Ador Welding Limited

April 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	62.50	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	95.00 (Enhanced from 85.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Long-term / Short-term bank facilities	15.00	CARE A+; Stable / CARE A1+	Revised from CARE A1+
Short-term bank facilities	49.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Ador Welding Limited (AWL) continues to factor in its strong business risk profile supported by its well-established position in the domestic welding industry, strong brand recall, and diversified product portfolio. The business risk profile is further aided by the company's comprehensive sales and distribution network, thereby establishing itself as one of the key players in the organised market. Ratings further consider AWL's strong financial flexibility marked by comfortable debt protection metrics (overall gearing of 0.05x as on March 31, 2023) and strong liquidity supported by significant generation of operating cashflows.

The company's operating performance was impacted during the COVID-19 phase in FY21 (refers to the period from April 01 to March 31). However, with the easing of lockdown and gradual pick-up in economic activities (from infrastructure and manufacturing activities), the company's performance showcased significant improvement in FY22 and FY23 with the momentum continuing in 9MFY24 (refers to the period from April 01 to December 31).

In FY22, AWL had announced the proposed scheme of amalgamation of Ador Fontech Limited (AFL) into/with itself through merger by absorption. As directed by the National Company Law Tribunal (NCLT), the shareholders of both companies have approved the Scheme of Amalgamation by requisite majority. Both companies have thereafter completed the necessary statutory formalities and received NOCs from creditors of transferor company and currently the merger scheme is at the final stage of approval with the Hon'ble NCLT. Final hearing is scheduled for April 23, 2024, when the final go-ahead is expected to be received. The combined entity is expected to benefit from many operational synergies, and accordingly, CARE Ratings Limited (CARE Ratings) has adopted a combined approach to arrive at the ratings.

Flares & Process Equipment division (F&P), which was continuously posting losses till FY22, has reported profit in FY23 with the management focus on profitable projects, taking the blended margins upward. However, in 9MFY24, the division again experienced volatility and has reported losses, due to absorption of high fixed costs.

The ratings though continue to remain constrained due to 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 margins by more than 13.00% on a sustained basis and/or improved profitability from Equipment, Flares & Process Equipment division.
- Maintenance of operating cycle below 75 days with better receivable management, in turn reducing reliance on external borrowings.
- Return on capital employed (ROCE) is being maintained above 25% on a sustained basis.

Negative factors

- Deterioration in performance due to decline in total operating income, segmental losses, resulting in operating margin remaining below 8.00% on a sustained basis and interest coverage ratio below 6.0 times.
- Unprofitable projects in Flares & Process Equipment business impacting blended operating profitability margin.
- Total Debt/ PBILDT (Profit Before Interest, Lease rentals, Depreciation and Taxation) above 1.0x on a sustained basis.

Analytical approach: Combined

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

CARE Ratings has revised the analytical approach from standalone to combined. While arriving at the ratings of AWL, CARE Ratings has taken a combined view of AWL and AFL, due to interlinked business and operational synergies, common brand name "Ador", and common promoter group. There is an impending proposed scheme of amalgamation (merger by absorption - merger of AFL [merging entity] into and with AWL [resulting entity]), and as directed by the NCLT, the shareholders of both the companies approved the Scheme of Amalgamation by requisite majority. Both the companies have thereafter completed the necessary statutory formalities and received NOCs from creditors of transferor company and currently merger scheme is at the final stage of approval with the Hon'ble NCLT. Final hearing is scheduled for April 23, 2024, where the final go-ahead is expected to be received.

Outlook: Stable

AWL benefits from its strong market position and brand recognition. The company is expected to maintain its market share in the organised market. The company's financial risk profile is expected to remain strong aided by healthy liquidity position amid healthy cash flow generation.

Detailed description of the key rating drivers:

Key strengths

Well-established and experienced promoter group

Incorporated in 1951, the company is promoted by J. B. Advani & Company and is a flagship company of the Ador Group. The company has over seven-decades of experience in welding products and service business. The company's day-to-day operations are undertaken by a team of qualified and experienced professionals led by Mr. Aditya T. Malkani (Managing Director), belonging to the promoter family group.

The J. B. Advani Group was established in 1908 as a small trading company and has become the Ador group's promoter and holding company. The J. B. Advani & Company holds 50.01% of shares in AWL as on September 30, 2023. Presently, the Ador Group consists of companies operating in engineering products and services, cosmetic products, and green energy solutions.

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

The company is engaged in manufacturing welding consumables, welding and cutting equipment, gas cutting products, welding automation products and systems (WAPS), personal protective equipment and accessories (safety measures), and has F&P 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 such as design, manufacture, erection and commissioning, mechanical, electrical and instrumentation of process packages, process equipment, flare system, and components.

