D & H India Limited

January 20, 2023

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	23.36	CARE BB+; Stable	Assigned
Short Term Bank Facilities	3.50	CARE A4+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of D & H India Limited (DHIL) is constrained by relatively modest scale of operation and moderate and fluctuating operating margins.
Rating is further constrained by stretched working capital cycle leading to stretched liquidity, project funding and execution risk, presence in competitive and fragmented industry and susceptibility of profit margins due to volatile material prices.
The above constraints are partially offset by strength derived from significant experience of the management along with long track record of the company, reputed customer profile, well-diversified product portfolio supported by comprehensive sales and distribution network and comfortable capital structure and moderate debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations above Rs. 150 crores
- Improvement in operating cycle below 90 days on sustainable basis

Negative factors

- Decrease in PBILDT margins below 2% on a sustainable basis
- Increase in overall gearing above unity owing to debt funded capex or increase in working capital utilization levels
- Failure to execute the project in timely manner leading to time and cost overrun

Analytical approach: Standalone

Key weaknesses

Small scale of operation

The scale of operation of DHIL have remained small since FY18-21, with a degrowth of 14.43% in FY21 on account of Covid-19 pandemic. DHIL's total operating income increased by 34.17% on Y-o-Y basis from Rs. 67.64 crore in FY21 to Rs. 90.75 crore in FY22 due to due to improved realization. Furthermore, DHIL has already booked sales of Rs. 62.67 crore during H1FY23.
Despite the long track record of operation, the scale of operation of DHIL have remained small which limits its financial flexibility to meet any exigency.

Moderate and fluctuating profitability margins

The operating margins of DHIL remained fluctuating during the period of FY18-21 in the range of 2%-7% mainly due to intense competition in the welding industry and the high volatility in raw material prices. In FY20, the operating margins declined significantly as DHIL had written off bad debts worth Rs. 1.59 crores. In FY21, the margins remained low due to Covid-19 pandemic. However, the same improved from 3.03% in FY21 to 5.32% in FY22 due to increase in the scale of operations. The pre-covid levels have not been reached due to high volatility in steel prices in FY22.
In FY20 and FY21, DHIL posted net losses in lines with the significant deterioration in PBILDT margins and depreciation and interest cost, but DHIL had cash profits. In FY22, the PAT margin has also improved in lines with operating margins to 2.66% (as against net loss in FY21).
Furthermore, DHIL has booked PBILDT margin of 6.88% and PAT margin of 3.43% during H1FY23.

Highly working capital-intensive nature of operations

DHIL's operations remain working capital intensive mainly on account of funds being blocked in inventory. With a diversified product portfolio, DHIL is required to maintain a high level of inventory for continuous operations.
DHIL offers around 45 days of credit period owing to low bargaining power against reputed customers and similar credit is received from suppliers due to established relations with them.
DHIL's operating cycle improved from 130 days in FY21 to 108 days in FY22 on account of improvement in inventory, collection and creditors period. The inventory levels decreased from 135 days in FY21 to 103 days in FY22.

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

Susceptibility of profit margins due to volatile raw material prices
Mild steel (MS) /stainless steel (SS) wires, nickel wires, ferro alloys and minerals, are the primary raw materials for producing welding consumables. The increased volatility in the prices of ferro alloys and steel exposes DHIL to raw material price risks. These prices are highly volatile and influenced by demand – supply conditions in the market. With material cost being the major contributor to the total cost, the profit margins are susceptible to fluctuation in material prices.

Project funding and execution risk
DHIL is undertaking a new project to upgrade the technology in their manufacturing units for capacity expansion.
The project will be executed in a phase-wise manner. In Phase 1, DHIL incurred a cost of around Rs. 6.67 crores on plant and machinery. In Phase 2, DHIL will further incur a cost of Rs. 11.42 crores. The capex cost will be approximately Rs. 18.09 crores. The capex will be funded through term loans amounting to Rs. 13 crores (Rs. 5 crores is sanctioned by HDFC bank and the remaining Rs. 8 crores will be taken from SIDBI, not yet tied -up), convertible warrants of Rs. 3.31 crores and the balance through internal accruals.

Presence in competitive and fragmented industry
The welding consumables industry is highly fragmented due to the presence of a large number of organised and unorganised players. The industry is characterised by minimal entry barriers, leading to an intense competition from both regional small-scale and some established players.
The stiff competition in the industry limits the pricing flexibility of the industry participants, including DHIL, thus affecting the profitability margins.

Key strengths

Well-established track record and extensive experience of the promoters in the industry
DHIL has been engaged in manufacturing of welding consumables for more than three decades which has enabled to develop established relations with reputed customers and suppliers and entail repeat orders from them. The promoter, Mr. Harsh Kumar Vora has a vast experience of more than three decades of experience in the business. He is supported by his son, Mr. Saurabh Vora and a qualified team of professionals with significant experience in their respective fields.

