Wires & Fabriks (SA) Limited

April 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	79.98 (enhanced from 32.21)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
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; Outlook: Stable/ A Three Plus)**	**Long-term rating revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and reaffirmation of Short-term rating CARE A3+ (A Three Plus)**
Total Facilities	**116.88 (Rupees One hundred sixteen crore and eighty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Wires & Fabriks (SA) Limited (WFL) is on account of project implementation and stabilization risk associated with its predominantly debt funded large size modernization cum capacity expansion project with expected moderation in its capital structure and debt coverage indicators.

The ratings, however, continue 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 as well as its long-standing relationship with its clientele and adequate liquidity.

The ratings, however, continue to remain constrained by WFL's moderate scale of operations despite steady growth in its total operating income (TOI) during past three years ended FY19 (refers to the period April 1 to March 31), its moderate profitability, elongated operating cycle and competition from imports; although WFL enjoys a good market share in its key product segment in the domestic market.

Rating Sensitivities

Positive Factors

- Sizeable growth in its total operating income
- Improvement in PBILDT margin to above 15% on sustained basis
- Significant improvement in overall gearing and total debt to GCA from envisaged peak levels post completion of capex
- Timely completion of ongoing capex within envisaged cost and time parameters and realization of envisaged benefits therefrom
- Improvement in Return on Capital Employed to more than 8%

Negative Factors

- Decline in total operating income by more than 10% on sustained basis
- PBILDT margin falling below 10% on sustained basis
- Significant deterioration in operating cycle
- Significant delay in implementation of ongoing project or any significant cost overrun affecting its debt coverage indicators

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters in the technical textile industry & established track record of operations in paper machine cloth manufacturing:

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

WFL has established track record of more than five decades in manufacturing 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. Over the years, WFL has invested in technology up-gradation of its manufacturing facility which has helped it in maintaining robust position in domestic market while increasing exports as well. WFL started with manufacturing single layer metal fabric in collaboration with a German company, and gradually upgraded to multi-layered synthetic textile. WFL is also into trading of industrial chemicals used in paper industry. Top management is assisted by qualified and experienced second tier management in running day-to-day operations.

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. Accredited with ISO 9001:2002 certification and a Government of India recognized R&D facility, WFL has a major market share in forming fabric in domestic market and mainly faces competition from imports. WFL has been associated with its customers since long and has been continuously providing customized products as per their requirements. Although WFL has major market share in the domestic market, its scale of operations are modest due to its presence in niche Indian paper machine clothing segment. The growth of WFL is limited by the demand of its products from the paper industry.

***Moderate capital structure and debt coverage indicators; albeit expected to deteriorate due to large size predominantly debt funded capex*:**
Its capital structure stood moderate with an overall gearing of 0.82 times as on March 31, 2019, improved from 1.11 times as on March 31, 2018 attributed to accretion of profit to reserve along with lower debt factored by scheduled repayment of its term loan along with lower utilization of its working capital limit as on balance sheet date.
WFL's debt coverage indicators have also exhibited improvement from FY18 level with total debt to GCA of 3.28 times as on March 31, 2019 improved from 4.57 times as on March 31, 2018 due to increase in its GCA level as well as lower total debt. Further, its PBILDT interest coverage improved to 8.15 times in FY19 as against 5.03 times in FY18 mainly on account of increase in operating profit as well as decline in its interest expenses.
However, considering the proposed term loan of Rs.56 crore for the on-going project which would be availed in FY21 along with assumption of increased utilization of its fund based limits, its overall gearing and debt coverage indicators are expected to deteriorate significantly over the projected period (FY20-22) with overall gearing expected to moderate to more than 2 times.

Liquidity-Adequate:
WFL's operations continue to remain highly working capital intensive as demonstrated by elongated operating cycle of 164 days in FY19 though the same improved from 180 days in FY18 due to decline in average collection and inventory period. Despite long operating cycle, the liquidity position of WFL has remained adequate marked by 20% average utilization of fund based working capital limits for the past twelve months ended December, 2019 (P.Y.:24% for trailing 12 months ended January 31, 2019). Further, the current ratio and quick ratio stood moderate at 1.80 times and 1.20 times respectively as on March 31, 2019. However, its cash flow from operating activities decreased and stood at Rs.15.70 crore in FY19 (FY18: Rs.18.22 crore) due to increase in working capital gap.

