W. H. Brady & Company Limited

April 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Future Rent Receivable	2.18	2.18	[ICRA]BB-(Stable); outstanding
Fund-based - Cash Credit	2.30	2.30	[ICRA]BB-(Stable); outstanding
Non-fund Based - Bank Guarantee	3.00	3.00	[ICRA]BB-(Stable); outstanding
Non-fund Based - Letter of Credit	0.50	0.50	[ICRA]BB-(Stable); outstanding
Unallocated	10.82	12.02	[ICRA]BB-(Stable); assigned/ outstanding
Total	**18.80**	**20.00**	

**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) and Brady & Morris Engineering Company Limited (BMECL) ([ICRA]BB – (Stable) / A4), given the significant equity investment of WHBCL in BMECL and the operational linkages between the two companies.

The rating reaffirmation takes into account the extensive experience of WHBCL's promoters in the 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 BMECL's operating profitability level in the current year FY2019 was re-established, post stabilisation of its factory operations in September 2017 (which was temporarily disrupted leading to an operating loss in FY2018).

The ratings are constrained by BMECL's small scale of operations with fluctuating revenue growth during the last five years, its low profitability due to high fixed costs, and the vulnerability of its profit margins to raw material price fluctuations. Additionally, the rating remains constrained by its slow receivables and high inventory holding, which resulted in a relatively high net working capital intensity as indicated by NWC/OI of 79.2% as on March 31, 2018. ICRA further notes the Brady Group's limited bargaining power with its large customers in the intensely competitive material handling equipment industry, which exerts further pricing pressure on WHBCL.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that BMECL and WHBCL will continue their moderate growth at the consolidated level in the near to medium term. ICRA believes that 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, strengthening its financial risk profile. The outlook may be revised to a 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 - The Group receives rental income from leasing out Brady House, which accounts for ~20-25% of the total operating income (OI) at the consolidated level. Notwithstanding the fluctuations in the Group's manufacturing and trading operations, moderate growth in the lease rentals on a YoY basis provides liquidity cushion.

Extensive experience of promoters in material handling equipment manufacturing - The flagship entity of the Brady Group, WHBCL, sells material handling equipment, and sells and services various products related to the aviation industry. WHBCL established BMECL to manufacture and sell material handling equipment, like chain pulley blocks and various types of cranes. The Group is controlled by the Mumbai-based Morarka family, who have extensive experience in the material handling equipment business, ensuring established relationships and repeat orders from reputed players in the industry.

Credit challenges

Small scale of operations with fluctuating revenue growth - BMECL and WHBCL, at the consolidated level, have small scale of operations. Their OI increased at a negative CAGR of ~4% during FY2013-FY2018. The consolidation of plant led to a brief disruption in BMECL's operations resulting in lower OI in FY2018, along with operating loss due to the under-absorption of fixed costs. Nevertheless, with the stabilisation of operations in Q3 FY2018, the companies on a consolidated basis are expected to report ~35-40% revenue growth in FY2019 compared to FY2018, along with improved (though low) operating profitability.

Vulnerability of profitability to fluctuations in raw material prices - The key raw materials required to construct material handling equipment are steel plates, electric motors, gear boxes etc, which the company procures locally and assembles as per design. As the sales contracts are fixed priced in nature and the manufacturing cycle is generally long, the Group is exposed to variations in the raw material prices.

High working capital intensity due to elongated receivable cycle and high inventory level - The Group generally extends a credit period of ~90-120 days to its customers. In addition, it supplies material handling equipment to large infrastructure projects, which are executed over one to two years. Thus, any delay in the delivery schedule leads to inventory build-up and delayed realisations, resulting in high working capital intensity of operations, as depicted by NWC/OI of 45-50% during FY2015-FY2018 on a consolidated level.

Low bargaining power in highly competitive material handling equipment industry - The company faces intense competition with numerous players in this segment, which exerts pricing pressure on its 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 its significant business growth and moderate operating profitability. The FFO is expected to increase moderately in the near to medium term. The company has moderate cushion available in the form of undrawn working capital limits. Its liquidity is expected to remain at a similar level given the absence of capacity expansion plans and the limited burden of term debt repayments, besides the 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 group - 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 and BMECL.
Consolidation/Standalone	The rating is based on the consolidated financial statements of the borrower.

About the company

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, which generates significant rental income. 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). The Group is controlled by the Mumbai-based Morarka family since 1960. BMECL has its manufacturing facility at Vatva (Gujarat).

In FY2018, WHBCL reported a net profit of Rs. 2.7 crore on an OI of Rs. 20.3 crore, compared to a net profit of Rs. 3.2 crore on an OI of Rs. 22.5 crore in the previous year.

In FY2018, BMECL reported a net loss of Rs. 1.1 crore on an OI of Rs. 23.8 crore, compared to a net profit of Rs. 0.1 crore on an OI of Rs. 36.1 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, 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 April 2019	Date & Rating in FY2019 April 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 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	12.02	-	[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	-	-	-	12.02	[ICRA]BB-(Stable)

Source: W. H. Brady & Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Brady & Morris Engineering Company Limited	72.50%	Full Consolidation

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