



## Press Release

### Diffusion Engineers Limited October 17, 2023 Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	42.50	ACUITE A-   Stable   Reaffirmed	-
Bank Loan Ratings	23.00	-	ACUITE A2+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	65.50	-	-

## Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating at '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.65.50 crore bank facilities of Diffusion Engineers Limited. (DEL). The outlook is '**Stable.**'

### Rationale for Rating Re-affirmation

The rating reaffirmation considers DEL's stable operating performance and financial risk profile. The operating income improved by ~25 percent and stood at Rs 245.39 Cr for FY 2023 compared to Rs.197.08 Cr in FY2022. The rating is further supported by a healthy financial risk profile marked by low gearing of 0.35 times as on 31st March 2023 which recorded a marginal decline from 0.20 times in FY 2022, healthy net-worth, and comfortable debt-protection metrics. The reaffirmation of ratings also derive comfort from extensive experience of promoters spanning over three decades in the industry, long track record of operations, reputed as well as diversified customer base across various industries.

The above strengths are constrained by moderately intensive working capital nature of operations. GCA Days of the company remained at a high at 197 days in FY 2023 compared to 180 days in FY2022.

Going ahead, Acuite believes that DEL's ability to sustain the improvement in its scale of operations, profitability along with the effective management of its working capital cycle and financial risk profile would be key rating monitorable.

### About the Company

Established in 1982, DEL is engaged in welding maintenance and repair solution services for industries like cement, power and steel, among others. The Nagpur-based company manufactures welding consumables like electrodes, flux cored wire, etc. and also offers solutions for reconditioning/repair. The company was promoted by Mr. N. K. Garg. However, after his demise in 2020, Mr. Prashant Garg was appointed as a managing director.

### Standalone (Unsupported) Rating

None

### Analytical Approach

Acuite has considered the standalone financial and business risk profiles of DEL to arrive at the rating.

**Key Rating Drivers**

**Strengths**

### **Long track record of operations supported by experienced management.**

DEL has been in the business of welding consumables since past more than 3 decades. Besides manufacturing welding consumables like electrodes, flux cored wires, etc., the company also offers solutions for reconditioning/repair of critical equipment used in manufacturing plants of cement, power, and steel, among others. Mr. N. K. Garg, promoter of the company, was a managing director of the company. However, after his demise in 2020, Mr. Prashant Garg was appointed as a managing director. Mr. N. K. Garg was having around 4 decades of industry experience, which has enabled DEL not only to maintain good relationship with customers and suppliers, but also to diversify the product/service offerings. In addition to welding consumables, DEL also manufactures wear plates and some heavy machineries like plasma cutting machines, etc. The current managing director, Mr. Prashant, has around 14 years of experience and has shown his strong capability by developing a state-of-the-art production facility for DEL to manufacture sophisticated cement, power and steel plant equipment.

Acuite believes that DEL's established track record and experienced management would continue to support its growth going ahead.

### **Stable operating performance**

The company achieved revenue of Rs. 245.39 Cr in FY 2023 compared to Rs.197.08 Cr in FY2022. In 6MFY2024, DEL has recorded revenue of around Rs.130 Cr and expects to close the year with revenue in the range of 290- 300 Cr. The order book position as of September 2023 stands at Rs. 73.28 Cr. (The order book is executable in next 3-4 months). EBITDA margin continued to moderate on account of inflation in raw material prices which comprises steel, nickel, tungsten, ferro manganese etc. However, DEL expects improvement in operating margins in the current financial year on account of moderating trend in raw material prices. PAT margin declined to 6.85% in FY2023 from 8.00% in FY2022 on account of high interest cost. Acuite believes, that DEL's ability to sustain the growth in scale of operations and improve margins over the medium term will remain a key rating monitorable.

