Ador Welding Limited

January 08, 2020

Ratings:

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	87.50	CARE AA-; Stable (Double A Minus; Outlook: Stable)	**Reaffirmed**
Short-term Bank Facilities	79.00	CARE A1+ (A One Plus)	**Reaffirmed**
Total	**166.50 (Rupees One Hundred Sixty Six Crore and Fifty Lakhs only)**		

[1]*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 continues to derive comfort from well-established and experienced promoters, well-established brand offering range of welding products and services supported by comprehensive sales and distribution network, established market position in welding industry catering to reputed clientele, improvement in operational performance during FY19 & H1-FY20 and comfortable financial risk profile.

The above rating strengths are, however, tempered by delay in reduction of debt within the stipulated period, susceptibility to volatility in prices of raw materials & foreign exchange risk and prevalent competition in welding industry from domestic and international players.

The ability of the company to sustain the improvement in overall operations and profitability levels amidst deferrals in receipt of unbilled revenue and delays in reduction of debt within the stipulated period are the key rating sensitivities.

Rating sensitivities

Positive factors

- *Improvement and sustainability of operating profitability margin in the range of 12.00% - 15.00%*
- *Overall gearing below 0.30 times on sustained basis*

Negative Factors

- *Delays in receipt of unbilled revenue from the project in Kuwait*
- *Decline in operating profitability margin below 10.00%*
- *Continual losses in Equipment and PEB (project engineering business) segment*

Detailed description of the key rating drivers

Key Rating Strengths

Well-established and experienced promoters

Incorporated in the year 1951, the company is promoted by J. B. Advani & Company which holds 50.01% of shares in Ador Welding Limited as on September 30, 2019. The company has more than six-decades of experience in welding products and services business. The day-to–day operations of the company are undertaken by a team of qualified and experienced professional directed by Mr. Satish M. Bhat (currently Managing Director).

Well-established brand offering range of welding products and services supported by comprehensive sales & 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 & accessories (safety measures) and also has a project engineering business division. It offers wide variety (of over 200 types) of electrodes, fluxes, flux-cored wires and specially customized electrodes. The PEB division provides services like design, manufacture, erection and commissioning, mechanical, electrical and instrumentation of process packages, process equipment, flare system & components, LSTK (lump sum turnkey) projects and EPC (engineering, procurement and construction) contracts. During FY19, the company manufactured around 9,000 welding equipment (standard and customized) and the estimated annual production of welding products stood at over 40,000 metric tonnes. The company has further augmented its distribution network to around 300+ distributors spread across India. Furthermore, the company has a marketing office in Sharjah (United Arab Emirates) and around 24 distributors catering to over 70 countries.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Improvement in operational performance continued during FY19 and H1-FY20

The total operating income of the company has increased from Rs. 446.34 crore during FY17 to Rs. 521.13 crore during FY19, thereby increasing at a CAGR *(compounded annual growth rate)* of 8.05%. Furthermore, the PBILDT has also increased from Rs. 38.82 crore during FY17 to Rs. 53.76 crore during FY19. The improvement in operating performance is attributable to higher sales volumes in consumables division. During H1-FY20, the total operating income stood at Rs. 264.14 crore as compared to Rs. 235.18 crore during H1-FY19. The PBILDT has improved marginally to Rs. 25.85 crore from Rs. 24.62 crore during the same period. The PAT, however, has improved from Rs. 10.87 crore to Rs. 14.55 crore on account of lower tax expenses.

Comfortable financial risk profile

The financial risk profile of the company continues to remain comfortable marked by the level of tangible net-worth owing to consistent profits over the years, low level of overall gearing and comfortable interest & debt coverage indicators. The overall gearing stood at 0.30 times as on March 31, 2019 compared to 0.33 times as on March 31, 2018. The company did not have any long-term borrowings as on March 31, 2019 and has availed bank lines for working capital requirements which are short-term in nature. The Total Debt/Gross Cash Accruals (TD/GCA) ratio stood at 2.28 times as on March 31, 2019 as compared to 2.77 times as on March 31, 2018. The improvement in TD/GCA ratio is on account of higher gross cash accruals (of Rs. 34.20 crore during FY19 as compared to Rs. 29.30 crore during FY18) and comparatively lesser working capital limits outstanding at the end of the year leading to lower debt level.

Key Rating Weaknesses

Delays in reduction of debt within the stipulated period

The company had envisaged to reduce the reliance on working capital borrowings going forward based on the review undertaken by CARE previously in FY19. However, the reliance on working capital borrowings has increased over the period as substantial amount of funds utilised towards the project were still blocked as unbilled revenue (Rs. 78.40 crore as on March 31, 2019 compared to Rs. 112.90 crore as on March 31, 2018). The company envisages billing of the same in coming months.

Susceptibility to volatility in prices of raw materials

Steel is the key raw material required by the company for its manufacturing activities. The company procures it indigenously from various players. The inventory levels of the raw material are budgeted as per the production requirements. The volatility in raw material prices is passed on to the customers 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 undertakes forward cover contracts to hedge its exposure to foreign exchange risks, however, it does not hedge commodity prices.

Prevalent competition in welding industry from domestic and international players

The welding industry comprises of welding equipment, consumables and welding services. 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. 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**

Adequate – Adequate liquidity characterized by sufficient cushion in accruals vis-a-vis its negligible repayment obligations on account of no long-term borrowings. The cash and cash equivalents stood at Rs. 26.73 crore as on March 31, 2019. The bank limits are utilised to the extent of 73% during the last 12-months ended October 2019, supported by current ratio at above unity.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Rating Outlook and Credit Watch

CARE's Policy on Default Recognition

CARE's methodology for Short Term Instruments

Rating Methodology - Manufacturing Companies

Financial Ratios - Non-Financial sector

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

Oerlikon Group and became majority shareholder in the company. The company is engaged in the manufacturing of welding consumables & equipment and also has a project engineering business division. The company offers a complete welding package which includes a wide variety (over 200 types) of electrodes, fluxes, flux-cored wires and specially customized electrodes. Project engineering division of the company is currently engaged in providing customized solutions for multi-disciplinary 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)	FY18 (A)	FY19 (A)
Total operating income	471.21	521.13
PBILDT	44.07	53.76
PAT	18.56	23.85
Overall gearing (times)	0.33	0.30
Interest coverage (times)	7.11	5.09

A: Audited

The financials have been reclassified 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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	87.50	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	64.00	CARE A1+
Fund-based - ST-Sales invoice financing (Short Term)	-	-	-	15.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	87.50	CARE AA-; Stable	-	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)	-	1)CARE AA; Stable (26-Dec-16)
2.	Non-fund-based - ST-BG/LC	ST	64.00	CARE A1+	-	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)	-	1)CARE A1+ (26-Dec-16)
3.	Fund-based - ST-Sales invoice financing (Short Term)	ST	15.00	CARE A1+	-	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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