W. H. Brady & Company Limited

April 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Future Rent Receivable	10.25	10.25	[ICRA]BB- (Stable) reaffirmed
Cash Credit	2.30	2.30	[ICRA]BB- (Stable) reaffirmed
Bank Guarantee	3.00	3.00	[ICRA]BB- (Stable) reaffirmed
Letter of Credit	0.50	0.50	[ICRA]BB- (Stable) reaffirmed
Unallocated	2.75	2.75	[ICRA]BB- (Stable) reaffirmed
Total	**18.80**	**18.80**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus)[1] to the Rs. 12.55-crore fund-based facilities, Rs. 3.50-crore non-fund-based facilities and the Rs. 2.75-crore unallocated limit W. H. Brady & Company Limited (WHBCL or the company)[2]. The outlook on the long-term rating is Stable.

Rationale

While arriving at the ratings, ICRA has consolidated the business and financial risk profiles of the Brady Group, comprising WHBCL and Brady & Morris Engineering Company Limited (BMECL: rated [ICRA]BB-(Stable) / [ICRA]A4), given the significant equity investment of WHBCL in BMECL and operational linkages between the two companies.

The ratings reaffirmation favourably factors in the stabilisation of operations in BMECL in Q3 FY2018 with an operating income (OI) of Rs. 9.1 crore and operating profit of Rs. 0.8 crore, after significant weakening of performance in H1 FY2018 primarily in terms of OI of Rs. 3.6 crore and an operating loss at Rs. 3.6 crore due to under absorption of fixed costs. This was on account of temporary disruption of manufacturing operations, as the company had undertaken consolidation of two of its factory units to enable operational convenience. The operations were resumed from September 2017, with its OI in H2 FY2018 in line with its OI in the corresponding period in the previous year. Further, the OI in FY2019 is expected to show robust growth as compared to its OI in FY2018. ICRA also continues to take into account the extensive experience of WHBCL's promoters in manufacturing and marketing of material handling equipment and the stable amount of lease rental received at the consolidated level, which supports the otherwise volatile material handling business.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Nonetheless, the ratings are constrained by the company's small scale of operations with an estimated de-growth in OI in FY2018, lower profitability due to under absorption fixed costs and vulnerability of the profit margins to the raw material price fluctuation. Additionally, the ratings also remain constrained by the slow receivables and high inventory holding, which resulted in relatively high net working capital intensity as indicated by its NWC/OI of 65% as on March 31, 2017. ICRA further notes the limited bargaining power of the Brady Group with the large customers in the intensely competitive material handling equipment industry, which exerts further pricing pressure on the company.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that BMECL will continue its routine operations after a brief disruption from April-August 2017, which is expected to grow at a moderate rate in the near to medium term. ICRA believes the Brady Group will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if there is substantial growth in its revenue and profitability, and better working capital management, which strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Stabilisation of operations in BMECL after temporary disruption in H1 FY2018 - BMECL resumed its routine business operations from September 2017 and recorded an OI of Rs. 9.1 crore in Q3 FY2018, vis-a-vis Rs. 0.4 crore in Q2 FY2018 and Rs. 2.2 crore in Q1 FY2018, after a temporary disruption in operations due to consolidation of two of its manufacturing units.

Significant lease rental income provides liquidity cushion at the consolidated level - The Group receives rental income from leasing out Brady House, which accounts for ~20-25% of the total OI at a consolidated level. Notwithstanding the fluctuations in manufacturing and trading operations of the Group, moderate growth in lease rentals on Y-o-Y basis provides liquidity cushion at the consolidated level.

Extensive experience of the promoters in the manufacturing of material handling equipment business - The flagship entity of the Brady Group, WHBCL, was incorporated in 1913 and is involved in the sales of material handling equipment, and sales and servicing of various products related to the aviation industry. WHBCL established BMECL in 1946 for the manufacture and sale of material handling equipment like chain pulley blocks and various types of cranes. The Group is controlled by the Mumbai-based Morarka family since the 1960. The Morarka family has extensive experience material handling equipment business, which has ensured established relationship and repeat orders from reputed players in the industry.

