Ador Welding Limited

December 30, 2020

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Ador Welding Limited (AWL) takes into account low growth in scale of operations and continuing losses incurred in the Project Engineering Business (PEB) division, thereby impacting the blended operating profit margins of the company. The ratings are further tempered by susceptibility to volatility in raw material prices and foreign exchange risk and prevalent competition in the welding industry from domestic and international players.

The ratings continue to positively factor in the established and experienced promoter group, well-established brand offering, diversified product portfolio supported by comprehensive sales and distribution network, comfortable financial risk profile and reduction in outstanding working capital limits as on September 30, 2020 as compared to March 31, 2020.

With the outbreak of Covid-19 pandemic, the government announced imposition of lockdown in order to contain the spread of the pandemic. The performance of the company has impacted during H1-FY21, especially during Q1-FY21 on account of lockdown in late March 2020 and thus the overall performance is likely to be impacted during FY21. Gradual improvement in the welding consumables segment has been witnessed from Q2-FY21.

Furthermore, the company made partial provisions against total unbilled revenue of Rs. 56.00 crore (As on March 31, 2020) from a project executed by the company in the past. The provision against unbilled revenue has been accounted for the period – FY19, FY20 and H1-FY21 and thus, the financial statements for the aforementioned period has been restated accordingly.

Rating Sensitivities

Positive factors

- *Improvement in performance led by improvement in total operating income, operating profitability margin above 12.00% and interest coverage ratio above 6.00 times on a sustained basis*
- *Overall gearing ratio below 0.30 times on a sustained basis*

Negative factors

- *Deterioration in performance due to decline in operating income, operating profitability margin continues to remain below 8.00% and interest coverage ratio below 6.00 times*
- *Delay in receipt of unbilled revenue beyond March 31, 2021 resulting in higher dependence on working capital limits*
- *Continual losses in Equipment and PEB division impacting blended operating profit margin*

Detailed description of key rating drivers:

Key Rating Strengths

Established and experienced promoter group

Incorporated in the year 1951, the company is promoted by J. B. Advani & Company and is a flagship company of Ador Group. The company has around seven-decades of experience in 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 promoter family.

The J. B. Advani Group was established in the year 1908 as a small trading company and has become promoter and holding company of Ador Group. The J. B. Advani & Company holds 50.01% shares in AWL as on September 30, 2020. Presently, 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 & 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

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

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 FY20, 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.

Comfortable financial risk profile

The financial risk profile of the company continues to remain comfortable marked by the level of net-worth, low gearing ratio (with no long-term borrowings) and comfortable interest coverage ratio.

The net-worth of the company stood at Rs. 248.03 crore as on March 31, 2020 (restated) as compared to Rs. 244.98 crore (restated). The overall gearing *(including acceptances on LCs)* stood at 0.37 times as on March 31, 2020 compared to 0.32 times as on March 31, 2019. The company does not have any long-term borrowings as on September 30, 2020. The company avails bank lines for its working capital requirements. The company does not envisage raising external debt in near future and intends to utilise internal accruals as and when required towards the capex. The interest coverage ratio (PBILDT/Interest) stood comfortable at 5.00 times during FY20 as compared to 5.09 times during FY19 with similar level of profitability level and interest expense during the period. Furthermore, the company did not avail any moratorium during March 2020 to August 2020 as permitted by Reserve Bank of India due to Covid-19 pandemic. The financial risk profile is envisaged to remain comfortable going forward on the back of comfortable overall gearing ratio with no long-term borrowing and interest coverage ratio.

Reduction in outstanding working capital limits as on September 30, 2020 as compared to March 31, 2020

The company’s dependence on working capital limits continued to remain higher till March 31, 2020, as substantial amount of funds remained blocked as unbilled revenue. However, the working capital limits outstanding as on September 30, 2020 stood at Rs. 47.77 crore from Rs. 81.91 crore as on March 31, 2020, on account of positive cash flows resulting in repayment of working capital borrowings.

Key Rating Weaknesses

Moderate performance during FY20, while H1-FY21 performance impacted substantially on account of Covid-19 pandemic and partially due to provisions made related to unbilled revenue

The total operating income of the company stood at Rs. 533.08 crore during FY20 as compared to Rs. 521.13 crore during FY19, while the PBILDT stood at Rs. 50.20 crore during FY20 marginally declining from Rs 53.76 crore during FY19. The PBILDT margin has stood in the range of 9.0% to 10.30% during the last three-years till FY20. The PEB division of the company continues to incur losses and thus impacting the blended operating profit margin. The interest expense has increased substantially in recent years on account of higher utilisation of working capital lines since substantial funds were blocked in unbilled revenue.

The unbilled revenue against the project executed by the company was envisaged to be received by December 2020 earlier. However, the company has made provisions of around Rs. 30.00 crore against the unbilled revenue of Rs. 56.00 crore from that project outstanding as on March 31, 2020. The provision against unbilled revenue has been accounted for the period – FY19, FY20 and H1-FY21 and thus, the financial statements for the aforementioned period has been restated accordingly.

During H1-FY21, the total operating income stood at Rs. 153.81 crore as compared to Rs. 263.51 crore during H1-FY20, while PBILDT stood at Rs. 0.24 crore during H1-FY21 as compared to Rs. 23.90 crore during H1-FY20. The overall operations of the company were affected especially during Q1-FY21 due to imposition of lockdown in India during late March 2020. The announcement of imposition of lockdown in order to contain the spread of Covid-19 pandemic led to a severe impact on economic activities across the country. The government allowed resumption of various activities from last week of April 2020 onwards in a phased manner. The company operated at lower capacities during the initial phase on account of lower demand, lesser manpower availability and logistical challenges around the country. The company has been ramping up its operations in a timely manner with the revival of demand in the domestic market. The company though is witnessing improvement in demand in the welding consumable business from Q2-FY21 onwards. Going ahead, the company plans not to undertake loss making PEB projects, so that there is improvement in cash flows and the profitability margins.

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 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. 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 a majority of 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 Analysis
Adequate – The liquidity is marked by sufficient cushion in accruals vis-à-vis its negligible repayment obligations (lease obligations) and no long-term borrowings. The cash and cash equivalents stood at Rs. 8.57 crore as on September 30, 2020. The fund-based working capital limits remain utilized to the extent of 66% during last 12-months ended November 2020, supported by above unity current ratio. The Non-Fund-based working capital limits are utilized to the extent of 59% during last 12-months ended November 2020. The company has capex plans to the tune of Rs. 17.38 crore during FY21 which shall be funded through internal cash accruals. Furthermore, the company did not avail any moratorium from March 2020 to August 2020 as permitted by Reserve Bank of India due to Covid-19 pandemic.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'Rating Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Liquidity Analysis of Non-Financial Sector Entities]
[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 a flagship company of the Ador Group. It is engaged in the manufacturing of welding consumables & equipment and also has a project engineering division. 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 customized electrodes. Project engineering division of the company is 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)	FY19 (A)	FY20 (A)
Total operating income	521.13	533.08
PBILDT	53.76	50.20
PAT	23.85	26.89
Overall gearing (times)	0.32	0.37
Interest coverage (times)	5.09	5.00

A: Audited
The financials have been reclassified as per CARE standards.
Note – The restated brief financials for the period ended March 31, 2019 and March 31, 2020 disclosed by the company have been considered by CARE. However, the company is yet to provide comprehensively restated financial statements for the year ended on March 31, 2019 and March 31, 2020.

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 A+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	87.50	CARE A+; Stable	-	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	64.00	CARE A1+	-	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+ (08-Jan-20)	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the 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

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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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