

April 29, 2013

<b>Proposed Facilities</b>	<b>Amount (Rs. Crore)</b>	<b>Rating</b>
Cash Credit	3.00	SMERA BB+/Positive/Assigned
Term Loan	0.80	SMERA BB+/Positive/Assigned
Bank Guarantee	5.00	SMERA A4+/Assigned
Inland/Foreign Letter of Credit	2.00	SMERA A4+/Assigned

SMERA has assigned a rating of 'SMERA BB+' (read as SMERA Double B plus) to Rs. 3.80 crore proposed long term facilities and 'SMERA A4+' (read as SMERA A four plus) to Rs. 7.00 crore proposed short term facilities of Welcon Equipments (India) Private Limited (Welcon). The outlook is 'Positive'. The rating derives support from Welcon's long standing association with Coca Cola India, its track record of successful completion of orders and healthy financial profile marked by low gearing and good coverage indicators. However, the rating is constrained largely due to dependence of Welcon on Coca Cola India for its revenues, uneven revenue trends and small scale of operations. The rating also factors in the intense competition in a highly fragmented industry and susceptibility of Welcon's margins due to fixed price contracts without price escalation clause.

Welcon has been catering to the requirements of Coca Cola India through their wholly owned Indian subsidiary Hindustan Coca Cola Beverages Private Limited since last 15 years and has executed projects for them across India and abroad. Based on its past performance, Welcon has been classified as a Most Preferred Vendor for Coca Cola India. Welcon's operations are considered small in size despite being in operations since 1985. However its revenues have increased consistently over last five years with a CAGR of 24.79%. Welcon's expansion plans are dependent on Coca Cola India due its dependence on them for 95 % of its revenues. The company registered a decline in revenue of around 37.81% in FY 2012 over FY 2011. However, Welcon will benefit from Coca Cola's expansion plans in India. Welcon specialises in setting up water treatment plant for purification of water used for production of beverages and doesn't cater to customers in the waste water/sewage treatment segment due to management's decision to limit diversification.

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Welcon is witnessing improvement in profitability due to gradual growth in scale of its operations with resultant economies of scale; similarly quick settlement of payables and higher discounts from suppliers is helping it to further improve its profitability. Net profit margin has improved during FY 2008 to FY 2012 from 2.31% to 4.93%. Around 18% of its material requirement is imported and Welcon doesn't hedge or enter into any forward contract, thus exposing it to foreign exchange fluctuation risk which can impact its operating margins. Further, there is no price escalation clause in its contracts which would safeguard the company from increase in input prices.

The credit terms between Welcon and Coca Cola India are favourable thus leading to low utilisation of its cash credit facility and quick payment to suppliers. With low dependence on debt funds for its operations and a minor debt funded expansion in the pipeline, the financial profile of the company is healthy. The total debt equity ratio of the company has improved from 1.47 times as on 31/Mar/2010 to 0.64 times as on 31/Mar/2012 and so has the interest coverage ratio from 4.81 times in FY 2010 to 8.70 times in FY 2012.

## **Outlook: Positive**

SMERA believes that Welcon will continue to maintain its financial risk profile at a moderate level on the back of its longstanding association with Coca Cola India and benefit from Coca Cola's USD 5 billion expansion plans in India. However, Welcon's ability to scale up its operations, maintain its profit margins, diversify its customer base and retain comfortable liquidity position remains the key rating sensitivities.

## **About Welcon Equipments (India) Private Limited**

Welcon was incorporated in the year 1993 and took over the running business of Welcon Engineers (Partnership Firm) established in 1985. Welcon is engaged in designing, fabrication, erection and commissioning of Water Treatment Plants and specializes in offering customized solutions in the areas such as: Reverse Osmosis Plants, Continuous Coagulation Systems, Demineralization Plants and Ultra Filtration System. It is also engaged in trading of spares for water treatment plants. Welcon has its registered and administrative office at Chennai and its workshop at Thiruvallur.

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Apart from India, Welcon has executed and commissioned projects in Nepal, Bangladesh and Sri Lanka.

Mr. K. Raman, Managing Director, and his team are qualified and have relevant experience in the field of water treatment plants.

For FY 2012, Welcon reported a net profit of Rs. 0.47 crore on a total income of Rs. 9.45 crore as against a net profit of Rs. 0.56 crore on a total income of Rs. 15.19 crore for FY 2011. As informed by management, Welcon has booked revenue of Rs. 16.41 crore during the period April, 2012 to February, 2013 and will bill orders of Rs. 5.48 crore in March, 2013 thus enabling it to achieve its target of Rs. 22.00 crore for FY 2013.

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