

August 10, 2023

## Windals Precision Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	53.62	48.22	[ICRA]BBB- (Stable); Reaffirmed
Long-term fund-based working capital	81.00	81.00	[ICRA]BBB- (Stable); Reaffirmed
Short-term non-fund based – BG	2.75	0.75	[ICRA]A3; Reaffirmed
Short-term non-fund based – LC	15.00	12.25	[ICRA]A3; Reaffirmed
Long-term/ short-term – unallocated limits	37.91	48.06	[ICRA]BBB- (Stable)/[ICRA]A3; Reaffirmed
<b>Total</b>	<b>190.28</b>	<b>190.28</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action for Windals Precision Private Limited (WPPL) factors in the company's healthy revenue growth in FY2023 supported by an increased demand from the commercial vehicle (CV) segment and continued growth in the farm equipment (tractor) segment. The resulting increase in WPPL's accrual generation has also contributed to an adequate liquidity position. Additionally, the ratings continue to factor in WPPL's established market position as a leading supplier of front axle assemblies for farm equipment and the extensive experience of its promoters in the auto component industry. WPPL caters to several large manufacturers of tractors, medium and heavy commercial vehicle (M&HCV) original equipment manufacturers (OEMs) and their tier-1 suppliers, including reputed players such as Mahindra & Mahindra (M&M), Tata Motors Limited, Ashok Leyland Limited, John Deere India Private Limited and Dana India Private Limited. It also enjoys a leading share of business with established players like M&M. Moreover, WPPL has an integrated manufacturing set up with in-house forging capability, which provides a cost advantage and cushions any supply position in case of disruptions.

However, the ratings are constrained by WPPL's moderate scale of operations, along with its exposure to the cyclicity in the domestic tractor and CV industries. While WPPL's capital structure and credit metrics continue to remain moderate, ICRA notes some improvement in its coverage indicators in FY2023, which are expected to continue to improve gradually supported by steady internal accruals and reduction in debt levels in the absence of any major debt-funded capex requirements over the near to medium term. The ratings also consider the product and customer concentration risk with tractor front axle and hub assemblies generating ~64% of its revenues in FY2023. Moreover, M&M continues to remain a key customer, generating ~60% of WPPL's revenue in FY2023; however, comfort can be drawn from its established relationship and high share of business with M&M.

The Stable outlook on the long-term rating reflects ICRA's opinion that WPPL will continue to benefit from its established market position in the axle business for the farm equipment segment, growing presence in the CV segment, integrated manufacturing set up and established relationships with its key customers.

## Key rating drivers and their description

### Credit strengths

**Leading manufacturer of tractor front axle assemblies in India; extensive experience of management in the auto component industry** – The promoters of WPPL, Mr. Uday Vinzanekar and his son, Mr. Vaibhav Vinzanekar, have extensive experience of more than 25 years in the auto components industry since WPPL's incorporation. This has resulted in creating healthy relationships with several leading domestic automobile OEMs.

**Established relationships with major OEMs to support business prospects** – WPPL caters to several key players in the automobile industry and their tier-1 suppliers, including reputed players such as M&M, Tafe Motors and Tractors Limited, Ashok Leyland Limited, John Deere India Private Limited and Dana India Private Limited. It also enjoys a leading share of business with some of its key customers, such as M&M, which has supported the sustenance of its scale. Further, over the last few years, WPPL has increased its efforts towards adding and increasing business with other reputable players in the industry (especially in the CV segment).

**Backward integrated business model provides cost advantage** – WPPL's plant in Pune (Maharashtra) provides backward integration into manufacturing forged components, which generate ~20% of the total cost of axle assemblies. WPPL is also equipped with heat treatment, friction welding, machining, painting and assemblies. Currently, WPPL is in the process of shifting its forging and heat treatment assemblies to a separate location at Varale, Pune, to be powered with solar energy, which will also help in increasing its consumption of renewable energy. In addition to cost saving, this backward integration also reduces its dependence on external sources for raw materials and provides increased stability in case of disruptions in its supply chains.

### Credit challenges

**Moderate scale of operations; exposed to cyclicity in the automotive industry** – WPPL's scale of operations has remained moderate as its presence is majorly concentrated in the farm equipment (tractor) segment. While the revenues have witnessed healthy growth over FY2022 and FY2023 supported by increasing scale in the CV segment, the overall scale continues to remain moderate leading to limited bargaining power and scope for improvement in margins. While WPPL is expected to sustain its scale of operations, going forward, it remains vulnerable to cyclicity in these segments while the intense competition in the industry also limits its bargaining power.

