



Press Release
DIFFUSION ENGINEERS LIMITED
January 14, 2025
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	47.50	ACUITE A Stable Upgraded	-
Bank Loan Ratings	18.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	65.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**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 Upgrade

The rating upgrade considers DEL's improved operating performance and financial risk profile. DEL's operating income and profitability margins witnessed improvement in FY2024. The financial risk profile is healthy marked by healthy net worth, gearing, and strong debt protection metrics. The rating upgrade further derives comfort from extensive experience of promoters spanning over four decades in the industry and DEL's long track record of operations. Furthermore, in the month of October 2024, DEL got listed through an IPO, raising Rs157.96 Cr. The IPO proceeds will further strengthen its overall financial risk profile and help augment its operating performance and liquidity position. However, the rating is constrained by intensive working capital nature of operations and susceptibility of profitability to fluctuations in raw material prices.

Going ahead, the ability of DEL to sustain the improvement in its scale of operations, profitability and financial risk profile while avoiding any further elongations in the working capital operations will remain a key 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.

About the Group

The group is engaged in the business of providing engineering solutions to customers both in domestic and international market. The group provides a wide range of products and services including manufacture of special welding consumables, wear plates and heavy engineering equipment for core industries and provide special and customized repairs and reconditioning services of heavy machinery and equipment. The group is also involved in trading of anti-wear powders and welding and cutting machinery. They also provide super conditioning process at their manufacturing facilities, a surface treatment solution for machine components that greatly improves wear

resistance, eliminates stress and increases their repair ability leading to extended life of industrial parts resulting in smoother functioning and economy in production costs. The group has 5 subsidiaries and 2 Jv's which are considered in the consolidation. The five subsidiaries are - Diffusion Super Conditioning Services Private Limited, Diffusion Hernon Adhesive and Sealant Private Limited, Nowelco Industries Private Limited, Diffusion Engineers Singapore Pte Ltd and Diffusion Wear Solutions Philippines Inc. and the two JV's are LSN Diffusion Limited and Mecdiff Sdn Bhd.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite had earlier considered standalone financial and business risk profile of DEL to arrive at the rating. Now, Acuite has considered consolidated financial and business risk profile of DEL to arrive at the rating as all the subsidiaries and JV's deals in the same/related line of business. The group has 5 subsidiaries and 2 Jv's which are considered in the consolidation. The five subsidiaries are - Diffusion Super Conditioning Services Private Limited, Diffusion Hernon Adhesive and Sealant Private Limited, Nowelco Industries Private Limited, Diffusion Engineers Singapore Pte Ltd and Diffusion Wear Solutions Philippines Inc. and the two JV's are LSN Diffusion Limited and Mecdiff Sdn Bhd.

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 four 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. The long-standing industry experience of the promoters, 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.

Healthy financial risk profile

DEL's financial risk profile is healthy marked by healthy net worth, gearing, and strong debt protection metrics. Its net worth stood at Rs.190.59 Cr. as on 31 March 2024 as against Rs.141.91 Cr. as on 31 March 2023. The net worth has improved on account of accretion of profits to reserves and issue of 2,42,83,792 shares at the face value of Rs.10.00 worth of Rs.24.28 Cr. during FY2024. Furthermore, in the month of September 2024, DEL had issued (Initial Public Offer) IPO. The size of the IPO was Rs.157.96 Cr. The issue was of 94.05 lakh shares. The company will be utilizing the proceeds from the IPO towards CAPEX (Rs.101.77 Cr.), working capital requirements (Rs.22.00 Cr.) and remaining amount in General Corporate Purpose. The aim of the capex is to expand their presence in the domestic markets. The gearing level stood healthy at 0.18 times as on 31 March 2024 as against 0.34 times as on 31 March 2023. The total debt stood at Rs.34.44 Cr. as on March 31, 2024, comprising of short-term borrowings. Interest Coverage Ratio (ICR) stood healthy at 26.99 times for FY2024 against 15.16 times for FY2023. Debt Service Coverage Ratio (DSCR) also stood healthy at 12.18 times for FY2024 against 6.32 times for FY2023. The Debt/EBITDA levels improved to 0.73 times as of March 31, 2024, as against 1.38 times as of March 31, 2023.

