

Ador Welding Limited

February 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	62.50	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	85.00	CARE A+; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	64.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Ador Welding Limited takes into consideration the established position of the company in the domestic welding industry, experienced promoter group, well-established brand offering, diversified product portfolio supported by comprehensive sales and distribution network, comfortable financial risk profile and reduced reliance on the working capital borrowings. The operating performance of the company was impacted due to COVID-19 in FY21 (refers to the period April 1 to March 31); however, with easing of lockdown and gradual pick-up in economic activities (from infrastructure and manufacturing activities), the performance of the company improved in FY22 and continued through H1FY23. Ador Welding Limited has announced the merger of Ador Fontech Limited with itself, and CARE Ratings Limited (CARE Ratings) will continue to monitor the development in this regard.

The company has been able to reduce losses under its Flares & Process Equipment business in FY22, and in H1FY23, the division has reported profits with the management focus on profitable projects.

The ratings are further tempered by susceptibility to volatility in raw material prices, foreign exchange risk and prevalent competition in the welding industry from domestic and international players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increased scale of operations with improvement in operating profitability margin above 12.00% and interest coverage ratio over 6.0x on a sustained basis.
- The operating cycle at 90 days with better receivable management, in turn reducing reliance on external borrowings.
- Return on capital employed (ROCE) above 20% on a sustained basis.
- Sustainability of operating performance of Flares & Process Equipment business with focus on profitable projects.

Negative factors

- Deterioration in the performance due to decline in the total operating income (TOI), operating profitability margin continues to remain below 8.00% and interest coverage ratio below 6.0x.
- Unprofitable projects in Flares & Process Equipment business impacting blended operating profitability margin.

Analytical approach: Standalone

Key strengths

Established and experienced promoter group

Incorporated in the year 1951, the company is promoted by J. B. Advani & Company and is the flagship company of the Ador group. The company has around seven decades of experience in the welding products and service business. The day-to-day operations are led by a team of qualified and experienced professionals led by Aditya T. Malkani (Managing Director), who belongs to the promoter family.

The J. B. Advani group was established in the year 1908 as a small trading company and has become the promoter and holding company of the Ador group. The J. B. Advani & Company holds 50.01% shares in AWL as on September 30, 2022. Presently, the Ador group consists of companies operating in engineering products and services, cosmetic products, and green energy solutions.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Well-established brand offering, diversified product portfolio supported by comprehensive sales and distribution network

The company is engaged in the manufacturing of welding consumables, welding and cutting equipment, gas cutting products, welding automation products and systems (WAPS), personal protective equipment and accessories (safety measures) and also has Flares & Process Equipment business (earlier known as Project Engineering Business division). It offers wide variety (of over 200 types) of electrodes, fluxes, flux-cored wires and specially customised electrodes and services like design, manufacture, erection and commissioning, mechanical, electrical and instrumentation of process packages, process equipment, flare system and components. During FY22, the company manufactured around 10,000 plus welding equipment (standard and customised) and the estimated annual production of welding products stood at around 50,000 metric tonnes. The company has a strong distribution network with 300+ distributors selling the products in various countries.

Comfortable financial risk profile supported by reduced reliance on working capital borrowings

The financial risk profile continues to remain comfortable with low utilisation of working capital limits and no long-term borrowing leading to comfortable gearing and interest coverage ratio. The overall gearing improved to 0.04x as on March 31, 2022, with low utilisation of working capital borrowings. The interest coverage ratio (PBILDT/Interest) continues to remain comfortable at 15x during FY22. The financial risk profile is envisaged to remain comfortable going forward on the back of comfortable overall gearing ratio with no long-term borrowings and interest coverage ratio. The average utilisation of working capital limits was moderate at 34%.

Improved performance in FY22 and H1FY23

The TOI increased to ₹661.48 in FY22 from ₹449.86 crore in FY21. The revenue from consumables segment increased to ₹535.71 crore in FY22 from ₹352.33 crore in FY21. In H1FY23, the company has reported revenue of ₹269.45 crore.

The revenue from equipment business grew by 39.42% to ₹98.78 crore in FY22; however, the revenue from flares & process equipment business (F&P) was at ₹28.43 crore in FY22 compared with ₹24.73 crore in FY21. In H1FY23, equipment and F&P segment reported combined sales of ₹73.60 crore. As on November 30, 2022, the company has an order book of ₹140.00 crore in the F&P segment to be executed over 6 months.

AWL has been ramping-up its operations in a timely manner with the revival of the demand in the domestic market. The company is witnessing improvement in the demand in the welding consumable business and plans to undertake profitable projects in its Flares & Process Equipment business, so that there is improvement in the cash flows and profitability margins.

Merger of Ador Fontech Limited with Ador Welding Limited

Ador Welding Limited has announced merger of Ador Fontech Limited with itself. The company is in the process of getting necessary approvals from various stakeholders. Ador Fontech Limited reported TOI of ₹210.40 crore and PAT of ₹25.44 crore in FY22. Furthermore, Ador Fontech Limited is a debt free company.