### **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by strong net worth, comfortable gearing, and strong coverage indicators. Total tangible net worth of the company stood at Rs. 136.41 Cr as on 31st March 2023 as against Rs. 120.78 Cr in the previous year. The improvement in net-worth is on account of accretion of profits to reserves. Debt to Equity ratio stood comfortable though moderated to 0.35 times in FY 2023 as against 0.20 times in FY 2022. Total debt of Rs. 47.60 Cr consists of Rs.2.96 Cr of long-term debt, and Rs. 44.64 Cr of working capital borrowings. The interest coverage ratio declined to 12.69 times in FY2023 from 19.17 on account of higher interest cost. DSCR improved to 5.10 times in FY2023 from 4.73 times in FY2022. NCA/TD stood at 0.42 times in FY2023 against 0.81 times in FY2022. DEL is going to undertake capex for facility expansion in their heavy engineering division. Around Rs.30-35 Cr would be incurred and financed by internal accruals . Promoters are expected to infuse funds in case of any shortfalls. Acuite believes DEL's financial risk profile will continue to remain healthy over the medium term in absence of any debt-funded capex plan during the period.

### **Weaknesses**

#### **Moderately intensive working capital operations**

The company's operations are working capital moderately intensive marked by GCA days of 197 in FY 2023 compared to 180 days in FY2022. Inventory holding period stood at 79 days in FY 2023 against 87 days in FY 2022. Since the company is into manufacturing of heavy engineering products which have high lead time, the team expects inventory holding period to remain in the similar range. The debtor realization period stood at 118 days in FY 2023 compared to 97 days in FY 2022. The average credit period allowed by the company is up-to 90 days. Creditor days stood at 58 days in FY2023 against 84 days in FY2022. The company has credit terms of around 60-90 days with different suppliers while some customers like Jindal and Tata Steels do not give credit period and in this scenario the payment is either LC backed, or the company pays these suppliers on advance. Average bank Limit Utilization for last 6 months ending June 2023 stood at around 41.63%

Acuite believes that the group's working capital will remain moderate intensive over the medium term.

**Susceptibility to fluctuation in raw material prices**

DEL's profitability is susceptible to fluctuations in prices of key raw material, i.e., steel (~65-70 per cent of total raw material cost). DEL's inability to pass on sudden rise in steel prices to its consumers could impact the company's overall operating performance.

**Rating Sensitivities**

Improvement in scale of operations and profitability.  
Restricting any significant elongations in working capital cycle.

**All Covenants**

Not Applicable

**Liquidity Position****Strong**

Company's liquidity is strong marked by its net cash accruals vs its maturing debt obligations. The company has generated cash accrual of Rs. 20.19 Cr in FY 2023 against CPLTD of Rs. 2.18 Cr in the same period. Going forward the company is expected to generate net cash accruals of Rs. 24.21 Cr against CPLTD of Rs. 1.29 Cr in FY2024. The cash and bank position for FY 2023 stood at Rs. 0.87 Cr while current ratio for the period stood at 1.64 times. DEL has investments in mutual funds which stood at Rs.11.84 Cr in FY2023 and Rs.14.55 Cr in FY2022. Average bank Limit Utilization for last 6 months ending June 2023 stood at around 41.63%. Acuite believes that DEL's liquidity will remain strong over the medium term.

**Outlook: Stable**

Acuité believes that DEL would maintain 'Stable' outlook on the back of established presence in the welding consumables segment, experienced management and improving scale of business. The outlook may be revised to 'Positive' in case the company reports higher than expected growth in revenue and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected revenue and inability to sustain operating margin, thereby hurting operating performance and resulting in deterioration in financial risk profile or significant elongation of working capital cycle.

**Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	245.39	197.08
PAT	Rs. Cr.	16.81	15.76
PAT Margin	(%)	6.85	8.00
Total Debt/Tangible Net Worth	Times	0.35	0.20
PBDIT/Interest	Times	12.69	19.17

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Jul 2022	Cash Credit	Long Term	0.50	ACUITE A-   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.04	ACUITE A-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.50	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A-   Stable (Reaffirmed)
	Term Loan	Long Term	4.91	ACUITE A-   Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	3.05	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A-   Stable (Reaffirmed)
	Cash Credit	Long Term	14.50	ACUITE A-   Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
10 May 2021	Proposed Bank Facility	Long Term	14.54	ACUITE A-   Stable (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A2+ (Assigned)
	Term Loan	Long Term	4.91	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE A-   Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	3.05	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A2+   Reaffirmed
DBS Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2+   Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A2+   Reaffirmed
DBS Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A-   Stable   Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A-   Stable   Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A-   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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