Credit challenges

Small scale of operations, with temporary downturn in BMECL resulting in low operating profitability - BMECL and WHBCL at a consolidated level have small scale of operations with its OI increasing at a modest CAGR of ~2% in the past five years from FY2012 to FY2017. The consolidation of the plant led to a brief disruption of operations in BMECL resulting in lower OI in H1 FY2018 along with operating losses due to under-absorption of fixed costs. Nevertheless, due to the sale of one of the plants at a profit of Rs. 3.1 crore, the net profitability is likely to remain higher in FY2018. With normal operations resuming from September 2017, the OI has shown a significant growth in Q3 FY2018 and is expected to grow moderately thereafter.

Vulnerability of profitability to any adverse fluctuation in raw material prices - The key raw materials required for constructing material handling equipment are steel plates, electric motors, gear boxes, etc. which are procured locally and assembled by the company as per design. As the sales contracts are fixed priced in nature and the manufacturing cycle is generally long, it is exposed to variation in raw material prices.

High working capital intensity due to elongated receivable cycle and high inventory levels - The company generally extends a credit period of about 90-120 days to its customers. In addition, since it supplies material handling equipment to large infrastructure projects, which are executed over one to two years, any delay in the delivery schedule, leads to an inventory build-up and delayed realisations resulting in a high working capital intensity of operations, as depicted by the NWC/OI at 60-67% during FY2015–FY2017 on a consolidated level.

Low bargaining power in the intensely competitive material handling equipment industry - The company faces intense competition with a number of players in this segment, which exerts further pricing pressure on the margins. Furthermore, the small scale of business limits its bargaining power against the larger players in the market.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of WHBCL along with its Group company BMECL since both operate in the same line of business, have operational linkages and share a common management. ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Construction Equipment Manufacturers

About the company:

WHBCL established BMECL in 1946 to manufacture and sell material handling equipment such as chain pulley blocks and various types of cranes and electric hoist blocks. Established in 1895, by two individuals of British origin, and later incorporated in 1913, WHBCL sells material handling equipment and services various products related to the aviation industry. WHBCL also owns Brady House located at Fort, Mumbai, from where it receives significant rental income. The Group has been controlled by the Mumbai-based Morarka family since 1960s. BMECL has its manufacturing facility at Vatva (Gujarat).

In FY2017, WHBCL reported a net profit of Rs. 3.1 crore on an OI of Rs. 22.0 crore, as compared to a net profit of Rs. 3.0 crore on an OI of Rs. 20.0 crore in the previous year.

In FY2017, BMECL reported a net profit of Rs. 0.04 crore on an OI of Rs. 36.1 crore, as compared to a net profit of Rs. 0.2 crore on an OI of Rs. 36.0 crore in the previous year.

On consolidated level, in FY2017, the Group reported a net profit of Rs. 3.2 crore on an OI of Rs. 49.2 crore, as compared to a net profit of Rs. 3.2 crore on an OI of Rs. 46.3 crore in the previous year.

Key financial indicators (audited)

	WHBCL		BMECL		Consolidated	
	FY2016	FY2017	FY2016	FY2017	FY2016	FY2017
Operating Income (Rs. crore)	20.0	22.0	36.0	36.1	46.3	49.2
PAT (Rs. crore)	3.0	3.1	0.2	0.04	3.2	3.2
OPBDIT/ OI (%)	28.8%	23.9%	6.4%	5.9%	17.5%	15.1%
RoCE (%)	13.0%	12.3%	4.7%	5.0%	11.8%	13.0%
Total Debt/ TNW (times)	0.9	0.7	(71.7)	(78.2)	1.5	1.2
Total Debt/ OPBDIT (times)	3.3	3.3	13.5	14.3	3.7	3.8
Interest Coverage (times)	5.0	5.8	1.8	1.6	3.4	3.2
NWC/ OI (%)	63.7%	67.0%	48.3%	44.4%	65.7%	64.6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 January 2016
1	Future Rent Receivable	Long Term	10.25	6.48	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
2	Cash Credit	Long Term	2.30	-	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
3	Bank Guarantee	Long Term	3.00	-	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
4	Letter of Credit	Long Term	0.50	-	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
5	Unallocated	Long Term	2.75	-	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Future Rent Receivable	October 2014	12.05%	September 2020	10.25	[ICRA]BB- (Stable)
NA	Cash Credit	-	-	-	2.30	[ICRA]BB- (Stable)
NA	Bank Guarantee	-	-	-	3.00	[ICRA]BB- (Stable)
NA	Letter of Credit	-	-	-	0.50	[ICRA]BB- (Stable)
NA	Unallocated	-	-	-	2.75	[ICRA]BB- (Stable)

Source: W. H. Brady & Company Limited

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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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