 40.1% of total turnover in FY17 as compared to 45.7%, 46.4% and 56.9% of total turnover during FY16, FY15 and FY14, respectively. The share of corporate segment stood at 13.7% in FY17 as compared to 14.5%, 14.6% and 11.6% in FY16, FY15 and FY14, 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. As on March 31, 2017, out of receivables of Rs.96.3 crore, around Rs.2.4 crore were overdue for over 6 months and Rs.8.94 crore were overdue for over 30 days.

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 WUMT, as per the requirement of RBI, Western Union has provided adequate cover through SBLC.

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 1.01% during FY17 as compared to 0.82% in FY16. However, the volume of remittances reduced by ~17% in FY17 (remittance volume stood at Rs.11,327 crore during FY17 as against Rs.13,789 crore during FY16). As per the management, the reduction in volume of remittance business is partially attributable to the effect of demonetization during which period adequate funds were not available at the disposal for business and also on account of lower remittances from Middle East owing to lower crude oil prices. During FY17, income earned from money transfer/inward remittance business stood stable at Rs.114.35 crore as against Rs.113.38 crore during FY16. 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 FY17 at 1.10% vis-à-vis 1.11% during FY16. However, on account of improvement in volumes, net income from money changing/outward remittance business improved to Rs.63.84 crore during FY17 as against Rs.51.71 crore during FY16.

High exposure to non-core group companies

As on March 31, 2017, the company had equity investments, inter-corporate deposits and corporate guarantee of Rs.33.3 crore (PY: Rs.23.6 crore), Rs.24.5 crore (PY: Rs.16.5 crore) and Rs.34.3 crore (PY: Rs.43.4 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, 2017 stood at 1.58 times (PY: 1.60 times). However, as intimated by the management, the company will substantially reduce its exposure from non-core group companies by the end of FY18, although, as stated by the management, these non-core group companies have been regular in servicing of the debt and repayment of its outstanding.

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), was originally incorporated in August 1997 as a subsidiary of Weizmann Limited and 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. The group had undertaken a restructuring exercise during 2009 pursuant to which the said WFL was amalgamated with Weizmann Limited from April 1, 2009 and under the same scheme of arrangement approved by Hon'ble High Court of Bombay, the forex business undertaking was demerged into a resultant company which has been in existence since 1985 and the said resultant company was renamed as Weizmann Forex Limited and the company was also listed on BSE and NSE from June 2011. 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 56% (FY16: 60%) of total income while income from money changing/outward remittance contributed 31% (FY16: 27%) of total income in FY17.

As on August 31, 2017, the company had over 211 own outlets catering to money changing and money transfer businesses as the case may be. The company has closed more than 100 outlets in the previous three years since they were not economically viable. The company has more than 56,000 plus sub agents outlets as on August 31, 2017. The company, through Western Union Business Solutions, also provides money transfer services to the importers/exporters in the medium and small business category.

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Total operating income (net)	181.11	200.37
PAT	21.88	23.00

Interest coverage (times)	3.79	4.62
Total Assets	268.09	284.11
Net NPA (%)	NA	NA
ROTA (%)	8.12	8.33

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	-	-	-	227.50	CARE A-; Stable
Term Loan-Long Term	-	-	Sep. 30, 2022	21.63	CARE A-; Stable
Non-fund-based-Short Term	-	-	-	8.50	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term Working Capital Facilities	LT	227.50	CARE A-; Stable	1)CARE BBB+; Stable (03-May-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)	-	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)	-	1)CARE A3+ (09-Mar-16) 2)CARE A3+ (15-Apr-15)	-

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