

May 30, 2023 ^(Revised)

Western Refrigeration Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument [^]	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund based/Non-fund Based Limits	110.00	110.00	[ICRA]A+ /[ICRA]A1+; reaffirmed and outlook revised to Positive from Stable
Total	110.00	110.00	

[^]Instrument details are provided in Annexure-1

Rationale

The revision in the outlook to Positive reflects ICRA's expectation that Western Refrigeration Private Limited's (WRPL) scale of operations and business profile will continue to improve over FY2024 and FY2025, led by healthy demand for the company's products in the market and its increased manufacturing capacity. In Q3 FY2023, WRPL commenced operations of the new plant, which led to an increase in its annual capacity. WRPL is expected to post 14-15% volume growth over FY2024 and FY2025, driven by addition of new customers and strong demand for the company's products.

The ratings also favourably factor in its continued robust financial profile and strong liquidity position, underpinned by zero reliance on debt, unutilised working capital limits and healthy available cash and liquid balances/deposits.. The ratings continue to factor in the strong market position of the company in the commercial refrigeration segment, extensive experience of the management in the refrigeration industry and the operational synergies derived from its parent company, Hoshizaki Corporation. The ratings also draw comfort from the diversification measures undertaken by WRPL for product as well as customer additions, which helped it reduce concentration risks while providing stability to the cash flows.

The ratings, however, are constrained by the working capital-intensive nature of WRPL's operations and the susceptibility of its profit margins to commodity price fluctuations owing to partially fixed-price contracts and stiff competition from large, organised players. The profitability is also exposed to foreign exchange fluctuations owing to its presence in the export market. While assigning the ratings, ICRA has factored in WRPL's long pending litigation and the resultant exposure of its credit profile due to materialisation of the litigation risk. Nonetheless, ICRA takes comfort from the promoter's stated policy of honouring any liability falling on WRPL from that litigation.

Key rating drivers and their description

Credit strengths

Healthy operating performance – WRPL's operating income grew by 30% YoY FY2023, supported by improved demand from the end-user segments. The company had also commenced operations of its new facility in H2 FY2023, which also facilitated a 17% increase in sales volumes. The demand outlook for the company's products remains healthy, which coupled with the ramp-up of the recently set-up manufacturing facility and new customer additions shall result in 14-15% volume growth over FY2024 and FY2025.

Strong market position – WRPL enjoys a strong market position in refrigerated display cabinets (visi-coolers) and deep freezers, which are its flagship products, giving it an edge over its competitors. WRPL's product profile is dominated by the coolers and freezer segments, which together account for 85% of the revenues in FY2023. The company also has long relationship with its customers, which reflect its good product quality and result in repeat orders. Besides, strong market

position has enabled the company to add new customers, leading to diversification in the customer base. The company also benefits from operational synergies and technology transfers for being a subsidiary of Hoshizaki Corporation.

Strong financial risk profile – The company has a robust capital structure, with limited dependence on external debt. This coupled with stable operating profit margins (OPMs) resulted in strong coverage indicators. The financial profile is expected to remain strong, going forward, led by healthy expected growth in revenues and profits and limited capital expenditure (capex) plans. The planned capex over the next two years is envisaged to be funded by internal accruals. Besides, its sizeable liquid investments also supports the liquidity profile.

Credit challenges

Working capital intensive nature of business – WRPL's operations are working capital intensive in nature, marked by large receivables and inventory holding period. The company offers a credit period of 30-120 days to its customers depending on its relationships with them. WRPL gets a credit period of 60-120 days from its suppliers. The inventory levels vary depending on the order inflow, though it generally remains at ~100 days owing to WRPL's requirement to stock imported raw materials. Nonetheless, the company has been able to manage its working capital requirements through its internal cash accruals. Going forward, prudent management of receivables, which keeps the working capital cycle under check, will be a key rating monitorable.

Susceptibility of profit margins to fluctuations in raw material prices and exchange rates – WRPL remains exposed to the raw material price fluctuation risk owing to the fixed-price nature of most of its contracts and its high inventory levels. However, some contracts include a price variation clause, which is applied if the deviation is more than a pre-determined percentage. Nonetheless, the company's selective approach towards high-margin customers and products would shield the profit margins to some extent. WRPL also remains exposed to fluctuation in foreign exchange (forex) rates owing to its exports, which stood at around 11% of the total sales in FY2023. The risk is, however, partly mitigated by the natural hedge through imports by the company.

Liability arising from materialisation of litigation risk – ICRA notes the ongoing litigation related to its overseas subsidiary and the resultant exposure of its credit profile due to materialisation of the litigation risk. Nonetheless, ICRA takes comfort from the promoter's stated policy of honouring any liability falling on WRPL.

Liquidity position: Strong

The liquidity position of the company is strong, supported by healthy cash flow from operations and large cash and liquid investments. Besides, the liquidity position is supported by the company's debt-free status, with entire fund-based limit unutilised as on date with available liquid funds. The company primarily utilises non-fund-based limits with average utilisation of around 35%. Against this, WRPL has envisaged moderate capex plan in FY2024 and FY2025 which will be funded through internal accruals. Cash flow from operations, supported by unutilised fund-based limits, are expected to provide adequate support for funding the capex in the near term.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company demonstrates a substantial growth in revenues and profitability, along with prudent working capital management. Return on capital employed (RoCE) of more than 20% on a sustained basis would also result in a rating upgrade.

