

## Wires & Fabriks (SA) Ltd.

March 05, 2018

### Ratings

| Facilities                            | Amount<br>(Rs. crore)   | Rating <sup>1</sup>   | Rating Action |
|---------------------------------------|---|---|---------------|
| Long-term Bank Facilities             | 37.15   | CARE BBB+; Stable<br>(Triple B Plus; Outlook: Stable)                           | Reaffirmed    |
| Short-term Bank Facilities*           | 7.75  | CARE A3+<br>(A Three Plus)  | Reaffirmed    |
| Long-term/ Short-term Bank Facilities | 29.15   | CARE BBB+; Stable/ CARE A3+<br>(Triple B Plus; Outlook: Stable)/ (A Three Plus) | Reaffirmed    |
| <b>Total facilities</b>               | <b>74.05</b><br><b>(Rupees Seventy Four crore and Five lakh only)</b> |   |               |

*Details of instruments/facilities in Annexure-1*

*\*rating of the bank facility for Stand by Line of Credit (SLC) of Rs.2.50 crore has been withdrawn due to withdrawal of the said facility by the bank*

### Detailed Rationale & Key Rating Drivers

The ratings continue to draw strength from the experience of the promoters of Wires & Fabriks (S.A.) Ltd (WFL) 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 profitability and liquidity. The ratings also take cognizance of decline in operating profitability during 9MFY18.

The ratings, however, continue to be constrained by WFL's modest scale of operations which exhibits high working capital intensity, its moderately leveraged capital structure 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 and realize envisaged benefits of the techno-upgradation project completed in FY17 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 profitability margins

During FY17, the PBILDT margin of WFL has improved by 27 bps on account of increase in income from woven clothing segment which fetches higher margin despite decline in sales realizations of woven wire cloth in FY17 in line with decline in raw-material cost. However, PAT margin has deteriorated by 132 bps in FY17 mainly on account of increase in depreciation from Rs.7.35 crore in FY16 to Rs.10.10 crore in FY17. Despite decline in PAT margin, GCA has increased from Rs.8.44 crore in FY16 to Rs.10.58 crore in FY17. While PBILDT margins moderated during 9MFY18 to 11.76% mainly due to decline in sales realization with increase in cost of raw material, the PAT margin has improved to 0.46% during 9MFY18.

#### Key Rating Weaknesses

**Working capital intensive nature of operations:** 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)

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

apart from extended credit period offered to its customers. Despite long operating cycle, the liquidity position of WFL has remained moderate marked by 55% utilization of average fund based working capital limits for the past twelve months ended January 31, 2018.

**Moderate Scale of Operations with moderately leveraged capital structure:** The total operating income (TOI) of WFL has been increasing gradually over the period FY11 to FY17 and the same has improved by 3.13% during FY17 as compared to FY16. During FY11-FY17, WFL's chemical trading sales have grown at a Compounded Annual Growth Rate (CAGR) of 11% as compared to a CAGR of 4% during FY11-17 for its paper machine clothing business for the same period. WFL's capital structure also remained moderately leveraged due to term debt availed for capital expenditure as well as reliance on bank borrowings for working capital. With a decline in debt and interest expenses, debt coverage indicators have improved in FY17.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

[Criteria for Short Term Instruments](#)

#### 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 portfolio 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. From FY10, WFL has entered into a technical collaboration with Albany International Corp., U.S.A (AIC; a global leader in paper cloth manufacturing). Apart from manufacturing, WFL is also engaged in trading of industrial chemicals that are used in paper industry. As on March 31, 2017 WFL had five wind mills having aggregate installed capacity of 4.25 MW to meet captive power requirement.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|
| Total operating income       | 99.82    | 102.94   |
| PAT                          | 13.30    | 14.01    |
| Interest coverage (times)    | 1.42     | 0.10     |
| Total Assets                 | 1.61     | 1.56     |
| Net NPA (%)                  | 2.88     | 4.10     |
| ROTA (%)                     | 99.82    | 102.94   |

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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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 |
|--|------------------|-------------|---------------|-------------------------------|---|
| Term Loan-Long Term                        | -                | -           | October, 2025 | 37.15                         | 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+              |
| Fund-based - ST-SLC-WC                     | -                | -           | -             | 0.00                          | Withdrawn                                 |

## 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.      | Term Loan-Long Term                                 | LT              | 37.15                          | CARE BBB+; Stable            | -   | 1)CARE BBB+; Stable (23-Mar-17)<br>2)CARE BBB+ (19-Apr-16)                       | -   | 1)CARE BBB+ (23-Mar-15)                   |
| 2.      | Non-fund-based-Short Term                           | ST              | 7.75                           | CARE A3+                     | -   | 1)CARE A3+ (23-Mar-17)<br>2)CARE A3+ (19-Apr-16)                                 | -   | 1)CARE A3+ (23-Mar-15)                    |
| 3.      | Fund-based - LT/ ST-CC/PC/Bill Discounting          | LT/ST           | 28.25                          | CARE BBB+; Stable / CARE A3+ | -   | 1)CARE BBB+; Stable / CARE A3+ (23-Mar-17)<br>2)CARE BBB+ (19-Apr-16)            | -   | 1)CARE BBB+ (23-Mar-15)                   |
| 4.      | Non-fund-based-LT/ST                                | LT/ST           | 0.90                           | CARE BBB+; Stable / CARE A3+ | -   | 1)CARE BBB+; Stable / CARE A3+ (23-Mar-17)<br>2)CARE BBB+ / CARE A3+ (19-Apr-16) | -   | 1)CARE BBB+ / CARE A3+ (23-Mar-15)        |
| 5.      | Fund-based - ST-Bills discounting/ Bills purchasing | -               | -                              | -                            | -   | 1)CARE A3+ (19-Apr-16)   | -   | 1)CARE A3+ (23-Mar-15)                    |
| 6.      | Fund-based - ST-SLC-WC                              | ST              | -                              | -                            | -   | 1)CARE A3+ (23-Mar-17)   | -   | -   |

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