

## Ador Welding Limited

March 27, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	87.50	<b>CARE AA-; Stable</b> <b>(Double A Minus; Outlook: Stable)</b>	<b>Revised from CARE AA; Stable</b> <b>(Double A; Outlook: Stable)</b>
Short-term bank facilities	79.00	<b>CARE A1+</b> <b>(A One Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>166.50</b> <b>(Rs. One hundred sixty six crore and fifty lakhs only)</b>		

### Detailed Rationale

The revision in long-term rating of bank facilities of Ador Welding Limited (AWL) is on account of delay in reduction on dependence level on working capital borrowings within the stipulated time period, as envisaged by CARE.

The ratings continue to derive strength from well established & experienced promoter group, diversified product portfolio supported by comprehensive sales and distribution network, established market position in the welding industry catering to reputed client base, favourable financial risk profile and debt coverage indicators.

The rating strengths, however, continue to be offset by volatility associated with raw material prices and prevalent competition in welding industry.

Ability of the company to efficiently manage its working capital requirements and any large debt funded capital expenditure/acquisition impacting overall financial risk profile of the company would be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Well established and experienced promoter group**

AWL promoted by J B Advani & Co. has over six decades of experience in welding consumables business. J B Advani Group was established in the year 1908 as a small trading company and had set up AWL in the year 1951. Currently, the group consists of companies having operations in engineering products and services, cosmetic products and green energy solutions. The day-to-day operations of the company are overlooked by a team of qualified and experienced professional headed by Mr.S.M.Bhat.

##### **Well established brand offering diversified product portfolio supported by comprehensive sales & distribution network**

AWL is engaged in the manufacturing of welding consumables & equipment and also has a project engineering division. It offers a wide variety (over 200 types) of electrodes, fluxes, flux-cored wires and specially customized electrodes. The company has further augmented its distribution network to ~300 distributors, spread across India. Further, the company has a marketing office in Sharjah through which it caters to countries in the Gulf region.

##### **Established market position in welding industry catering to reputed client base**

AWL caters to various industries including oil & gas, steel, ship-building, defense, power, automobile, chemicals & fertilizers, general fabrication and engineering industries. The company has also diversified into project engineering whereby it provides customized solutions for multi-disciplinary projects and contracts to various industries such as petrochemicals, oil & gas, fertilizers, pharmaceuticals, metals, etc.

##### **Favourable financial risk profile and debt protection metrics**

The company's overall financial risk profile and debt protection metrics continues to be favourable. In FY18 the company reported moderation in its Project Engineering Business (PEB) segment performance. Due to delay in realisations from international order, the company continues to report loss at PBIT levels in 9MFY19.

Total Debt of the company increased significantly to Rs. 81.20 crore as on March 31, 2018 from Rs. 35.47 crore as on March 31, 2017 on account of working capital requirement towards execution orders in the PEB segment. As a result the interest and finance expenses increased to Rs. 6.20 crore in FY18 from Rs. 2.06 crore in FY17. Interest coverage ratio of the company moderated to 7.11 times in FY18 from 18.84 times in FY17. Total debt to GCA of the company increased to 2.77 times as on March 31, 2018 from 1.20 times as on March 31, 2017.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### Key Rating Weaknesses

#### ***Delay in reduction of debt at consolidated level within stipulated time period***

CARE at time of last review envisaged that as on December 31, 2018, AWL was to reduce its dependence level on working capital borrowings. However, due to delay in realisation of receivables from an international order, the company continued to exhibit dependence on working bank borrowings. As a result, the company relinquished its debt free profile and reported higher level of fund based bank limit utilisations.

#### ***Exposure of operational performance to volatility associated with raw material prices***

AWL major raw material component is steel. The company procures it domestically. The inventory levels of the raw material are budgeted as per production requirement. Any increase in raw material is pass-on to end users. However, any time lag in pass-on of cost escalation would impact the operational performance of the company.

#### ***Prevalent competition in welding industry from domestic and international players***

The welding industry comprises welding equipment, consumables and welding services. Demand for welding consumables is likely to rise during the forecast period due to increasing investments in the oil & gas industry. The Indian welding industry comprises various large, medium, and small-scale companies. Some international players in the Indian welding consumables industry include ESAB, Lincoln Electric and Voestalpine A G (Bohler Welding Group India Pvt Ltd.) and domestic players include AWL, D&H Sécheron, Honavar Electrodes, and D & H Welding Electrodes Ltd. Along with these players, the Indian welding consumables industry comprises a large number of small, unorganized players. The key market players have developed their own distribution networks, as distribution is a critical success factor in this industry. Entry of Chinese manufacturers, with their low cost and sophisticated technology, has also resulted in increasing competitive pressures.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[CARE's criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

### About the Company

AWL (formerly known as Advani Oerlikon Limited), 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 in AWL and became majority shareholder in the company. The company is engaged in the manufacturing of welding consumables & equipments and also has a project engineering division. AWL 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 AWL 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)	FY17 (A)	FY18 (A)
Total operating income	446.34	471.23
PBILDT	38.82	44.07
PAT	18.12	18.56
Overall gearing (times)	0.15	0.33
Interest coverage (times)	18.84	7.11

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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**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	-	-	-	79.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	87.50	CARE AA-; Stable	1)CARE AA; Stable (05-Oct-18) 2)CARE AA; Stable (31-Aug-18) 3)CARE AA; Stable (06-Apr-18)	-	1)CARE AA; Stable (26-Dec-16)	1)CARE AA (10-Aug-15)
2.	Non-fund-based - ST-BG/LC	ST	79.00	CARE A1+	1)CARE A1+ (05-Oct-18) 2)CARE A1+; Stable (31-Aug-18) 3)CARE A1+ (06-Apr-18)	-	1)CARE A1+ (26-Dec-16)	1)CARE A1+ (10-Aug-15)

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