W. H. Brady & Company Limited

April 01, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Future Rent Receivable	10.25	2.18	[ICRA]BB-(Stable); reaffirmed
Fund-based - Cash Credit	2.30	2.30	[ICRA]BB-(Stable); reaffirmed
Non fund-based - Bank Guarantee	3.00	3.00	[ICRA]BB-(Stable); reaffirmed
Non fund-based - Letter of Credit	0.50	0.50	[ICRA]BB-(Stable); reaffirmed
Unallocated	2.75	10.82	[ICRA]BB-(Stable); reaffirmed
Total	**18.80**	**18.80**	

*Instrument details are provided in Annexure-1

Rationale

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

The rating reaffirmation takes 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. Further, the company's operating profitability level in the current year has been re-established post stabilisation of factory operations since September 2017 which in the past was temporarily disrupted which led to operating loss in FY2018.

The ratings are constrained by BMECL's small scale of operations with fluctuating revenue growth in the past five years along with low profitability due to high 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 its high inventory holding, which resulted in relatively high net working capital intensity as indicated by NWC/OI of 79.2% as on March 31, 2018. 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 and WHBCL will continue their moderate growth at consolidated level 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 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

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 the 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 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 fluctuating revenue growth in the past five years - BMECL and WHBCL, at a consolidated level, have small scale of operations with the OI increasing at a negative CAGR of ~4% in the past five year period from FY2013 to FY2018. The consolidation of the plant led to a brief disruption of operations in BMECL resulting in a lower OI in FY2018 along with operating losses due to under-absorption of fixed costs. Nevertheless, with stabilisation of the operations from Q3 FY2018, the companies on consolidated basis is expected to report ~35-40% growth in the revenue in FY2019 as compared to FY2018 along with improved, though low operating profitability.

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, BMECL is exposed to variation in raw material prices.

High working capital intensity due to elongated receivable cycle and high inventory levels - The group 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 of 45-50% during FY2015–FY2018 on a consolidated level.

Low bargaining power amidst highly 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.

Liquidity Position:

BMECL's fund flow from operations (FFO) turned positive in H1 FY2019, from negative in the previous year due to significant business growth and moderate operating profitability in the current year. The FFO is expected to increase moderately in near to medium term. The company has moderate cushion available in the form of undrawn working capital limits and liquidity is expected to remain at similar level given the absence of capacity expansion plans, limited burden of term debt repayments, besides minimal requirement of incremental working capital funding.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Brady & Morris Engineering Company Limited While arriving at the ratings, ICRA has consolidated the business and financial risk profiles of the Brady Group, comprising WHBCL, rated at [ICRA]BB-(Stable) and BMECL.
Consolidation	The rating is based on consolidated financial statements of the borrower.

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 FY2018, BMECL reported a net loss of Rs. 1.1 crore on an OI of Rs. 23.8 crore, as compared to a net profit of Rs. 0.1 crore on an OI of Rs. 36.1 crore in the previous year.

In FY2017, WHBCL reported a net profit of Rs. 2.7 crore on an OI of Rs. 20.3 crore, as compared to a net profit of Rs. 3.2 crore on an OI of Rs. 22.5 crore in the previous year.

On a consolidated level, in FY2018, the Group reported a net profit of Rs. 1.6 crore on an OI of Rs. 38.7 crore, as compared to a net profit of Rs. 3.2 crore on an OI of Rs. 49.7 crore in the previous year.

Key financial indicators (audited)

	WHBCL			BMECL			Consolidated	
	FY2017	FY2018	H1 FY2019*	FY2017	FY2018	H1 FY2019*	FY2017	FY2018
Operating Income (Rs. crore)	22.5	20.3	11.4	36.1	23.8	22.3	49.7	38.7
PAT (Rs. crore)	3.2	2.7	1.7	0.1	-1.1	0.6	3.2	1.6
OPBDIT/OI (%)	25.7%	25.7%	29.0%	6.1%	-10.7%	8.1%	16.1%	6.9%
RoCE (%)	18.5%	17.3%	22.5%	5.3%	0.0%	9.8%	18.5%	13.3%
Total Debt/TNW (times)	0.5	0.3	0.2	687.8	321.5	34.4	0.9	0.7
Total Debt/OPBDIT (times)	2.1	1.3	1.0	13.6	-12.2	6.6	2.7	6.7
Interest coverage (times)	4.1	3.5	3.8	1.5	-2.3	2.8	2.8	1.0

**unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					April 2019	April 2018	-	March 2017
1	Future Rent Receivable	Long Term	2.18	2.18	[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	10.82	-	[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	2.18	[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	-	-	-	10.82	[ICRA]BB-(Stable)

Source: W. H. Brady & Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
W. H. Brady & Company Limited	72.50%	Full Consolidation

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About ICRA Limited:

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