Acuite believes that DEL's financial risk profile is likely to strengthen in the near term on account of increase in the net worth from the IPO proceeds and absence of any debt funded capex plan.

Improving Operating Performance

DEL's revenue improved to Rs.279.78 Cr. in FY2024 against Rs.256.19 Cr. in FY2023. The marginal improvement in the revenue is primarily on account of increased sales volume during the year. Further, the revenue of DEL for H1FY2025 stood at Rs.145.73 Cr. The operating profit margin improved to 14.58 per cent in FY2024 compared against 11.94 per cent in FY2023 primarily on account of decline in the raw material prices. The PAT margin of DEL also improved to 11.01 percent in FY2024 compared to 8.64 percent in FY2023.

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.

Weaknesses

Intensive working capital operations

DEL's operations are working capital intensive marked by GCA days of 190 days in FY2024 as against 196 days in FY2023. The inventory days stood at 81 days in FY2024 when compared against 84 days in FY2023. Since DEL is into manufacturing of heavy engineering products which have high lead time, the inventory holding period is expected to remain in the similar range. The debtor days stood at 100 days in FY2024 as compared against 108 days in FY2023. The creditor days stood at 72 days in FY2024 as against 58 days in FY2023. The average utilization of the bank limits of the company stood moderate. For fund-based limits it stood at ~61.39% and for non-fund-based limits stood at ~55.49% for the last 06 months ending November 2024.

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

Susceptibility to fluctuations 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 while maintaining profitability.
- Restricting any significant elongations in working capital cycle.

Liquidity Position

Strong

DEL has a strong liquidity position marked by the moderate reliance working capital limits and healthy accruals. The bank limit utilization at ~61.39% for fund-based limits and ~55.49% for non-fund based limits over the last 06 months ending November 2024. DEL generated healthy net cash accruals of Rs.35.35 Cr. in FY2024 against nominal debt obligation of Rs.1.29 Cr. during the same period. DEL maintains unencumbered cash and bank balances of Rs.5.74 Cr. as on March 31, 2024. The current ratio stood at 1.95 times as on March 31, 2024. Going ahead, DEL's liquidity position is further expected to improve in the near future on account of likely healthy accruals against no maturing debt obligations during the same period.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	279.78	256.19
PAT	Rs. Cr.	30.80	22.15
PAT Margin	(%)	11.01	8.64
Total Debt/Tangible Net Worth	Times	0.18	0.34
PBDIT/Interest	Times	26.99	15.16

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Oct 2023	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.50	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A2+ (Reaffirmed)
29 Jul 2022	Term Loan	Long Term	3.05	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	4.91	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.04	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	14.50	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	0.50	ACUITE A- Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	2.50	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	10.00	Simple	ACUITE A1 Upgraded (from ACUITE A2+)
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.00	Simple	ACUITE A1 Upgraded (from ACUITE A2+)
DBS Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.00	Simple	ACUITE A Stable Upgraded (from ACUITE A-)
ICICI Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	7.00	Simple	ACUITE A Stable Upgraded (from ACUITE A-)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE A Stable Upgraded (from ACUITE A-)
Yes Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE A Stable Upgraded (from ACUITE A-)
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE A1 Upgraded (from ACUITE A2+)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.50	Simple	ACUITE A Stable Upgraded (from ACUITE A-)

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company name
1	Diffusion Super Conditioning Services Private Limited
2	Diffusion Hernon Adhesive and Sealant Private Limited
3	Nowelco Industries Private Limited
4	Diffusion Engineers Singapore Pte Ltd
5	Diffusion Wear Solutions Philippines Inc.
6	LSN Diffusion Limited
7	Mecdiff Sdn Bhd.
8	Diffusion Engineers Limited

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About Acuité Ratings & Research

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