

Wires & Fabriks (SA) Limited

April 1, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	32.21	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	7.75	CARE A3+ (A Three Plus)	Reaffirmed
Long-term/ Short-term Bank Facilities	29.15	CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Reaffirmed
Total facilities	69.11 (Rupees Sixty nine crore and eleven lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Wires & Fabriks (SA) Limited (WFL) continues to draw strength from the vast experience of promoters in the technical textile industry, its established track record of operations in the niche segment of paper machine clothing and supply of chemicals used in paper manufacturing. The ratings further draw comfort from WFL's long-standing relationship with its suppliers as well as clientele; and its moderate debt coverage indicators, capital structure and liquidity. The ratings also take cognizance of improvement in financial performance of WFL during 9MFY19.

The ratings, however, continue to be constrained by WFL's modest scale of operations which exhibits high working capital intensity, its moderate profitability margins and competition from imports; although WFL enjoys a good market share in its key product segment in the domestic market.

WFL's ability to increase its scale of operations through penetration in the export market along with improvement in its profitability and capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoter's vast experience: WFL has established track record of more than five decades in manufacturing of paper machine clothing which finds application in filtration and drying process in paper manufacturing. Incorporated in 1957, WFL started commercial operations at its manufacturing facility located at Jhotwara, Jaipur in 1963.

Operates in the niche segment with strong association with leading paper manufacturers: WFL manufactures synthetic fabric (technical textile), which is one of the critical inputs in the paper manufacturing process. WFL is one of the largest players in manufacturing of technical textiles for paper industry in the organized sector in India.

Moderate capital structure and debt coverage indicators: The capital structure of the company improved during FY18 although continued to remain moderate marked by overall gearing of 1.11 times as on March 31, 2018 as compared to 1.56 times as on March 31, 2017 due to schedule repayment of long term debt. Further overall gearing stood at 0.84 times as on December 31, 2018 due to decline in working capital limit utilization. Total Debt to GCA (TDGCA) has improved from 6.13 times as on March 31, 2017 to 4.57 times as on March 31, 2018 on account of decline in debt levels. PBILD interest coverage ratio has also improved from 3.61 times in FY17 to 5.03 times in FY18. The overall gearing may moderate going forward on account of indication of proposed capex by WFL.

Stable Outlook of Paper Industry: India's share in global demand is growing as domestic demand increase, while demand in developed nations is muted. The domestic demand grew from 9.3 mn tonnes in FY08 to 17.1mn tonnes in FY18 at a CAGR of 6.3%. Packaging paper & board with nearly 51% of domestic demand is the largest segment. The domestic per capita consumption is little over 13 kg, below the global average of 57 kg. The growth triggers include rising income levels, growing per capita expenditure, rapid urbanization and a larger proportion of earning population which is expected to lead consumption. The capacity utilization levels and projected demand have caused companies to start building out additional production capacity. The industry continues to face challenges such as access to quality and cost competitive raw-material and competition from imports.

Key Rating weaknesses

Moderate scale of operations and profitability: WFLs scale of operations continued to remain modest marked by moderate total operating income (TOI), which marginally improved on y-o-y basis by 1.53% to Rs.102.93 crore in FY18.

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

Further during FY18, the PBILDT margin of WFL has decline by 192 bps on account of increase in fixed cost post completion of projects. Further, operating expenses increase in production cost by Rs.3.08 crore and foreign exchange loss of Rs.0.48 crore. However PAT margin improved by 77 bps over FY17 mainly on account of savings in interest cost on the back of lower utilization of fund based limits. Further, PBILDT margin stood at 12.33% during 9MFY19.

Working capital intensive nature of operations albeit moderate liquidity position: WFL's operations continue to remain inherently working capital intensive primarily due to its dependence on imports for its key raw materials (requiring a longer lead time for delivery) apart from extended credit period offered to its customers. Despite long operating cycle, the liquidity position of WFL has remained comfortable marked by 24% utilization of average fund based working capital limits for the past twelve months ended January 31, 2019. Liquidity position of the company has improved during FY18 marked by improvement in current ratio to 1.63 times as on March 31, 2018. Further WFL earned healthy operating cash flow of Rs.18.22 crore in FY18 (Rs.12.83 crore in FY17). Further, the company has principal repayment of Rs.5.28 crore during FY19 as compared to envisaged GCA level of Rs.11.21 crore.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

About the Company

Wires & Fabriks (SA) Ltd. (WFL) was established in 1957, as a Private limited Company by Mr. B. K. Khaitan, Mr. K. K. Khaitan and Mr. M.K. Khaitan. Subsequently Mr. B. K. Khaitan retired in August 2014 and WFL's operations are managed by Mr. M. K. Khaitan and Mr. K. K. Khaitan. WFL is mainly engaged in manufacturing of technical textiles particularly paper machine clothing used in filtration and drying process in paper industry at its facility in Jhotwara, Jaipur. Over the years, WFL has enhanced its product capabilities by manufacturing different varieties of paper machine cloth (i.e. double and triple layered synthetic fabrics) and it has increased manufacturing capacity through continuous technology up-gradation. Apart from manufacturing, WFL is also engaged in trading of industrial chemicals that are used in paper industry. As on March 31, 2018, WFL had five wind mills having aggregate installed capacity of 4.25 MW to meet captive power requirement.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	101.38	102.94
PBILDT	14.40	12.64
PAT	0.04	0.84
Overall gearing (times)	1.56	1.11
Interest coverage (times)	3.61	5.03

A-Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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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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
Term Loan-Long Term	-	-	Sep-2024	32.21	CARE BBB+; Stable
Non-fund-based-Short Term	-	-	-	7.75	CARE A3+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	28.25	CARE BBB+; Stable / CARE A3+
Non-fund-based-LT/ST	-	-	-	0.90	CARE BBB+; Stable / CARE A3+

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.	Term Loan-Long Term	LT	32.21	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Mar-18)	1)CARE BBB+; Stable (23-Mar-17) 2)CARE BBB+ (19-Apr-16)	-
2.	Non-fund-based-Short Term	ST	7.75	CARE A3+	-	1)CARE A3+ (05-Mar-18)	1)CARE A3+ (23-Mar-17) 2)CARE A3+ (19-Apr-16)	-
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	28.25	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (05-Mar-18)	1)CARE BBB+; Stable / CARE A3+ (23-Mar-17) 2)CARE BBB+ (19-Apr-16)	-
4.	Non-fund-based-LT/ST	LT/ST	0.90	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (05-Mar-18)	1)CARE BBB+; Stable / CARE A3+ (23-Mar-17) 2)CARE BBB+ / CARE A3+ (19-Apr-16)	-
5.	Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	-	-	1)CARE A3+ (19-Apr-16)	-
6.	Fund-based - ST-SLC-WC	ST	-	-	-	1)Withdrawn (05-Mar-18)	1)CARE A3+ (23-Mar-17)	-

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