**Moderate capital structure and credit metrics** – Despite some improvement over the last two years, the capital structure and credit metrics of WPPL continue to remain moderate with a gearing of 1.3 times as on March 31, 2023. Its Total debt/OPBDIT, net debt/OPBDIT, interest coverage and TOL/TNW were 2.9 times, 2.5 times, 3.1 times and 2.0 times, respectively, in FY2023. However, the financial risk profile is expected to improve over the next few years, supported by reduction in debt due to scheduled repayment of long-term loans and no major requirement for debt-funded capex owing to availability of adequate manufacturing capacity for supporting growth of its operating scale.

**High product concentration risk with tractor front axles driving ~64% of revenues in FY2023** – WPPL primarily caters to tractor OEMs for front axle assemblies, which generated ~64% of its revenues in FY2023 (~70% in FY2022). While the increasing sales for the CV segment is expected to support diversification of its product profile, the tractor segment is expected to remain its mainstay over the near to medium term with an expected contribution of up to 60-70% to its revenues.

**High customer concentration risk with M&M generating ~60% of WPPL's revenues in FY2023** – WPPL's top three customers contributed ~78% to its revenues in FY2023 (~76% in FY2022) and M&M continues to remain its key customer generating ~60% of its revenues in FY2023 (~62% in FY2022). Despite some diversification of its client base due to increasing sales in the CV segment, WPPL's key customers are expected to continue to contribute meaningfully to its revenues over the near to medium term. However, the market leadership of M&M in the tractor segment and WPPL's established relationship and high share of business with M&M mitigate the risk to a certain extent. The proximity of WPPL's manufacturing units to that of its key customers also enables it to provide supply chain benefits to them, enabling supply on a just-in-time (JIT) basis.

## Liquidity position: Adequate

WPPL's liquidity is **adequate**, supported by improved internal accrual generation, free cash/bank balances of Rs. 18.4 crore and undrawn working capital limits of around Rs. 10 crore as on March 31, 2023. WPPL does not have any major debt-funded capex plans over the medium term and has a repayment obligation of Rs. 10.5 crore in FY2024 and Rs. 13.3 crore in FY2025. WPPL's accrual generations are expected to be sufficient to meet its debt servicing obligations and capex requirements over the near to medium term.

## Rating sensitivities

**Positive factors** – ICRA could upgrade WPPL's rating if there is a sustainable growth in revenues, along with improvement in operating profit margins leading to improved coverage indicators and strengthening of the liquidity profile. Specific credit metrics that could lead to an upgrade of WPPL's rating include Total debt/OPBITDA of less than 2.5 times on a sustained basis.

**Negative factors** – Negative pressure on WPPL's rating could arise if there is considerable decline in revenues and internal accrual generation, or deterioration in the working capital cycle, stretching the liquidity position and coverage metrics on a sustained basis. Specific credit metrics that could lead to a rating downgrade include interest coverage below 2.8 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 1997 by Mr. Uday Vinzanekar, WPPL manufactures front axle assemblies, cross members and axle housing for tractors and CVs (mainly trucks). Its manufacturing units are in Rudrapur (Uttarakhand), Nagpur and Pune (Maharashtra), while its registered office is in Mumbai. With a strong domestic presence, WPPL supplies to customers like M&M, John Deere India Private Limited, New Holland Tractors (India) Private Limited, Ashok Leyland Limited, Tata Motors Limited and American Axle, among others. WPPL is an International Automotive Task Force (IATF) 16949:2016, ISO 9001:2015 and OHSAS certified company.

## Key financial indicators (audited)

WPPL – Standalone	FY2022	FY2023*
Operating income	390.4	515.3
PAT	5.0	10.9
OPBDIT/OI	9.8%	8.9%
PAT/OI	1.3%	2.1%
Total outside liabilities/Tangible net worth (times)	2.1	2.0
Total debt/OPBDIT (times)	3.6	2.9
Interest coverage (times)	2.7	3.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; \*Provisional

**Status of non-cooperation with previous CRA:** In its press release, dated September 23, 2021, India Ratings and Research Private Limited has stated that it migrated the ratings of IND BBB-/IND A3 assigned to the bank facilities of WPPL to the noncooperating category and has simultaneously withdrawn them.

