

May 28, 2024

## D&H Secheron Electrodes Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Cash credit	17.00	20.00	[ICRA]BB+ (Stable); reaffirmed; assigned for enhanced amount
Short term- Non-fund based - Others	7.00	10.00	[ICRA] A4+; reaffirmed; assigned for enhanced amount
<b>Total</b>	<b>24.00</b>	<b>30.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings continue to factor in the track record of DSEPL in its core business of manufacturing welding consumables and the wide acceptability of its products. The company has an extensive sales distribution network of nearly 450-500 dealers across India and a diversified product mix catering to various industries. Further, the ratings derive comfort from the company's well-diversified and reputed clientele.

The ratings favourably consider DSEPL's improved order inflow in the previous fiscal as well as expectations of the trend continuing in the current financial year, resulting in healthy revenue growth and visibility for the company. ICRA notes that the company is expanding its production capacity to support the increased order execution, driven by healthy order inflow in the near to medium term, thus resulting in a higher scale of operations and robust cash accruals for the business.

The ratings, however, remain constrained by the company's substantial investment in non-core business activities. A sizeable capital is deployed in non-core business activities like investments in real estate and Group entities, generating modest returns, which continue to adversely affect DSEPL's liquidity and return metrics. While this amount has moderated and is expected to decline further, it continues to be high. DSEPL's profitability also remains exposed to the adverse fluctuation in raw material prices and intense competition from organised and unorganised players in the industry.

The Stable outlook on the rating reflects ICRA's opinion that DSEPL's revenues and accruals will be supported by the healthy order inflow and improved execution.

### Key rating drivers and their description

#### Credit strengths

**Well-diversified product portfolio, supported by comprehensive sales and distribution network** – DSEPL has a robust product profile with more than 300 electrode variants. Most of its products are approved by internationally accepted inspection agencies. The company has an established network of nearly 450-500 dealers across India. As a variety of welding consumables are used in different industries, DSEPL benefits from a wide product portfolio and a comprehensive distributor network.

**Diversified customer profile with reputed client base** – DSEPL has a well-diversified and reputed customer base. The top five customers contribute to 10–15% of its annual sales. The extensive presence of the promoters in the industry has helped the company establish strong relationships with suppliers and customers.

**Healthy order inflow and moderate scale of operations-** The company received orders worth Rs 407.5 crore in FY2023, improving from the stagnant order inflow of around Rs. 200 crore in the previous years. Further, the company received orders of Rs. 340 crore till December 2023. The increased distributor network base improved the order inflow during the year, while

the enhanced production capacity resulted in a better execution of orders. Thus, the company reported a healthy revenue of Rs. 433 crore for FY2024, a YoY growth of 15%. The company is further enhancing its production capacity, which along with the improved order inflow, would help ramp up the company's scale of operations and generate robust cash accruals for the business.

## Credit challenges

**Substantial funds blocked in low-yielding investments** – DSEPL has substantial funds diverted towards non-core business activities like investments in real estate and in its various Group companies that constrain its liquidity position, evident from the high utilisation of working capital limits. The company has invested ~Rs. 40 crore in residential properties which are generating modest lease rentals of Rs. 0.9 crore per annum. In addition, the company has investments worth ~Rs. 21.91 crore in its various Group entities, which are not yielding any returns. Such large capital blockage in assets, which are not generating any meaningful returns, continues to affect its RoCE, besides keeping the debt levels elevated and the liquidity position stretched.

**Vulnerability of profitability to price fluctuation risks** – Mild steel (MS)/stainless steel (SS) wires, nickel wires, ferro alloys and minerals are the primary raw materials for producing welding consumables. DSEPL, with its diversified product portfolio, is required to maintain a high level of inventory for continuous operations. The increased volatility in the prices of ferro alloys and steel exposes DSEPL to raw material price risks.

**Intense competition in fragmented industry** – The welding consumables industry is highly fragmented due to the presence of a large number of organised and unorganised players. The stiff competition in the industry limits the pricing flexibility of the industry participants, including DSEPL, thus affecting the operating margins.

## Liquidity position: Stretched

DSEPL has a stretched liquidity profile owing to the moderate profitability and limited cushion available in working capital limits along with the sizeable debt repayments. The company also has sizeable illiquid investments. ICRA notes that the company has diverted substantial funds towards non-core business activities like investments in real estate, which has increased the company's reliance on debt. The company is also undertaking capex to enhance its production capacity, partially funded through debt.

## Rating sensitivities

**Positive factors** – ICRA could upgrade DSEPL's ratings if a sustained improvement in revenues and profitability as well as liquidity leads to an improvement in the debt coverage indicators.

**Negative factors** – Pressure on the ratings could emerge if a substantial decline in the revenues and operating margins results in subdued cash accruals. Any significant debt-funded capital expenditure further deteriorating its credit profile, or any significant outflow towards real estate, or inability to improve its liquidity position could lead to a negative revision of the ratings. A specific metric for a negative rating action includes interest coverage below 2 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

## About the company

DSEPL was incorporated in 1966 as a joint venture (JV) 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 technical collaboration ended. At present, the promoter and his 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 multiple manufacturing units in Indore, Madhya Pradesh.

### Key financial indicators (provisional)

D&H Secheron Electrodes Private Limited	FY2023	FY2024 (Prov)
Operating income (Rs. crore)	375.37	433.06
PAT (Rs. crore)	1.22	6.11
OPBDIT/OI (%)	3.14	4.20
PAT/OI (%)	0.1	0.3
Total outside liabilities/Tangible net worth (times)	1.67	1.72
Total debt/OPBDIT (times)	3.22	2.63
Interest coverage (times)	2.95	3.33

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating on	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	
					May 28, 2024	April 13, 2023	Feb 25, 2022	Nov 18, 2020	
1	Fund based – Cash credit	Long Term	20.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	
3	Non-fund based - Others	Short Term	10.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash credit	Simple
Non-fund based - Others	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure-I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund based- Cash credit	-	-	-	20.00	[ICRA]BB+ (Stable)
NA	Short term - Non-fund based - Others	-	-	-	10.00	[ICRA] A4+

Source: D&H Secheron Electrodes Private Limited

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**Annexure-II: List of entities considered for consolidated analysis: Not Applicable**

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