On May 31, 2022, Ador Welding Ltd announced merger/amalgamation with Ador Fontech Ltd.

- 5 equity shares (face value of INR 10/- each fully paid) of Ador Welding Ltd shall be issued for every 46 equity shares (face value of INR 2/- each fully paid) held in Ador Fontech Ltd.
- Pursuant to the scheme, the shareholders of Ador Fontech Ltd would have 21.86% stake in Ador Welding Ltd.
- Post-merger, the promoter group holding shall be 53.04% and Public holding shall be 46.96%.
- The Appointed Date for the merger would be April 15, 2022, and the merger process is expected to be completed by March 31, 2023.
- The scheme is subject to approval of the respective shareholders and creditors of Ador Welding Ltd and Ador Fontech Ltd, NSE & BSE, SEBI, NCLT, CCI and other regulatory approvals as would be required.
- Benefits of amalgamation: Consolidation of both entities will help strengthen the market position of the company, in addition to achieving economies of scale. Optimal use of distribution network, manufacturing units, supply chain, research & training facilities and efficient cash and debt management.

Key weaknesses

Susceptibility to volatility in raw material prices and foreign exchange risk

The key raw material required by the company for its manufacturing activities is steel. The company procures it domestically from various players. The inventory levels of the raw material are budgeted as per their production requirements. The volatility in raw material prices is passed on to the end users, thereby mitigating the input cost pressure. However, any time lag in pass-on of cost escalation would impact the operational performance of the company, which may affect the operating margins. The company enters into forward cover contracts to hedge its foreign exchange risks; however, it does not hedge commodity prices.

Prevalent competition in welding industry from domestic and international players

The welding industry comprises welding equipment, consumables and welding services. The industry size is estimated to be around ₹5,000-5,500 crore with a share of welding consumables (70%), welding equipment (15%), cutting (10%) and automation (5%). The welding consumables market accounts for a significant share in the welding industry compared with welding equipment and welding services. Electrodes and filler metals are the key consumables used in various welding processes. Some of the key product types of welding consumables include stick electrode, solid wires, flux-cored wires, SAW wires and fluxes among others. Stick electrodes and solid wires are the key welding consumables produced by most welding companies in India. Welding finds wide application in various industries such as automobiles, building & construction, pipelines, and oil & gas. The growth of the welding industry is highly dependent on the consumption of steel in various end-use industries.

Liquidity: Adequate

In H1FY23, the company earned a GCA of ₹25 crore and cash and mutual fund investment stood at ₹18.54 crore as on September 30, 2022. The fund-based working capital limits are utilised to an extent of around 22% during the last 12-months ended December 2022. The non-fund-based limits are utilised to the extent of around 28% during the last 12-months ended December 2022. The company has capex plan to the tune of ₹28-30 crore during FY23, which shall be funded through internal cash accruals. Furthermore, the company has no long-term borrowings.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

Ador Welding Limited, formerly known as Advani Oerlikon Limited, was incorporated on October 22, 1951, by J. B. Advani & Company Private Limited (JBPL) and the Oerlikon-Buhle Group, Switzerland. During 2002-03, JBPL acquired shareholding of the Oerlikon group and became a majority shareholder in the company. The company is the flagship company of the Ador group. It is engaged in the manufacturing of welding consumables & equipment and has a Flares & Process Equipment business (earlier known as Project Engineering Business). It is among the leading players in the field of welding products and services in India. The company offers various welding products including a wide variety (over 200 types) of electrodes, fluxes, flux-cored wires and specially customised electrodes. Flares and Process Equipment business of the company is engaged in providing customised solutions for projects and contracts related to refineries, oil & gas, petrochemicals, fertilizers, steel plants, pharmaceuticals, water and other chemical complexes and process industries.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	449.86	661.48	541.28
PBILDT	26.57	58.29	55.46
PAT	-11.99	45.19	36.80
Overall gearing (times)^	0.22	0.04	NA
Interest coverage (times)	3.26	15.67	33.21

A: Audited; UA: Un-Audited; NA: Not available

^including acceptances

Note: The financials are adjusted as per CARE Ratings' Standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	62.50	CARE A+; Stable
Fund-based - ST-Sales invoice financing (Short term)		-	-	-	15.00	CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	85.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	49.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	62.50	CARE A+; Stable	-	1)CARE A+; Stable (29-Mar-22)	1)CARE A+; Stable (30-Dec-20)	1)CARE AA-; Stable (08-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	49.00	CARE A1+	-	1)CARE A1+ (29-Mar-22)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (08-Jan-20)
3	Fund-based - ST-Sales invoice financing (Short Term)	ST	15.00	CARE A1+	-	1)CARE A1+ (29-Mar-22)	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (08-Jan-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	85.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (29-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Sales invoice financing (Short Term)	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us**Media contact**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in**Analyst contact**

Name: Hitesh Avachat

Phone: 9004860007

E-mail: hitesh.avachat@careedge.in**Relationship contact**

Name: Saikat Roy

Phone: +91-22-67543404

E-mail: saiikat.roy@careedge.in**About us:**

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