

Press Release
Woodfield Systems International Private Limited

June 18, 2021



Rating Downgraded; Outlook Revised

| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.29.21 Cr. |
| Long Term Rating | ACUITE BB+/ Outlook: Stable (Downgraded from ACUITE BBB-; Outlook revised from Negative) |
| Short Term Rating | ACUITE A4+ (Downgraded from ACUITE A3) |

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs.29.21 crore bank facilities of Woodfield Systems International Private Limited (WSIPL). The outlook has been revised to '**Stable**' from '**Negative**'.

Rationale for rating downgrade

The downgrade in rating is on account of continuous losses incurred by the subsidiary company of WSIPL i.e. Woodfield, USA which continues to impact the financial risk profile of the group. The group continued to incur losses in FY20 despite improvement in the consolidated turnover and operating profit and is estimated to incur losses in FY21 as well on account of losses incurred by the USA subsidiary. The losses incurred was majorly on account of initial stage of operations of the USA subsidiary which was further impacted in FY21 due to onset of covid-19 pandemic. Further, the financial risk profile of the group continues to remain moderate and was below Acuité estimates. However, the rating draws comfort from long and extensive experience of promoters in the aforementioned business, reputed clientele and support from the promoters in the form of USL to maintain the adequate liquidity position of the group.

About the Company

Thane based Woodfield Systems International Private Limited (WSIPL), incorporated in 2000 is engaged in the manufacturing of loading and unloading arms, safety access systems and metering skid solutions. It caters to the oil & gas, chemical, petrochemical and aviation industry. The operations are spread across several countries including India, USA, Latin America, UK and Spain. WSIPL is an ISO 9001:2008, ISO 14001: 2004, CE 0045 97/23/EC PED, BS OHSAS 18001, AD2000/EN3834 certified company.

About the Group

The Woodfield Group (WG) consists of three companies i.e. Woodfield Systems International Private Limited (WSIPL), Gaytri Industrial Corporation Private Limited (GICPL) and Woodfield Systems USA Inc. (WSU). South Carolina based, Woodfield System USA Inc., incorporated in May 2017 is a 100 percent subsidiary of WSIPL. This company is also engaged in same business of manufacturing loading and unloading arms, safety access systems and metering skid solutions. The commercial operations has commenced from January 2018.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of WSIPL, WSU and GICPL together referred to as the 'Woodfield Group' (WG). The consolidation is in view of the common management, operational and financial linkages and cross corporate guarantees between the entities. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established track record of operations and well experienced promoters

The Woodfield Group was established in 1979 by promoters, Mr. Chetan Navnital Modi, Mr. Girish Shamji Gala, and Mr. Hemant Nanji Chheda. Further, Mr. Nittul Chetan Modi joined business in 1995. The operations are currently managed by Mr. Kartik Gala and Mr. Nittul Modi. The promoters have experience of over three decades in the aforementioned line of business. The promoters are supported by experienced and qualified second line of management comprising of Mr. Simon Hill, Mr. Brian McNamara, Mr. Suhas

Deshmukh, Mr. Hitesh Vakil and others having experience of more than two decades in their respective fields. The extensive experience of the promoters and the established presence in the industry has helped the group to generate healthy relations with various customers and suppliers in both domestic as well as global market. The group has global customer base spread across Africa, Australia, Europe & CIS, Latin America, South East Asia, UAE, USA & Canada among others.

Acuité believes that the group will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **Well diversified geographical operations with reputed clientele**

WG caters to ~40 countries and has representative offices in Europe and Spain as well. WG has established relations with reputed clientele in various industries such as oil & gas, petrochemical, chemical and infrastructure industry across the world. It caters to globally reckoned corporates including Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), Larsen & Toubro (L&T), Samsung Engineering, Hyundai Engineering, Hyundai Engineering & Construction, Afcons Infrastructure Limited, Petrofac E & C Oman LLC among others. WG has long term relations of over a decade with customers which ensure repeat orders.

Acuité expects the established position in the industry and healthy relations with both customers as well as suppliers will help the company to maintain stable credit profile in the medium term.

Weaknesses

- **Continuous moderation in profitability margins**

The group is facing profitability pressures, mainly due to losses in the WSU, which was incorporated in May 2017 and started its operations in January 2018. The group on a consolidated basis reported net loss of Rs.4.60 crore in FY20 as against net loss of 4.09 crore in FY19 despite improvement in the operating margins (EBITDA) which stood at 3.88 percent in FY20 as compared to 1.27 percent in FY19. The group was initially expected that WSU will achieve breakeven by FY21; however with the onset of covid-19 pandemic, WSU is estimated to incur losses in FY21.

The group is currently expecting that WSU will achieve breakeven by FY22 as the operations in the USA are currently stable with ease in covid-19 restrictions. Acuité believes that timely stabilization of the operations of the US subsidiary thereby improving the overall profitability of the group will be key rating sensitivity.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by tangible net worth of Rs.20.03 crores as on 31 March, 2020 as against Rs.20.35 crores in the previous year. The unsecured loan of Rs.19.69 crores as on 31 March, 2020 is treated as quasi equity as the same is subordinated to bank debt. The debt of Rs.31.47 crores mainly consists of term loan of Rs.3.97 crore and working capital limits of Rs.27.50 crores as on 31 March, 2020. Interest Coverage Ratio (ICR) stood at 0.59 times for FY20 as against 0.33 times in FY19. Debt Service Coverage Ratio (DSCR) stood at 0.81 times for FY20 as against 0.53 times in FY19. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.52 times as on 31 March, 20 as against 1.88 times in the previous year. Net Cash Accruals/Total Debt (NCA/TD) stood at (0.02) times as on 31 March, 20 as against (0.05) times in 31 March, 19.

