ADOR WELDING LIMITED

March 29, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	62.50 (Reduced from 87.50)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Long-term / Short Term Bank Facilities	40.00	**CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)**	Assigned
Short-term Bank Facilities	64.00 (Reduced from 79.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	166.50 (Rs. One hundred sixty-six crore and fifty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 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 from H2FY21 and continued through 9MFY22, with the company achieving a total income of Rs.465 crore in 9MFY22.

The company has written-off old dues from its Project Engineering Business (PEB, now known as Flares & Process Equipment business) between FY19 and FY21 from its books, with closure of old projects and focus on profitable projects in Flares & Process Equipment, going forward, the profitability margins of the company are expected to improve.

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

Positive factors

- Improvement in the performance led by improvement in the total operating income, 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 and resulting in overall gearing ratio below 0.30x on a sustained basis.
- Focus on the profitable projects in Flares & Process Equipment business (earlier known as Project Engineering Business) improving company's profit before interest, lease rentals, depreciation and taxation (PBILDT) margins.

Negative factors

- Deterioration in the performance due to decline in the total operating income, 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.

Detailed description of the key rating drivers

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 Mr Aditya T. Malkani (currently 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 March 31, 2021. 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 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

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

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 FY21, the company manufactured around 7,500 welding equipment (standard and customised) and the estimated annual production of welding products stood at over 40,000 metric tonnes. The company has a strong distribution network with 300+ distributors selling the products to 70+ 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 0.12x as on March 31, 2021, from 0.34x as on March 31, 2020, with low utilisation of working capital borrowings. The interest coverage ratio (PBILDT/Interest) continues to remain comfortable at 3.50x during FY21 as compared with 5.00x during FY20. 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 reduced to 39% (December 2021) from 66% (November 2020). The company has written off the non-recoverable project business debtors and the balance amount has been received reducing reliance on the working capital borrowings.

Operating performance impacted in FY21 due to demand slowdown, however, the performance improved in 9MFY22

The operating performance was impacted in FY21 due to demand slow down due to the pandemic. The revenue from the consumables segment declined by 13% to Rs.352.33 crore in FY21 from Rs.405.02 crore in FY20 due to the moderate demand from infrastructure and manufacturing sector. In 9MFY22, the company reported an income of Rs.369.69 crore as compared with Rs.230.18 crore in 9MFY21 (a 60% growth) in the consumables segment. The revenue from equipment business was constant, however, the revenue from Flares & Process Equipment business declined to Rs.24.73 crore in FY21 from Rs.48.14 crore in FY20. In 9MFY22, the equipment and Flares & Process Equipment business achieved a combined revenue of Rs.93.31 crore as compared with Rs.55.97 crore in 9MFY22. The company had done a project of Rs.110 crore in Kuwait, and the project was completed in FY17; however, entire money was not received, and the company had to write-off part of the receivables. Over the period FY19-FY21, the company has written-off Rs.48.52 crore against retained earnings for the project. The balance amount has been received. As on February 28, 2022, unbilled revenue was Rs.0.25 crore and outstanding order book of Rs.32.50 crore to be executed over three-six months. The company 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.

Key Rating 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 Rs.4,500-5,000 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 9MFY22, the company earned a gross cash accruals (GCA) of Rs.40 crore and cash and mutual fund investment stood at Rs.26.72 crore as on February 28, 2022. The fund-based working capital limits are utilised to the extent of around 39% during the last 12-months ended December 31, 2021. The non-fund-based limits are utilised to the extent of around 68% during the last 12-months ended December 31, 2021. The company has capex plan to the tune of Rs.20 crore during FY22, which shall be funded through internal cash accruals. Furthermore, the company has no long-term borrowings.

Analytical Approach: Standalone

Applicable Criteria:

Policy on default recognition
Financial Ratios – Non financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities

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-Buhrle Group, Switzerland. During FY03, 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 (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	533.06	451.86	465.66
PBILDT	49.31	28.57	44.70
PAT	25.62	-11.99	31.99
Overall gearing (times)	0.33	0.12	-
Interest coverage (times)	4.91	3.50	15.00

A: Audited; UA: Un-Audited
Note: The financials are adjusted as per CARE Standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	62.50	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	49.00	CARE A1+
Fund-based - ST-Sales invoice financing (Short Term)		-	-	-	15.00	CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	40.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	62.50	CARE A+; Stable	-	1)CARE A+; Stable (30-Dec-20)	1)CARE AA-; Stable (08-Jan-20)	1)CARE AA-; Stable (27-Mar-19) 2)CARE AA; Stable (05-Oct-18) 3)CARE AA; Stable (31-Aug-18) 4)CARE AA; Stable (06-Apr-18)
2	Non-fund-based - ST-BG/LC	ST	49.00	CARE A1+	-	1)CARE A1+ (30-Dec-20)	1)CARE A1+ (08-Jan-20)	1)CARE A1+ (27-Mar-19) 2)CARE A1+ (05-Oct-18) 3)CARE A1+; Stable (31-Aug-18) 4)CARE A1+ (06-Apr-18)
3	Fund-based - ST-Sales invoice financing (Short Term)	ST	15.00	CARE A1+	-	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*	40.00	CARE A+; Stable / CARE A1+				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Sales invoice financing (Short Term)	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender-wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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