Diversified customer profile with reputed clientele
DHIL has a well-diversified and reputed customer base. With over three decades of operations in the industry, the promoters of DHIL have developed long-standing & established relationship with its reputed clientele in various sectors across India, enabling DHIL to receive repetitive orders. DHIL offers a wide range of welding consumables for diverse applications in industries like Steel, Shipbuilding, Petrochemical, Construction, Transport, Energy and many more. DHIL receives orders from both private and government organizations through a tender bidding process.

Well-diversified product portfolio supported by comprehensive sales and distribution network
DHIL offers comprehensive and advance range of products for all major industrial sectors. DHIL has a robust product profile with more than 800 electrode variants. Most of its products are approved from reputed engineering consultants and are certified by leading national / international inspection agencies such as Lloyd's Register of Shipping (LRS), American Bureau of Shipping (ABS), Bureau Veritas (BV), Det Norske Veritas (DNV), Bharat Heavy Electricals Ltd. (BHEL), DGQA (Defence Establishment) and many more.
DHIL has an established dealership network of nearly 150 dealers across India. As a variety of welding consumables are used in different industries, DHIL benefits from a wide product portfolio and a comprehensive distributor network.

Comfortable capital structure and moderate debt coverage indicators
The capital structure of DHIL remained comfortable in FY18-21 with an overall gearing in the range of 0.44x to 0.52x due to lower reliance on debt to fund its business operations. As on March 31, 2022 the overall gearing deteriorated marginally but remained comfortable at 0.66x due to higher utilization of working capital limits as on balance sheet date.
Due to improvement in cash accruals (which grew by 384% in FY22), the debt coverage indicators improved significantly with total debt/GCA and interest coverage ratio at 5.31 times and 3.42 times respectively in FY22 (vis-à-vis 18.79 times and 1.49 times respectively in FY21). The same has improved due to improved profits in FY22 indicating better financial health of DHIL.

Liquidity: Stretched

The liquidity position is stretched as marked by the gross cash accruals (Rs. 3.87 crores) vis-à-vis repayment obligations (Rs. 1.65 crores) and free cash balance of Rs. 0.20 crore as on March 31, 2022. The average maximum and average utilization of working capital limits (fund based) stood high at 92.17% and 81.25% respectively for the last twelve months ended October 2022.
Further, the current ratio and quick ratio stood at 1.68 times and 0.75 times respectively as on March 31, 2022 vis-à-vis 1.92 times and 0.85 times respectively as on March 31, 2021. Cash flow from operations was negative at Rs. 3.42 crore in FY22 (vis-à-vis positive Rs. 2.50 crore in FY21).

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

About the company

D & H India Limited (DHIL) was incorporated as a private limited company on March 30, 1985, and was converted into a public limited company on August 24, 1993 by late Mr. H. H. Melwani. The promoter, Mr. Harsh Kumar Vora has a vast experience of more than three decades of experience in the business. DHIL's shares are listed on the Bombay Stock Exchange since 1994. DHIL is engaged in the manufacturing of a wide range of welding consumables namely electrodes, manual metal arc electrodes, submerged arc welding flux & wires, CO2 welding wires, flux cored wires and a range of special purpose welding consumables & stainless-steel wires. These have applications in industries like infrastructure, thermal power plants, steel, shipbuilding, metal, cement and many more. DHIL has three manufacturing plants located at Indore, Ghatabillod and Chhattisgarh. DHIL has received ISO 9001-2008 certification for quality standards for all its manufacturing plants.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	67.64	90.75	62.67
PBILDT	2.05	4.83	4.31
PAT	-0.75	2.42	2.15
Overall gearing (times)	0.52	0.66	NA
Interest coverage (times)	1.49	3.42	4.35

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Nil

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 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		-	-	-	13.50	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	07-04-2030	9.86	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A4+

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-Term Loan	LT	9.86	CARE BB+; Stable				
2	Fund-based - LT-Cash Credit	LT	13.50	CARE BB+; Stable				
3	Non-fund-based - ST-BG/LC	ST	3.50	CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Primary Mortgage Banks (Pmb)	Minimum Pmb of Rs. 29.15 crore to be maintained during currency of bank finance. No further enhancement until Pmb of Rs. 31 crore is achieved by customer and topline of Rs. 110 crore.
B. Non-financial covenants	
I. Stock Statement and book debt audit	To be submitted monthly with ageing detail, on or before the 15th day of the month. The book debts statements will not include receivables from affiliates of the borrower.

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 - LT- Term Loan	Simple
3	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.

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About us:

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