Acuité believes that the financial risk profile will remain moderate in the medium term mainly due to moderate profitability and moderate debt structure.

- **Working capital intensive nature of operations**

The operations of the group are working capital intensive as evident from increase in Gross Current asset days to 218 days for FY20 as against 180 days for FY19. This deterioration was majorly on account of increase in the inventory levels due to high year end balances owing to covid-19 induced lockdown. The inventory holding period of the group has increased to 150 days for FY20 as against 76 days for FY19. However, the receivable period of the group declined to 45 days for FY20 as against 79 days for FY19.

Subsequently, the creditor period of the group increased to 159 days for FY20 as against 112 days for FY19. Further the current ratio of the group stood low at 0.97 times as on 31 March 2020 as against 1.06 times same period last year. However, the average bank limit utilization of the group remains below 50 percent over the last six months ending March, 2021.

Acuité believes that the group's ability to manage the working capital cycle will going to be a key rating

sensitivity over the medium term.

Rating Sensitivities

- Improvement in revenues and profitability backed by the timely stabilization in operations of the USA subsidiary
- Deterioration in working capital management leading to stretched liquidity
- Substantial decline in profitability levels thereby impacting group's financial risk profile

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity position as the group has been able to manage its operations well within its bank limits with average utilization of below 50 percent over the last six months ending March, 2021. Further, the promoters have infused unsecured loans of Rs.19.69 crore as on 31 March 2021 for ensuring timely repayment of its debt obligations. However, the group operations are working capital intensive in nature as marked by Gross Current Assets (GCA) of 218 days in FY20. Further, the current ratio of the group remained low and stood at 0.97 times as on March 31, 20 along with cash and bank balances of Rs.0.25 crore during the same period. Acuité believes that the liquidity of the group will continue to remain adequate over the medium term on account of lower bank limit utilization and promoters ability of infusing funds as and when required.

Outlook: Stable

Acuité believes that Woodfield Group will maintain a 'Stable' outlook over the medium term on the back of vast promoter experience and well established presence of the group in the aforementioned industry. The outlook may be revised to 'Positive' in case the group is able to generate healthy revenues while improving its profitability backed by stabilization of USA subsidiary operations and maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle, thereby impacting its liquidity or further deterioration in its financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 78.63 | 73.80 |
| PAT | Rs. Cr. | (4.60) | (4.09) |
| PAT Margin | (%) | (5.85) | (5.54) |
| Total Debt/Tangible Net Worth | Times | 1.57 | 1.14 |
| PBDIT/Interest | Times | 0.59 | 0.33 |

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation of companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Crore.) | Ratings/Outlook |
|-------------|-------------------------------------|------------|---------------------|--|
| 20-Mar-2020 | Cash Credit | Long term | 11.17 | ACUITE BBB-/Negative (Reaffirmed; Outlook Revised) |
| | Term Loan | Long term | 0.29 | ACUITE BBB-/Negative (Reaffirmed; Outlook Revised) |
| | Term loan | Long term | 0.02 | ACUITE BBB-/Negative (Reaffirmed; Outlook Revised) |
| | Bank Guarantee/ Letter of Guarantee | Short term | 9.00 | ACUITE A3 (Reaffirmed) |
| | Secured Letter of Credit | Long Term | 8.13 | ACUITE A3 (Reaffirmed) |
| 27-Dec-2018 | Cash Credit | Long term | 11.10 | ACUITE BBB-/Stable (Reaffirmed) |
| | Term Loan | Long term | 0.44 | ACUITE BBB-/Stable (Reaffirmed) |
| | Term loan | Long term | 0.32 | ACUITE BBB-/Stable (Reaffirmed) |
| | Bank Guarantee/ Letter of Guarantee | Short term | 9.00 | ACUITE A3 (Reaffirmed) |
| | Proposed Bank Facilities | Long Term | 0.22 | ACUITE BBB-/Stable (Reaffirmed) |
| | Secured Letter of Credit | Long Term | 8.13 | ACUITE BBB-/Stable (Reaffirmed) |
| 30-Oct-2017 | Cash Credit | Long term | 8.50 | ACUITE BBB-/Stable (Assigned) |
| | Term Loan | Long term | 0.24 | ACUITE BBB-/Stable (Assigned) |
| | Term loan | Long term | 1.48 | ACUITE BBB-/Stable (Assigned) |
| | Term Loan | Long term | 0.68 | ACUITE BBB-/Stable (Assigned) |
| | Bank Guarantee/ Letter of Guarantee | Short Term | 7.00 | ACUITE A3 (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|--------------------------|------------------|-----------------|----------------|-----------------------------|---|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 11.77 | ACUITE BB+ / Stable (Downgraded; Outlook revised to Stable) |
| Term Loans | Not Applicable | 10.35 | Not Applicable | 0.29 | ACUITE BB+ / Stable (Downgraded; Outlook revised to Stable) |
| Term Loans | April, 2017 | 10.40 | Oct, 2021 | 0.02 | ACUITE BB+ / Stable (Downgraded; Outlook revised to Stable) |
| Standby Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 8.13 | ACUITE A4+ (Downgraded) |

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|----------------|----------------|----------------|----------------|------|-------------------------|
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 9.00 | ACUITE A4+ (Downgraded) |
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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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