

D&H Secheron Electrodes Private Limited

April 05, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long term Fund-based Limits	15.00	15.00	[ICRA]BBB-; reaffirmed, Outlook revised to Negative from Stable
Short term Non-fund Based Limits	5.00	5.00	[ICRA]A3; reaffirmed
Total	20.00	20.00	

**Instrument details are provided in Annexure-1*

Rationale:

The revision in outlook takes into account the decline in operating margins in FY 2018 which has led to reduction in cash accruals and deterioration in debt coverage indicators.. ICRA also notes that the utilization of working capital limits of the company has remained high in the last one year.

The rating reaffirmation takes into account the long track record of DSEPL in its core business of manufacturing welding consumables and the strong brand image of its products, which resulted in its well-established position in the industry. The ratings also continue to factor in DSEPL's extensive sales distribution network, strong customer base and diversified product portfolio. Further, the ratings continue to factor in the company's comfortable capital structure, backed by its healthy net worth.

These strengths, however, continue to be partially offset by the company's moderate scale of operations in an intensely competitive industry. This apart, DSEPL's profitability continues to be vulnerable to volatility in input prices. Further, ICRA takes into consideration the working capital intensive nature of operations because of higher inventory holdings. Moreover, significant advances to Group companies is also credit weakness. This apart the company continues to have sizeable investments in low return-yielding equity investments and real-estate property.

Going forward, DSEPL's ability to grow its scale of operations, improve its margins and retain its market share in the face of increased competition will remain the key rating sensitivities. Further, any increase in the investments towards equity or real estate would also remain a key sensitivity.

Outlook: Stable

ICRA believes that DSEPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Stable if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The rating might be downgraded if the revenue and profits are lower than expected or there is any increase in the low return-yielding investments or loans advanced towards Group companies.

Key rating drivers:

Credit strengths

Promoters with more than three decades of experience in welding consumables industry - The promoters and their families have been involved in the business of welding consumables for more than three decades and have gained a

thorough knowledge of the market. Such a long presence in the industry has helped the company to establish strong relationship with suppliers and customers.

Well-diversified product portfolio - DSEPL has a robust product profile with more than 200 product variants largely approved by internationally-accepted inspection agencies. The product profile of the entity, which caters to a number of end-user industries, gives it an advantage of dealing with a large variety of products.

Diversified customer profile comprising reputed companies - Given the strong market positioning of the entity, its customer profile is well diversified and comprises reputed companies like Larsen & Toubro Ltd., Bharat Heavy Electricals Ltd. etc.

Comfortable capital structure with low gearing levels - The company has a lightly leveraged capital structure with gearing of 0.83 times in FY2018.

Credit challenges

Slowdown in industry and lack of new projects continued to affect operating income - The operating income of the entity has remained stagnant in the last two years ranging between 200-202 crore. This has been on account of slowdown in the industry and lack of new projects.

Weak return on capital indicators - The return indicators of the company have consistently remained weak with ROCE at 8.07% in FY2018 because of modest profitability of core operations and significant investment in low return-yielding equity shares and real-estate property.

Operations in a highly fragmented industry; stiff competition from organised and unorganised players - The industry is highly fragmented due to the presence of a large number of players and limited value addition. This in turn has led to intense completion and limited the pricing power of the players, affecting margins.

Exposure to fluctuations in the raw material prices - Given the highly volatile nature of steel-based products, DSEPL's operating profitability remains susceptible to volatility in input prices.

Liquidity position

Liquidity profile of the company remains modest represented by current ratio of 1.14x as on March 31, 2018. The free cash and bank balance as on March 31, 2018 stood at Rs. 0.63 crores and further the working capital utilization has remained high during the last 12 months period ended February 2019.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation /Standalone	The rating is based on the standalone financial profile of the company

About the company:

DSEPL was incorporated in 1966 as a joint venture between the Switzerland-based Secheron Group and Mr. Dalamal and Mr. Hiranandani. The business was taken over by Mr. Ashok Maheshwari in 1986 after the expiry of the technical collaboration. The promoters and their family members control the entire shareholding. DSEPL manufactures welding consumables such as manual metal arc welding (MMAW) electrodes, submerged arc welding (SAW) wires and flux, flux cored arc welding wires and CO₂ welding wires at its manufacturing facility in Indore, Madhya Pradesh.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	178.22	201.45
PAT (Rs. crore)	2.55	0.76
OPBDIT/OI (%)	3.98%	3.04%
RoCE (%)	11.63%	8.07%
Total Debt/TNW (times)	0.67	0.83
Total Debt/OPBDIT (times)	5.25	7.56
Interest Coverage (times)	1.89	1.55

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 January 2016
1 Cash Credit	Long Term	15.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2 Letter of Credit	Long Term	5.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	15.00	[ICRA]BBB-(Negative)
NA	Letter of Credit	NA	NA	NA	5.00	[ICRA]A3

Source: DSEPL

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About ICRA Limited:

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