**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 as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 10, 2023	Sep 19, 2022	-	-
1 Term loans	Long term	48.22	45.03	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2 Working Capital	Long term	81.00	--	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3 Letter of Credit	Short term	12.25	--	[ICRA]A3	[ICRA]A3	-	-
4 Bank Guarantee	Short term	0.75	--	[ICRA]A3	[ICRA]A3	-	-
5 Unallocated	Long term and short term	48.06	--	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Working Capital	Simple
Letter of Credit	Very Simple
Bank Guarantee	Very Simple
Unallocated	Not Applicable

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	Term loans	March 2019 to April 2022	~8.65%	December 2025 to May 2027	48.22	[ICRA]BBB- (Stable)
NA	Working Capital	-	~8.50%	-	81.00	[ICRA]BBB- (Stable)
NA	Letter of Credit	-	-	-	12.25	[ICRA]A3
NA	Bank Guarantee	-	-	-	0.75	[ICRA]A3
NA	Unallocated	-	-	-	48.06	[ICRA]BBB- (Stable)/[ICRA]A3

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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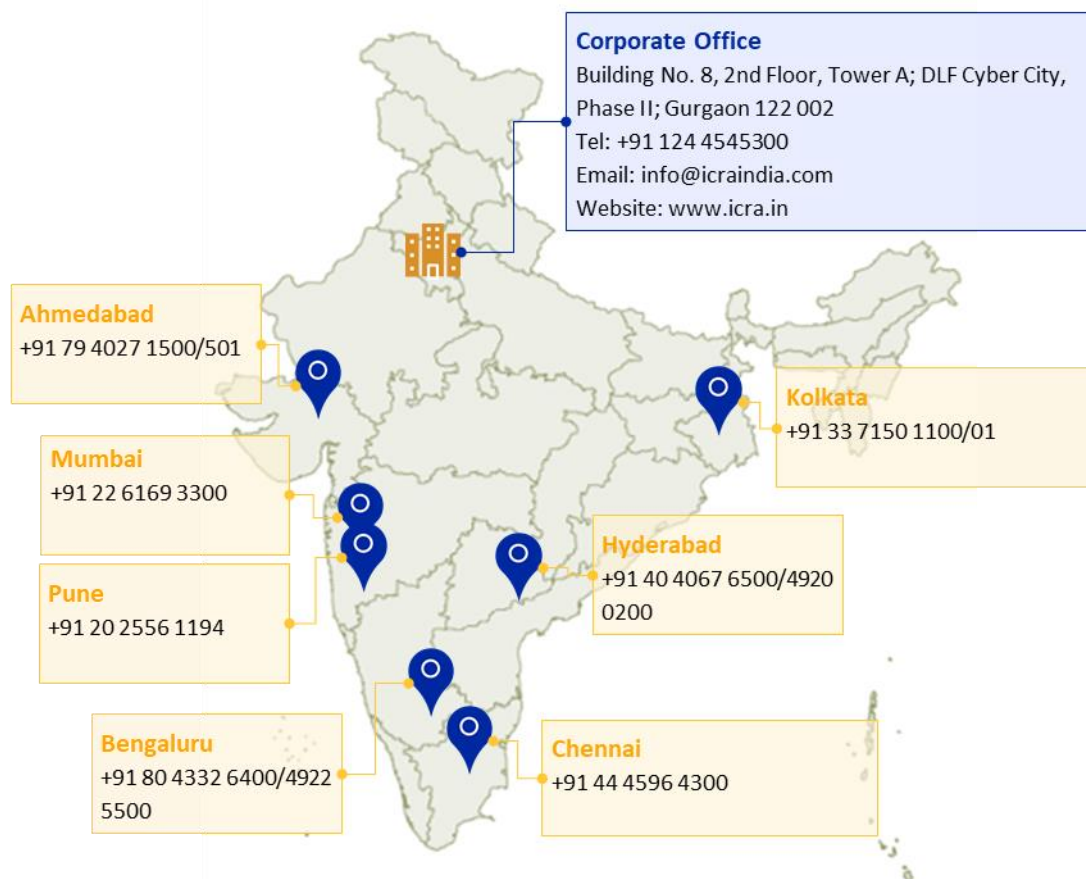


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