Negative factors – The outlook may be revised to Stable if a significant decline in revenues and profitability or a stretch in the working capital cycle affects the liquidity profile. ICRA could also downgrade the ratings if a significant debt-funded capex adversely impacts the capital structure or debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

WRPL manufactures commercial refrigeration equipment, including refrigerated display cabinets (also known as visi-coolers), freezers, beverage dispensers/vending machines, among others. Till December 2012, WRPL was a closely held company, promoted and founded by the Singh Family. In January 2013, Japan-based Hoshizaki Corporation acquired a 50.01% stake in WRPL and increased it further to 76% in FY2017 and 83% in FY2019. The partnership has resulted in operational synergies for both the companies, given the related product portfolio as well as the clientele. Hoshizaki Corporation was the first company to implement energy saving in refrigerators. Its business is subdivided into four product categories – 1) refrigerators and freezers, 2) ice machines, 3) Pastry Cabinets, and 4) dispensers.

Key financial indicators (Standalone)

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	760.3	1,228.4
PAT (Rs. crore)	65.8	108.7
OPBDIT/OI (%)	13.6%	13.5%
PAT/OI (%)	8.6%	8.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Total Debt/OPBDIT (times)	0.02	0.0
Interest Coverage (times)	60.5	69.5

Source: Financial statements of MPL and ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					May-30-2023	Mar 31, 2022	Jan 7, 2021	Feb 26, 2020	Apr 4, 2019
1	Fund based/ Non-fund Based Limits	Long-term /Short-term	110.0	-	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+(Stable)/ [ICRA]A1+	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/ Non-fund Based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Letter of Credit/ Bank Guarantee/ Cash Credit/ Pre-shipment Credit/ Post shipment Credit	-	-	-	110.00	[ICRA]A+(Positive)/[ICRA]A1+

Source: WRPL

[Please click here to view details of lender-wise facilities rated by ICRA.](#)

Annexure-2: List of entities considered for consolidated analysis: Not applicable.

Corrigendum

Rationale dated May 30,2023 has been corrected with revision as detailed below:

- Change made in the key financial indicators table on page no.3.
- The amount of PAT in FY2021 changed to Rs.65.8 crore from Rs.65.7 crore earlier and PAT margin changed to 8.9% from 8.8% earlier in FY2022.

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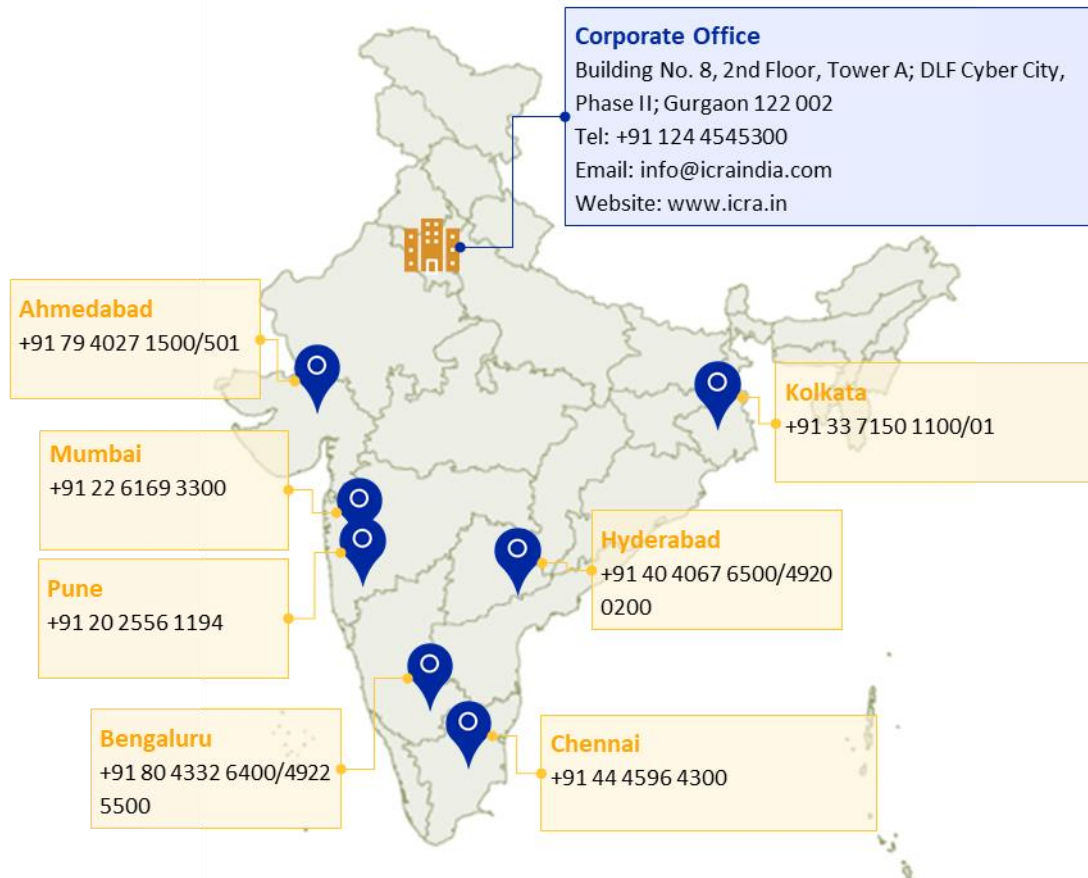
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