

Press Release

R. D. Weld products Private Limited

April 26, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.10.75 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 10.75 Cr bank facilities of R D Weld Products Private limited (RDWPPL). The outlook is '**Stable**'.

Incorporated in 1997, R.D Weld Products Private Limited (RDWPPL) is engaged in trading of welding consumables, welding equipment, welding & cutting accessories. The company is promoted by Mr. Manoj Balwani and family. The company trades about 70 per cent of Hyundai Welding Co. Ltd. products and has exclusive dealership of these products.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RDWPPL to arrive at the rating.

Key Rating Drivers

Strengths

• Extensive experience of promoters in in the welding consumables industry

The company has a long track record of over past two decades in the trading business. The key promoter of the company, Mr. Manoj Balwani, has been associated with similar line of business since past two decades. The extensive experience of the promoter supported by experience has enabled the firm to forge healthy relationships with customers for repeated business. The established vintage supported the company in expanding the supplier base over the years to cover the industry majors like Hyundai Welding Co.Ltd, D & H Sechron Electrodes Pvt.Ltd, Royal Arc Electrodes Ltd, Shenzhen Jasic Develop Co.Ltd, Changzhou Aozhong Special Welding Wire Co. Ltd among others. Acuité believes that RDWPPL's longstanding presence and relationship with reputed clients are expected to support in improving the business risk profile over the medium term.

• Above-average financial risk profile

The Company's financial risk profile is above average marked by modest net worth, high total outside liabilities to tangible net worth (TOL/TNW) and moderate debt protection metrics. Its net worth is modest at about Rs.8.08 Cr as on March 31, 2020 as against Rs.7.43 Cr as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) is high at 2.86 times as on March 31, 2020 as against 3.02 times as on March 31, 2019. The debt protection metrics are moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 1.43 times and 0.18 times respectively for FY2020 as against vis-à-vis 1.50 times and 0.10 times for FY2019. Acuité believes that with modest cash accruals and absence of any significant debt-funded capital expenditure plans, the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

• Working capital intensive nature of operations

RDWPPL's operations are working capital intensive as reflected in high Gross Current Assets (GCA) of around 210 days as on March 31, 2020 as against 187 days as on March 31, 2019. The high GCA is owing to high receivable days of about 95 days in FY2020 and 85 days in 2019. Inventory days high stood at 121 in FY2020 and 108 days in 2019. The company extends credit of 159 days in FY2020 as against 124 days in FY2019. The bank lines are utilised at 71 percent over six months through March 2021. Acuité believes that with the nature of the product and business operations, the operations continue to be working capital intensive over the medium term.

• Modest scale of operations with stagnant revenue growth and Intense competition in fragmented industry

The operations are modest as witnessed in its muted revenue growth over the last three-year period ended with FY2020 with operating income between Rs.38-42 Cr. In FY2021, the company operations have been impacted by the Covid-19 pandemic induced disruptions resulting in revenue decline of 10-15 percent. The operating margins have been improving though from 8.48 percent in FY2018 to 9.11 percent in FY2020. The welding consumables industry is highly fragmented due to the presence of a large number of organised and unorganised players. Acuité believes that RDWPPL's scale will improve over the medium term post FY2021 with improving demand with operating margins remaining stable.

Rating Sensitivity

- Increase in scale of operations along with profitability margins
- Improvement in capital structure.

Liquidity Position: Stretched

RDWPPL's liquidity is stretched, marked by tightly matching net cash accruals against its debt obligations and working capital intensive operations. RDWPPL generated cash accruals of Rs.1.07 Cr in FY2020 against debt obligations of Rs.0.11 Cr for the same period. The cash accrual of the company is estimated in the range of around Rs.1.00 -1.50 Cr during FY2021-23 against repayment obligations of Rs.0.70 Cr to Rs.1.50 Cr for the same period. The average fund based working capital utilization stood moderate at 71 percent for the past 6 months ended March 2021. Cash and bank balance stood at Rs 0.33 Cr and current ratio at 1.47 times as on March 31, 2020. Acuité believes that liquidity will remain stretched over the medium term.

Outlook: Stable

Acuité believes that the outlook on RDWPPL will remain 'Stable' over the medium term on account of its experienced management and reputed clientele. The outlook may be revised to 'Positive' if the company achieves better than expected growth in its revenues while maintaining its profitability margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	42.01	42.27
PAT	Rs. Cr.	0.65	0.53
PAT Margin	(%)	1.56	1.26
Total Debt/Tangible Net Worth	Times	0.75	1.16
PBDIT/Interest	Times	1.43	1.50

Status of non-cooperation with previous CRA

Not Applicable

Material Covenants

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Oct-2019	Cash Credit	Long Term	9.70	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	1.05	ACUITE BB / Stable (Reaffirmed)
24-July-2018	Cash Credit	Long Term	9.70	ACUITE BB / Stable (Reaffirmed)
	Term Loan	Long Term	1.05	ACUITE BB / Stable (Reaffirmed)
08-May-2018	Cash Credit	Long Term	9.70	ACUITE BB Issuer not co-operating*
	Term Loan	Long Term	1.05	ACUITE BB Issuer not co-operating*

*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	9.70	ACUITE BB / Stable (Reaffirmed)
Term Loan	03-04-2019	Not Available	15-12-2022	1.05	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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