

Press Release

WELDFAST ELECTRODES PRIVATE LIMITED

December 08, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 5.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (**read as SMERA BBB**) on the Rs. 5.00 crore bank facilities of WELDFAST ELECTRODES PRIVATE LIMITED. The outlook is '**Stable**'.

Welfast Electrodes Private Limited (WEPL) is engaged in the manufacturing of welding consumables such as welding electrodes and MIG (metal inert gas) wire, TIG (Tungsten inert gas) wires, SAW (Submerged arc welding) wires at Nagpur. The products are used for metal joining, repairs and fabrication and sold under the Welfast, Weldalloy and Migfast brand names. The installed capacity stands at 15600 MT per annum. The company, a partnership firm, was converted to a private limited company in 2015. The operations are headed by Mr Sudhir Soman, Director.

Key Rating Drivers

Strengths

- **Reputed suppliers**

The company procures raw material such as alloy steel, rutile sand, plastic spools etc from Steel Authority of India, Jindal Steel & Power Ltd, Advance Metal Powder among others. The company enjoys long term relations of almost 25 years with the aforementioned companies.

- **Established track record of operations, experienced management**

The company was incorporated in 1985 by Mr. Sudhir Soman, Mr. Shantanu Soman, Mrs. Manjushree Soman and Mr. Shanunak Soman as a partnership firm and converted to a private limited company in 2015. The promoters possess experience of more than three decades in the industry. SMERA believes that WEPL will benefit from its established position in the electrical equipment industry.

- **Healthy financial risk profile**

The financial risk profile is healthy marked by net worth of Rs.24.33 crore as on 31 March, 2017 as against Rs.22.08 crore as on 31 March, 2016. The gearing (debt-equity) stood at 0.02 times as on 31 March, 2017 as against 0.02 times as on 31 March, 2016. The total debt of Rs.0.41 crore as on 31 March, 2017 consists of short term working capital limit of Rs.0.41 crore. The interest coverage ratio stood at 3.43 times for FY2016-17 as against 3.51 times for FY2015-16. The DSCR stood at 2.93 times for FY2016-17 compared to 3.02 times for FY2015-16. The Net Cash Accruals to Total debt stood at 6.97 times for FY2016-17. The total outside liabilities to Tangible networth stood at 0.20 times for FY2016-17. The EBIDTA margin stood at 9.62 per cent for FY2016-17 as against 9.36 per cent for FY2015-16. Further, SMERA believes that the financial risk profile will remain healthy in the absence of debt funded capex backed by moderate net cash accruals.

- **Comfortable working capital**

The company has comfortable working capital marked by gross current asset of 96 for FY2016-17 as against 86 days in FY2015-16. The debtor and inventory days stood comfortable at 44 and 42 respectively for FY2016-17 as against 42 and 29 days in FY2015-2016 respectively. Further, the bank limit utilisation stood at an average ~1.01 per cent for the last six months ended October 31, 2017.

Weaknesses

- **Moderate scale of operations**

The operating revenue for FY2016-17 stood at Rs 54.42 crore as against Rs 47.27 crore for FY2015-16.

- **Susceptibility of profit margins to fluctuations in raw material prices**

The profitability margins are susceptible to fluctuations in raw material prices.

- **Highly fragmented and competitive industry**

The company is exposed to intense competition in the industry from several small and large players affecting margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Weldfast Electrodes Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that WEPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

In FY2016-17, the company reported profit after tax (PAT) of Rs.1.47 crore on operating income of Rs.51.42 crore as against net profit of Rs.1.65 crore on operating income of Rs.47.27 crore in the previous year. The tangible net worth stood at Rs. 24.33 crore as on 31 March, 2017 as against Rs. 22.08 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Amogh Kharkar Analyst - Rating Operations Tel: 022-67141315 Amogh.Kharkar@smera.in	

ABOUT SMERA

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