

March 18, 2024

Western Refrigeration Private Limited: Long-term rating upgraded to [ICRA]AA- (Stable) and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term - Fund Based/ Non-fund-based bank facilities	110.00	110.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]A+ (Positive); Short-term rating reaffirmed
Total	110.00	110.00	

*Instrument details are provided in Annexure-I

Rationale

The long-term rating upgrade of Western Refrigeration Private Limited (WRPL) considers the significant improvement in its scale of operations over the past two years and ICRA's expectation that WRPL's scale of operations and business profile will further strengthen over the near-to-medium term, led by healthy demand, an increase in its manufacturing capacity and addition of new customers. Consequently, WRPL is expected to post 10-14% volume growth over FY2024 and FY2025.

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 worth Rs.142 crore as on March 31, 2023, which further increased in FY2024 aided by healthy cash flow. 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 further draw comfort from the diversification measures undertaken by WRPL for product as well as customer additions, which helped it reduce concentration risks and stabilise 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 impact of the same on 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 in personal capacity.

The Stable outlook on WRPL's long-term rating reflects ICRA's opinion that WRPL's credit profile would remain adequately supported by its strong market position in key products and healthy demand outlook in the commercial refrigeration segment.

Key rating drivers and their description

Credit strengths

Healthy operating performance – The company had commenced operations of its new facility in H2 FY2023, which facilitated a 17% increase in sales volumes. In the current fiscal, the demand outlook for the company's products remains healthy, which coupled with the ramp-up of the recently established manufacturing facility and new customer additions resulted in an increase in revenues. The company has already recorded revenues of Rs.1,410 crore in 9M FY2024 and is expected to register revenues of Rs.1,900 crore in FY2024 (against Rs. 1,607 crore in FY2023). The revenues are likely to increase by about 10% in FY2025, driven by new orders from existing and new clients.

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 more than 85% of the revenues in 9M FY2024. 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. Besides, stable operating profit margins (OPMs) resulted in strong coverage indicators. The financial profile is likely to remain strong, going forward, led by healthy expected growth in revenues and profits. Moreover, the planned capex over the next two years is envisaged to be funded by internal accruals. Besides, its sizeable liquid investments also support the liquidity profile.

Credit challenges

Working capital intensive nature of business – WRPL's operations are working capital intensive in nature, marked by high receivables and inventory holding period. The company offers credit of 30-120 days to its customers, depending on its relationships with them. WRPL gets a credit of 60-120 days from its suppliers. The inventory levels vary, depending on the order inflow, though it generally remain 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. WRPL also remains exposed to fluctuation in foreign exchange (forex) rates owing to its exports, which stood at around 15% of the total sales in 9M FY2024. The risk is, however, is partly mitigated by the natural hedge through imports.

Risk arising from materialisation of litigation claim – 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, its debt-free status, completely unutilised fund-based limits of around Rs. 40 crore (with commensurate drawing power) and liquid funds of Rs. 142 crore as on March 31, 2023, which further increased in FY2024 aided by healthy cash flow. The company primarily utilises non-fund-based limits with average utilisation of around 48%. Against this, WRPL has an envisaged capex of Rs.55 crore and Rs.100 crore in FY2024 and FY2025, respectively, which will be funded through internal accruals.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if the company demonstrates a substantial growth in its revenues and profitability, along with prudent working capital management.

Negative factors – Pressure on the ratings may emerge if a significant decline in revenues and profitability or a stretch in the working capital cycle affects the company's liquidity profile. ICRA could also downgrade the ratings if a significant debt-funded capex adversely impacts the capital structure or debt coverage indicators. A return on capital employed (RoCE) of less than 20% on a sustained basis would also result in ratings downgrade.

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. Its business is subdivided into four product categories – 1) refrigerators and freezers, 2) ice machines, 3) pastry cabinets, 4) dispensers.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	1,235.5	1,607.0
PAT	108.7	170.3
OPBDIT/OI	13.4%	15.9%
PAT/OI	8.8%	10.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	69.5	100.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 18, 2024	May 30, 2023	-	Mar 31, 2022	Jan 07, 2021
1 Fund based/ Non-fund Based Limits	Long-term /Short-term	110.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1+	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term - Fund Based/ Non-fund-based bank facilities	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term / Short-term - Fund Based/ Non-fund-based bank facilities	NA	NA	NA	110.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis- Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Taanisha Sharma
+91 22 6169 3379
taanisha.sharma@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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