



Press Release

Wires and Fabriks (S.A) Limited

March 23, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Bank Facilities- Long Term	111.86	IVR BBB/ Stable Outlook (IVR Triple B with Stable outlook)	Assigned
2	Bank Facilities- Short Term	5.90	IVR A3+ (IVR A Three Plus)	Assigned
	Total	117.76		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating to the bank facilities of Wires and Fabriks (S.A) Limited (WFL) have been assigned taking into account long track record of operations and established relationship with customers and suppliers, moderate capital structure albeit satisfactory debt protection metrics, expected to deteriorate in near future driven by ongoing debt-equity funded capex plan, operates in the niche segment with strong association with leading paper manufacturers. The rating is partially offset by considering its project implementation risk associated with predominantly large size debt funded, vulnerability of profitability to adverse fluctuation in raw material prices declining and moderate scale of revenue with moderate profitability.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement on profitability leading to improvement in cash accruals on a sustained basis.
- Timely completion of the project with no cost overrun
- Sustenance of the capital structure and improvement in debt protection metrics
- Improvement in the collection period leading to improvement in liquidity

Downward Factors

- More than expected moderation in operating revenue
- Elongation in the operating cycle impacting the liquidity



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- Any delay in completion of the project
- More than expected moderation in the capital structure

List of Key Rating Drivers with Detailed Description

. Key Rating Strengths

- **Long Track record of operations and established relationship with customers and suppliers**

WFL has established track record of more than five decades in manufacturing forming fabric 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. Long standing presence in the industry has helped the Company establish relationship with customers and suppliers. The consistent drive to build the brand all these years has helped the company to create a unique place in the market.

- **Moderate capital structure albeit satisfactory debt protection metrics, expected to deteriorate in near future driven by ongoing debt-equity funded capex plan**

The capital structure of the company remain moderate with its moderate overall gearing and satisfactory TOL/TNW at 0.92x and 1.59x respectively as on March 31,2020 (0.82x & 1.40x respectively as on March 31,2019). The debt protection metrics moderated in FY20 driven by increased interest cost and reduced operating margin however still satisfactory marked by the interest coverage ratio and Total debt to GCA at 6.86x & 4.40 years respectively in FY20 (8.04x and 3.35 years). However, considering the newly sanctioned term loan of Rs.56.00 crore for the on-going capex project 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 over the projected period (FY21-23) with overall gearing expected to moderate to more than 2.00x.

- **Operates in the niche segment with strong association with leading paper manufacturers**

WFL manufactures forming fabrics (technical textiles) 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 9001:2015 certification and a Government of India recognized R&D facility, WFL has a major



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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.

B. Key Rating Weaknesses

- **Project implementation risk associated with predominantly large size debt funded**

WFL is currently working on 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. The project is being set up at the existing location at Industrial Area, Jhotwara, Jaipur and is expected to be completed by March 2022. Further, the said expansion would be helpful in expanding its export presence and addressing future demand from domestic market. WFL has achieved the financial closure as it has received sanction of term loan. The company undertook this project in order to manufacture special designs of multi shaft fabrics i.e. known as Suit Support Binder products (SSB) which are as per the latest developed technology. 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.

- **Vulnerability of profitability to adverse fluctuation in raw material prices**

As portion of the raw materials for the manufacturing are imported, the profitability of the company remains exposed to fluctuations in raw material prices. However, the risk is mitigated to some extent given the relatively short cycle from order to delivery. Although, the profitability indicators remain exposed to volatility and linkage between price movement of raw material used in production.



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- **Declining and moderate scale of revenue with moderate profitability margins:**

The operating revenue of the company has witnessed a decline in FY20 and remained moderate driven by the restrictions in import and export as well as lockdown imposed due to covid-19. The operating revenue decreased to Rs. 98.37 crore in FY20 from Rs. 105.66 crore in FY19. The profitability margins of the company remain moderate with EBITDA margin of 12.33% and Net margins at 1.61% in FY20. Additionally, during 9MFY21, the company has reported TOI of Rs.60.80 crore along with EBITDA margin and PAT margin of 11.34% and 0.72% respectively with GCA of Rs.6.89 crore.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity ratios of the company remained healthy with the current ratio at 1.45x as on March 31, 2020. WFL's operations continue to remain highly working capital intensive as demonstrated by elongated operating cycle of 159 days in FY20 whereas it was 153 days in FY19. Despite long operating cycle, the liquidity position of WFL has remained adequate marked by 44% average utilization of fund based working capital limits for the past twelve months ended January 31, 2021. The company has generated sufficient cash accrual of around Rs.9.32 Cr in FY20 as against repayment of Rs.6.68 Cr in FY20. Further, the company has adequate gearing headroom due to its comfortable capital structure.

About the Company

Wires and Fabriks (S.A) Limited (WFL) was established in 1957, as a Private limited Company by Khaitan family. WFL's operations are managed by Mr. K. K. Khaitan and Mr. M. K. Khaitan. WFL is mainly engaged in manufacturing of full range of Forming Fabrics and Woven Dryer Screens & Spiral Link Dryer Screens commonly known as paper machine clothing and technical textiles. The Company is having 5 wind mills with total capacity of 3.85



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MW situated at Jaisalmer, Rajasthan. It has Power Purchase agreements with respective distribution companies (Discoms) of State Government of Rajasthan.

Financials (Standalone):

For the year ended* As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	105.66	98.37
EBITDA	13.32	12.13
PAT	1.27	1.59
Total Debt	34.98	41.00
Tangible Net worth	42.92	44.50
EBITDA Margin (%)	12.61	12.33
PAT Margin (%)	1.20	1.61
Overall Gearing Ratio (x)^	0.82	0.92

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)		
		Type	Amount outstanding (Rs. Crore)	Rating
1.	Term Loan	Long Term	74.85	IVR BBB/ Stable Outlook
2.	Cash Credit	Long Term	30.00	IVR BBB/ Stable Outlook
3.	Guaranteed Emergency Credit Line (GECL)	Long Term	5.67	IVR BBB/ Stable Outlook
4.	Covid Emergency Credit Line (CECL)	Long Term	1.34	IVR BBB/ Stable Outlook
5.	Letter of Credit	Short Term	5.00	IVR A3+
6.	Bank Guarantee	Short Term	0.90	IVR A3+

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:



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Name: Mr. Karan Girdhar

Tel: (011) 2465 5636

Email: kgirdhar@infomerics.com

About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Term Loan	-	-	74.85	IVR BBB/ Stable Outlook
Long Term Bank Facilities- Cash Credit	-	-	30.00	IVR BBB/ Stable Outlook
Long Term Bank Facilities- Guaranteed Emergency Credit Line (GECL)	-	-	5.67	IVR BBB/ Stable Outlook
Long Term Bank Facilities- Covid Emergency Credit Line (CECL)	-	-	1.34	IVR BBB/ Stable Outlook
Short Term Bank Facilities- Letter of Credit	-	-	5.00	IVR A3+
Short Term Bank Facilities- Bank Guarantee	-	-	0.90	IVR A3+