Key Rating Weaknesses
***Project implementation risk associated with predominantly large size debt funded capex though the same gets mitigated to some extent on account of past experience of implementing such projects*:**
During FY20, the company has undertaken a modernization-cum-capacity enhancement project which includes setting up of weaving loom, finishing table as well as modernization of existing looms/finishing machine as well as other equipments at a total cost of Rs.79.97 crore to be funded through term loan of Rs.56 crore and remaining through a mix of internal accruals as well as unutilised portion of working capital limit. Further, size of the project is very large as it is almost twice its net-worth. The company as on March 20, 2019 has incurred a total cost of around Rs.8.66 crore funded through a mix of internal accruals and unutilised portion of working capital limit. Apart from term loan for the project, the company expects to fund the entire balance portion of capex from unutilised portion of working capital limits and expects completion of the project by the end of FY21. However, the financial closure has not yet been achieved as the company has not yet received sanction of term loan. Also, in the event of any significant increase in its gross current asset days some internal accruals would be required for funding of the same. Consequently, the free cash accruals available for its debt servicing will be reduced. Also with significant fall in its market capitalisation (which stands at around 38% of its net-worth), financial flexibility of promoters to support in case of any exigencies is also reduced.
The company undertook this project in order to manufacture special designs of multi shat fabrics i.e. known as Suit Support Binder products (SSB) which are as per the latest developed technology.

The said project after completion is expected to increase the revenue and margins going forward as SSB products are expected to yield higher margins as compared to conventional fabrics/cloths. Further, the said expansion would be helpful in expanding its export presence and addressing future demand from domestic market. However, timely completion of the expansion project within envisaged cost parameter, considering high cost of project, will be crucial in addition to risk pertaining to stabilization of operations and achievability of the envisaged scale and profitability over the projected period. However, the said risk gets partially mitigated as the management has undertaken such projects in the past and was able to successfully complete the project and commence the operations.

Moderate albeit growing scale of operations with moderate profitability along with low return ratio:
During FY19, TOI grew by around 3% to Rs.106.33 crore mainly on account of increase in revenue from woven wire cloth segment backed by repeated orders from its reputed and established clientele base ensuring a steady demand as well as marginal increase in the average sales realization of the same. However, despite growth, the scale of operations have remained moderate.
During FY19, PBILDT margin of the company increased by around 42 bps to 12.70% mainly on account of lower cost of raw material consumed along with lower other expenses. With increase in operating profit margin, PAT margin also increased by around 38 bps to 1.20% in FY19, with GCA level increasing by around 5% to Rs.10.67 crore in FY19 (Rs.10.16 crore in FY18).
Additionally, during 9MFY20, the company has reported TOI of Rs.77.35 crore along with PBILDT margin and PAT margin of 12.02% and 0.89% respectively with GCA of Rs.6.89 crore as against TOI of Rs.77.07 crore along with PBILDT margin and PAT margin of 12.33% and 0.69% respectively with GCA of Rs.7.59 crore in 9MFY19. While the profitability margins remained moderate, its return ratio marked by return on capital employed also remained low.

Outlook on Industry
The prospects of the company are dependent on the performance of paper industry. Subdued and diverse trading conditions caused by geopolitical uncertainties including the current coronavirus outbreak in China are expected to continue to impact the overall global demand for paper. Demand in the packaging paper & board segment is slated to increase, while other segments are expected to either grow slowly or remain at similar levels. For the domestic industry, growth is expected to be driven by factors such as income levels, growing per capita expenditure, rapid urbanization and a larger proportion of earning population which is expected to lead consumption. Despite increasing digitization, CARE Ratings expects the overall paper demand to grow at 6%-7% for the next 2-3 years.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Ratings and Credit Watch
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Company
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, 2019, WFL had five wind mills having aggregate installed capacity of 4.25 MW to meet captive power requirement.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	102.94	106.33
PBILDT	12.64	13.50
PAT	0.84	1.27
Overall gearing (times)	1.11	0.82
Interest coverage (times)	5.03	8.15

A: Audited

As per provisional results for 9MFY20, WFL has reported TOI of Rs.77.35 crore with PBILDT and PAT of Rs.9.32 crore and Rs.0.69 crore respectively.

Status of non-cooperation with previous CRA: None
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
Term Loan-Long Term	-	-	Sep-2024	79.98	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 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.	Term Loan-Long Term	LT	79.98	CARE BBB; Stable	1)CARE BBB+; Stable (01-Apr-19)	-	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+ (01-Apr-19)	-	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+ (01-Apr-19)	-	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+ (01-Apr-19)	-	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)

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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