March 27, 2024

Wellcare Oil Tools Pvt. Ltd.: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term –Fund-based – Cash credit and packing credit	17.00	26.00	[ICRA]BB+ (Stable); reaffirmed/assigned
Long-term – Non-fund based – Bank guarantee	6.00	4.00	[ICRA]BB+ (Stable); reaffirmed
Long Term-Non-Fund Based-Forward Contract	-	1.00	[ICRA]BB+ (Stable); assigned
Total	**23.00**	**31.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating factors in the extensive experience of the promoters of Wellcare Oil Tools Pvt. Ltd. (WOTPL) in the oil and gas downhole completion and production tools industry. ICRA also notes that the company has access to the technology to manufacture highly technical oil and gas downhole completion and production tools, which have worldwide acceptability. The rating takes into account the significant entry barriers in the industry, such as the long acceptance period for the products. Further, the rating factors in the company's comfortable gearing and debt coverage indicators. ICRA has also taken note of the growth in operating income in the current fiscal as well as a healthy order book position which translates into adequate revenue visibility, going forward.

The rating, however, is constrained by the company's moderate scale of operations and its low net worth base. WOTPL's working capital-intensive operations and the vulnerability of its profitability to forex fluctuations because of the lack of a formal hedging policy also put the rating under pressure. ICRA further notes the high client concentration risks, with the top five clients accounting for ~77% and ~70% of its overall revenue in FY2022 and FY2023, respectively.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the company will be able to sustain its debt protection metrics in the near to medium term.

Key rating drivers and their description

Credit strengths

Experienced promoters with long track record in oil & gas downhole completion and production tools industry - WOTPL was incorporated in 2010 and has a successful operational track record in the oil and gas downhole completion and production tools industry. The company manufactures a wide range of downhole completion and production tools for the oil and gas sector. The promoters have more than two decades of experience in the oil and gas sector, which has led to a strong relationship with renowned customers in the domestic as well as global oil and gas industry, including Oil & Natural Gas Corporation Limited, Baker Hughes, Halliburton Energy Services, etc.

Access to technology to manufacture oil and gas drilling and production tools - WOTPL has been manufacturing and supplying a wide range of downhole completion and production tools for the oil and gas sector since 2010. The tools are used by exploration and production (E&P) companies to prepare oil wells and WOTPL needs to meet high-quality standards owing to the application area of the equipment. The company's products have been able to meet these stringent quality norms while keeping the costs lower than global oil tool suppliers and have worldwide acceptability.

Long acceptance period for products acts as an entry barrier for new players - The oil tool products are used in oil well completion and hence any defect can result in production loss for the E&P companies. Thus, the products undergo various stages of testing and approval by the E&P companies, which is a time-consuming process. The long acceptance period for the products acts as a deterrent for new players to enter the industry as large capital investment is required before the products are approved. As a result, WOTPL is among the few domestic suppliers for several oil tool products in the country.

Credit challenges

Moderate scale of operations and high competition restrict competitive position - WOTPL is a medium-sized manufacturer and supplier of downhole completion and production tools for the oil and gas sector. Though the company's operating income (OI) improved to Rs. 63.28 crore in FY2023 from Rs. 31.1 crore in FY2021, its existing scale of operations is smaller than the global players in the oil and gas downhole completion and production tools manufacturing industry. This constrains its ability to benefit from the economies of scale and weighs on its competitive position vis-à-vis the larger global entities. Further, a modest scale exposes the company to the risk of a business downturn and impacts its ability to absorb temporary disruption and leverage fixed costs. Also, the competitive nature of the industry puts pressure on WOTPL's revenues and margins.

Working capital-intensive operations - The products manufactured by the company are highly technical in nature for which engineering skills and precision designing is required. Also, the products are customised as per the customers' specifications, which results in high work-in-progress. The company must also maintain a sufficient level of raw material for the smooth running of its production process as it mainly buys imported material from local vendors as well as directly from the overseas market, which is made to order (special grade steel rods), resulting in a high inventory holding period. The working capital requirements are met through the high credit period offered by its suppliers, high interest-free unsecured loans from the promoters and moderate utilisation of the fund-based limits.

Profitability vulnerable to forex - WOTPL does not formally hedge its forex exposure and hence, its profitability remains exposed to the adverse movements in foreign currency rates. In addition, it provides a credit period of up to 60-90 days to overseas customers to retain its existing clientele in a competitive sector, making its margins vulnerable to foreign currency fluctuation risk. However, a significant portion of the raw material is imported, which provides a natural hedge to an extent. This is evident from the fact that the company did not face any major foreign exchange losses in the recent past.

High client concentration risk - WOTPL has a high client concentration risk as most of the revenue comes from a few customers. The firm derived ~77% and 70% of its overall revenue from the top five clients in FY2022 and FY2023, respectively. Further, it derived 43% of its total revenue from the top three customers in 8M FY2024. However, these customers possess sound credit profiles, which mitigate the counterparty credit risk to a large extent. Moreover, the company has established relationship with these clients and gets repeat high-value orders from them.

Liquidity position: Adequate

The company's liquidity position is adequate, indicated by the unencumbered cash and bank balance and cushion in fund-based limits as the fund-based limit utilisation averaged at 75% during October 2022 to November 2023.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a healthy and sustained improvement in its scale and profitability and strengthening of its net worth.

