

Windsor Exports

January 03, 2019

Rating			
Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	26.12	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB-;Stable (Triple B Minus Outlook: Stable)
Total	26.12 (Rupees Twenty six crores twelve lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Windsor Exports (WEX) factors in subdued performance during FY18 as characterized by decline in the scale of operations, decline in profitability margin, deterioration in capital structure and coverage indicators. The rating, further, continues to remain constrained by elongated working capital cycle, weak liquidity indicators, foreign exchange volatility risk, customer and geographic concentration risk, constitution of the entity as a partnership firm, and WEX's presence in competitive nature of industry. However, the rating continues to draw comfort from experienced partners and established track record of operations.

Going forward, ability of the firm to maintain its relationship with its key customers efficiently managing its working capital requirements would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in scale of operations

WEX's total operating income declined to Rs.63.72 crore and Rs.4.04crore respectively in FY18 (FY refers to the period April 01 to March 31) as against Rs.75.51 and Rs.10.72 mainly on account of lower quantity sold to existing customers. The modest scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Further, during 7MFY19 (FY refers to the period April 01 to November 30; based on provisional results), the firm has achieved a total operating income of Rs.51.54 crores.

Decline in profitability margin, deterioration in capital structure and coverage indicators

The decline in PBILDT margin by 401 basis points (bps) to 14.81% in FY18 was on account of change in product mix coupled with lower revenue from export sales which fetch better profitability margins. In addition, decline in PAT margin has also taken into account higher interest cost.

The company has high dependence on external borrowings to meet working capital requirement coupled with debt funded capex undertaken in past. WEX's capital structure deteriorated due to elimination of quasi equity from partners' capital (absence of condition from sanction letter). Overall gearing stood at 2.48x as on March 31, 2018 as against about 1.91x as on March 31, 2017 owing to increase in the term loan and withdrawal of earlier infused quasi equity.

Further, due to decline in profitability along with increase in debt levels, the debt coverage indicators also deteriorated as marked by interest coverage ratio and total debt to gross cash accruals (TD/GCA) which stood at 1.75x and 16.11x in FY18 as against 3.90x and 6.05x in FY17.

Elongated Operating cycle coupled with weak liquidity indicators

The firm's operating cycle stood elongated at 149 days in FY18 mainly due to high debtors' collection period of 120 days on account of high credit period extended to customers along with transit time involved. Due to the diverse product portfolio, the firm has to keep high inventory of traded goods that result in an average inventory period of 88 days in FY18. The firm receives credit period of around 2 months from the suppliers which results into high reliance on external borrowings to meet its working capital requirements. The average working capital utilization stood at ~93% for the past 12 months ended November 2018. Further, the liquidity indicators stood weak as marked by current and quick ratio of 0.99x and 0.74x respectively. . Elongated operating cycle coupled with higher utilization of the working capital borrowings indicates the weak liquidity position of the company. Cash and bank balance which stood at Rs.1.68 crore as on March 31, 2018.

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

Customer and geographic concentration risk

The top five customers of the firm accounted for around 60% of sale during FY18 exposing the firm to client concentration risk. This exposes WEX's revenue growth and profitability to its customer's future growth plans. The firm is mainly into exports to African countries. Due to high geographic concentration, the firm is also exposed to unfavorable changes in the government policy of that country. Furthermore, counterparty credit risk remains high due to instability in political and economic scenario in Africa.

Competitive nature of industry and foreign exchange volatility

WEX business risk profile continues to be constrained by competition from organized and unorganized players who are offering automobile products in overseas market. Furthermore, the firm is exposed to international regulatory policies in regard to trading of products. Any adverse change in target nation policy will have a direct impact of WEX business risk profile. Additionally, WEX operating income and profitability is expose to volatility in foreign currency, in the absence of hedging policy further strengthening of INR against foreign currencies will have positive impact on the firm's business risk profile.

Key Rating Strengths
Experienced partners and established track record of operations

The firm is managed by Mr. Munish Gupta and Mrs. Monika Gupta. They have experience of more than two decades in manufacturing of auto components and also have wide experience in EXIM (export import) business through their association with other family run businesses.

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 Wholesale Trading](#)

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

About the Company

Gurgaon-based (Haryana) WEX is a partnership firm formed in 1996. It is primarily engaged in the trading of auto components. WEX is managed by Mr. Munish Gupta and his wife Mrs. Monika Gupta as partners sharing profits and losses in the ratio of 60:40. The firm is also in power generation and has to total capacity of 1.5 MW wind mill and 4.00 MW of solar power plant.

WEX is a part of the Eastman International Group which comprises Eastman International, Ramesh Steels, Eastman International Limited, Mukand Industries Private Limited, Maxwell Inc. and Rita International.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	75.51	63.72
PBILDT	14.21	9.44
PAT	7.18	0.70
Overall gearing (times)	1.91	2.48
Interest coverage (times)	3.90	1.75

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 company 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-Term Loan	-	-	April 2025	15.12	CARE BB+; Stable
Fund-based - LT-EPC/PSC	-	-	-	11.00	CARE BB+; 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 - LT-Term Loan	LT	15.12	CARE BB+; Stable	-	1)CARE BBB-; Stable (08-Jan-18) 2)CARE BBB-; Negative (26-Apr-17)	-	1)CARE BBB- (25-Mar-16)
2.	Fund-based - LT-EPC/PSC	LT	11.00	CARE BB+; Stable	-	1)CARE BBB-; Stable (08-Jan-18) 2)CARE BBB-; Negative (26-Apr-17)	-	1)CARE BBB- (25-Mar-16)

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