In FY23, the company manufactured over 13,500 welding equipment (standard and customised) and the estimated annual production of welding consumables (electrodes and wire division) stood at around 47,300 metric tonnes. The consumables division witnessed more than 20% improvement in realisation per tonne, and equipment division recorded an improved capacity utilisation with over 90% of installed capacity. The company has a strong distribution network with 300+ distributors selling the products in various countries.

Comfortable financial risk profile

The financial risk profile continues to remain comfortable with low utilisation of working capital limits and no long-term borrowing leading to a comfortable gearing and interest coverage ratio. The overall gearing stood at 0.05x as on March 31, 2023, compared to 0.01x as on March 31, 2022, mainly due to utilisation of working capital borrowings to the extent of ₹15 crore in FY23. The interest coverage ratio (PBILDT/Interest) remains strong at 24x in FY23. 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 around 22% in fund-based limits and at around 25% in non-fund-based limits.

Improved performance in FY23 and 9MFY24

TOI increased to ₹778.88 crore in FY23 from ₹663.08 crore in FY22. Revenue from consumables segment increased to ₹614.9 crore in FY23 from ₹535.71 crore in FY22. In 9MFY24, the company has reported revenue of ₹637.13 crore. Revenue from equipment business grew by 16.7% to ₹115.35 crore in FY23, and revenue from F&P was at ₹47.79 crore in FY23 compared to ₹28.43 crore in FY22. In 9MFY24, equipment and F&P segment reported sales of ₹152.11 crore.

The company's operating performance was impacted during the COVID-19 phase. However, with the easing of lockdown and gradual pick-up in economic activities (from infrastructure and manufacturing activities), the company's performance showcased significant improvement in FY22 and FY23 with the momentum continuing in 9MFY24, reflecting sustained growth.

In the last 2 years, PBILDT margins have improved from around 5.91% in FY21 to 9.40% in FY22 and 11.69% in FY23. In the first 9M of FY24 as well, the company recorded PBILDT margins of around 11.99%, despite volatility observed in the F&P segment. The consumables division has continued to showcase steady improvement in profitability which has resulted into higher blended PBILDT margins for the company. The company's F&P division which contributes to less than 10% of the topline was continuously posting losses in the past, pulling down the blended margins. However, it turned positive in FY23. Improved margins can be attributed to a more than 20% improvement in realisation per tonne in consumables division.

As on September 30, 2023, the company has an order book of ₹128 crore in F&P segment to be executed over 10-12 months, which includes project for ONGC plant to the extent of ₹114 crore. As on September 30, 2023, unbilled revenue is ₹1.14 crore.

Merger of Ador Fontech Limited with Ador Welding Limited

AWL has announced its merger with AFL. The company has received necessary approvals from various stakeholders. AFL reported TOI of ₹212.02 crore and PAT of ₹23.03 crore in FY23. With the merger, the company's scale of operations will range between ₹1,100 crore and ₹1,200 crore. Moreover, AFL is a debt-free company.

On May 31, 2022, AWL had announced merger/amalgamation with AFL.

- Five equity shares (face value of INR 10/- each fully paid) of AWL shall be issued for every 46 equity shares (face value of INR 2/- each fully paid) held in AFL.
- Pursuant to the scheme, AFL's shareholders would have 21.86% stake in AWL.
- Post-merger, promoter group holding shall be 53.04% and Public holding shall be 46.96%.
- The Appointed Date for the merger would be April 1, 2022, for all financial reporting purposes and the merger process is expected to be completed by Q1FY25.
- The scheme was subject to approval of the respective shareholders and creditors of AWL and AFL, National Stock Exchange (NSE) & Bombay Stock Exchange (BSE), Securities & Exchange Board of India (SEBI), NCLT, Competition Commission of India (CCI) and other regulatory approvals as would be required.
- With respect to the application for proposed Scheme of Amalgamation (Merger by Absorption) of AFL with AWL and their respective shareholders, as directed by NCLT, meeting of the equity shareholders of AWL and AFL, was held on August 10, 2023, and October 30, 2023, respectively, and the Shareholders of both companies approved the Scheme of Amalgamation by requisite majority. AWL thereafter completed the necessary statutory formalities. The final hearing of AWL's petition is scheduled on April 23, 2024, with Hon'ble NCLT, where the final go-ahead is expected to be received.
- Consolidation of both entities will help strengthen the company's market position, 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 are other synergies expected to be benefitted through merger.