Negative factors – A significant decline in OI or operating profitability could exert pressure on the company's rating. Further, a stretch in the working capital cycle could weigh on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Wellcare Oil Tools Private Limited (WOTPL) manufactures a wide range of downhole completion and production tools for the oil & gas sector. It sells its products directly to oil & petroleum companies and to wholesalers globally. The key raw material used in manufacturing is solid steel rods, rubber, etc, which the company procures from the overseas as well as the domestic market. WOTPL was incorporated in 2010 and, is currently being managed by Mr. Surender Yadav and his family members. WOTPL's manufacturing unit is at Alwar (Rajasthan).

Key financial indicators (audited)

	FY2022	FY2023
Operating income	50.73	63.28
PAT	5.22	6.23
OPBDIT/OI	18.52%	18.31%
PAT/OI	10.29%	9.84%
Total outside liabilities/Tangible net worth (times)	1.61	1.28
Total debt/OPBDIT (times)	1.94	1.73
Interest coverage (times)	11.30	6.99

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:

CRA	Status	Date of Release
CRISIL	CRISIL B/Stable/CRISIL A4; ISSUER NOT COOPERATING	January 31, 2024
CARE	CARE B-; Stable / CARE A4; ISSUER NOT COOPERATING	August 29, 2023

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 as on March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 27, 2024	Mar 08, 2024	Mar 21, 2023	Jan 13, 2022	Dec 02, 2020
1	Fund based –Cash credit and packing credit	Long term	26.00	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Non-fund based-bank guarantee	Long term	4.00	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Unallocated limits	Long term	-	--	-	-	-	-	[ICRA]BB+ (Stable)
4	Non-fund based – Forward Contract	Long term	1.00	--	[ICRA]BB+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term –Fund-based – Cash credit and packing credit	Simple
Long-term – non-fund based –Bank guarantee	Very Simple
Long-term – non-fund based – Forward Contract	Very 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	Cash credit and packing credit	-	-	-	26.00	[ICRA]BB+ (Stable)
NA	Bank guarantee	-	-	-	4.00	[ICRA]BB+ (Stable)
NA	Forward Contract	-	-	-	1.00	[ICRA]BB+ (Stable)

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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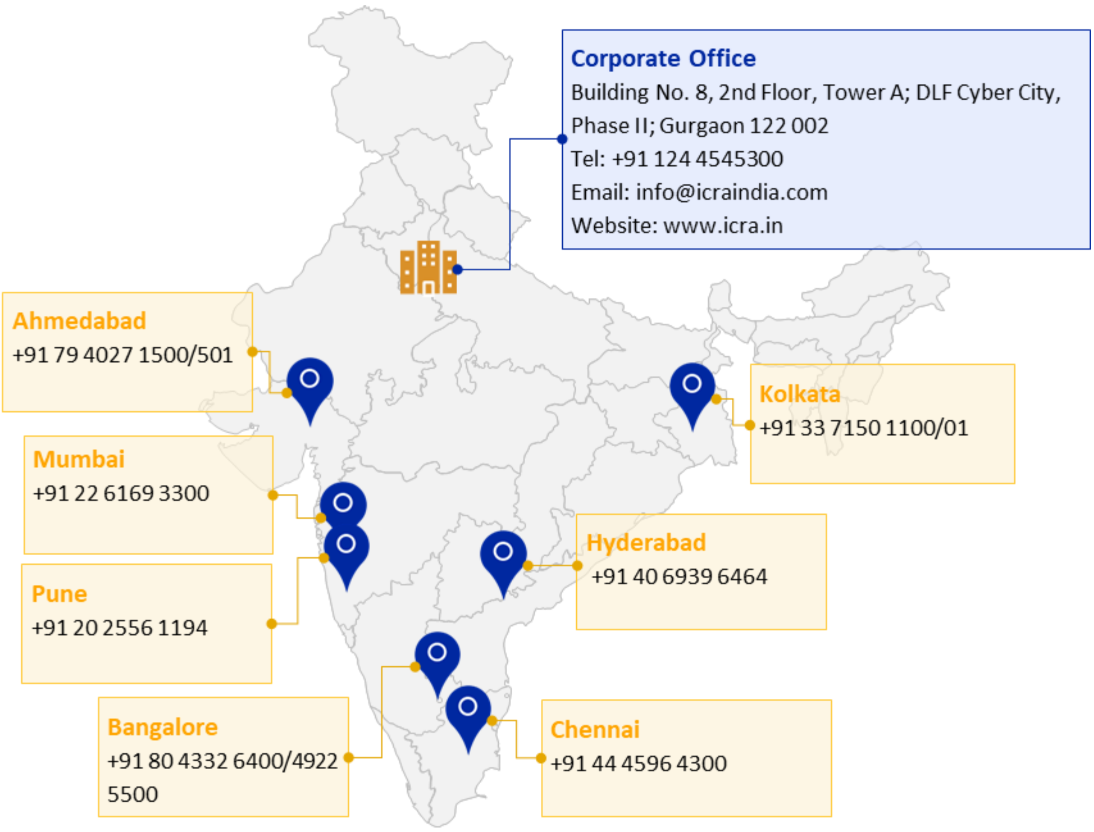

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