Key weaknesses

Susceptibility to volatility in raw material prices and foreign exchange risk

Steel is the key raw material required by the company for its manufacturing activities, and 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 to an extent mitigating the input cost pressure. However, any time lag in passing on the cost escalation would impact the company's operational performance which may affect the operating margins. The company enters 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 total industry size is estimated to be around ₹10,000-12,000 crore with a share of welding consumables (70%), welding equipment (15%), cutting (10%), and automation (5%). Of the above total industry size, organised sector forms 50-55% and unorganised sector forms 45-50% of the market size; and within the organised players, AWL has a strong presence in the consumables space. The welding consumables market accounts for a significant share in the welding industry compared with welding equipment and welding services. Electrodes, wire, 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 welding industry is highly dependent on the consumption of steel in various end-use industries.

Liquidity: Strong

The company's liquidity position remains strong, marked by healthy cash and liquid investments of ₹22.62 crore as on September 30, 2023. During 9MFY24, the company earned gross cash accruals (GCA) of ₹54.5 crore (H1FY24: ₹37.5 crore). The liquidity profile is further supported by undrawn bank facilities with fund-based working capital limits being utilised to the extent of around 22% during the last 12-months ended December 2023. The non-fund-based limits are utilised to the extent of around 25% in the last 12-months ended December 2023. The company has capex plan to the tune of ₹35-40 crore in FY24, which shall be funded through internal cash accruals. Furthermore, the company has no long-term borrowings.

Environment, social, and governance (ESG) risks

On Environmental risks aspect, the potential material risks associated with the welding business include exploitation of natural resources, change in existing regulations/emerging regulations impacting sourcing of materials, emissions, waste generation, storage and use of material or quality of finished goods, issue while handling hazardous/ waste materials, regulations while using plastic products for packaging purposes. To mitigate aforementioned risks, AWL has eliminated the usage of plastic bags for packing the SAW flux and has started 100% usage of re-cyclable paper bags for packaging and has reduced their expenditure approximately by about 15% of their overall energy bill, by reducing the testing time of individual machine.

On Social risks aspect, AWL is covered under CSR provisions stipulated by Companies Act, 2013. All provisions including the constitution of CSR committee, and prescribed minimum amount of CSR expenditure, have been duly complied with, and details covered in CSR Annexure to Director's report as required to be reported.

On Governance risk aspect, AWL has complied with all applicable SEBI guidelines and has all policies in line with best corporate governance practices including appointment of minimum number of independent directors in its board as mandated by guidelines and annexing corporate governance report to directors' report among others.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Aluminium, copper & zinc products

AWL, formerly known as Advani Oerlikon Limited, was incorporated in 1951 by J. B. Advani & Company Private Limited (JBPL) and the Oerlikon-Buhrle Group, Switzerland. In 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 manufacturing welding consumables & equipment and has a F&P 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. The company's F&P business 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. The installed capacity is around 59,000 metric tonnes in welding consumables division and 15,000 units in equipment division.

Brief Financials (₹ crore) (Standalone)	March 31, 2022 (A)	March 31, 2023 (A)	9M FY24 (UA)
Total operating income	663.08	778.88	637.13
PBILDT	62.35	91.06	73.18
PAT	45.01	59.29	44.52
Overall gearing (times)	0.01	0.05	-
Interest coverage (times)	10.75	23.96	27.20

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore) (Combined*)	March 31, 2023 (UA)	9M FY24 (UA)
Total operating income	990.90	791.29
PBILDT	126.75	100.94
PAT	82.32	63.58
Overall gearing (times)	0.04	-
Interest coverage (times)	33.36	-

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'

*combined financials of Ador Fontech Limited and Ador Welding Limited.

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for last three years: Please refer to Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of 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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	95.00	CARE A+; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	15.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	49.00	CARE A1+

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	62.50	CARE A+; Stable	-	1)CARE A+; Stable (06-Feb-23)	1)CARE A+; Stable (29-Mar-22)	1)CARE A+; Stable (30-Dec-20)
2	Non-fund-based - ST-BG/LC	ST	49.00	CARE A1+	-	1)CARE A1+ (06-Feb-23)	1)CARE A1+ (29-Mar-22)	1)CARE A1+ (30-Dec-20)
3	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	15.00	CARE A+; Stable / CARE A1+	-	1)CARE A1+ (06-Feb-23)	1)CARE A1+ (29-Mar-22)	1)CARE A1+ (30-Dec-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	95.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (06-Feb-23)	1)CARE A+; Stable / CARE A1+ (29-Mar-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Ador Fontech Limited	Full	AFL is expected to be merged with AWL from Q1FY25 and same will operate as a combined entity, thus CARE Ratings has taken a combined approach.

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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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