D & H India Limited

March 8, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.56 (Reduced from 23.36)	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	3.50	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of D & H India Limited (DHIL) is constrained by moderate scale of operation; albeit improvement in FY23 and 9MFY24 and moderate and fluctuating profitability margins due to volatile raw material prices. Rating is further constrained by working capital-intensive nature of operations and presence in competitive and fragmented industry.
The above constraints are partially offset by strength derived from significant experience of the management along with long track record of the company, reputed customer profile, well-diversified product portfolio supported by comprehensive sales and distribution network and comfortable capital structure and moderate debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations above Rs. 150 crores
- Improvement in operating cycle below 90 days on sustainable basis
- Improvement in PBILDT margins above 9% on a sustained basis

Negative factors

- Decrease in PBILDT margins below 2% on a sustainable basis
- Increase in overall gearing above unity owing to debt funded capex or increase in working capital utilization levels

Analytical approach: Standalone

Outlook: Stable

The continuation of "Stable" outlook reflects CARE Ratings belief that DHIL will sustain its growth in scale of operations and profitability margins along with comfortable credit risk profile.

Detailed description of the key rating drivers:
Key weaknesses

Moderate scale of operation; albeit improvement witnessed in FY23 and 9MFY24

DHIL's total operating income increased by 52.72% on Y-o-Y basis from Rs. 90.75 crore in FY22 to Rs.138.60 crore in FY23 due to improved realization which grew from Rs. 93.50 per MT in FY22 to Rs. 102.85 per MT in FY23 coupled with improvement in volumes. Furthermore, DHIL has booked sales of Rs.111.70 crore during 9MFY24 on the back of improved volumes (vis-à-vis Rs.99.23 crore during 9MFY23).
Despite the long track record of operation, the scale of operation of DHIL have remains moderate which limits its financial flexibility to meet any exigency. Although, going forward the scale is expected to improve on the back of continues increase in demand of products and installed capacity enhancement.

Moderate and fluctuating profitability margins due to volatile raw material prices

The PBILDT margin remained at 6.76% in FY23 (vis-a-vis 5.32% in FY22), improved owing to economies of scale achieved. The pre-covid levels have not been reached due to high volatility in steel prices. The raw material price per MT increased from Rs. 67.78 crore in FY22 to Rs.108.69 crore in FY23. Also, the margins vary on the end user industry application as there are various grades of products with difference in pricing as raw material used for the same also varies.
The PAT margin has also improved in lines with operating margins from 2.66% in FY22 to 3.01% in FY23, despite increase in depreciation and interest cost during the year.
Furthermore, DHIL has booked PBILDT margin of 6.32% and PAT margin of 2.22% during 9MFY24 vis-à-vis PBILDT margin of 7.01% and PAT margin of 3.27% during 9MFY23. The margins have declined marginally in current year FY24 owing to initial hiccups faced by the company in setting up the increased install capacity.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Going forward, in FY24 the margins are expected to stay stable and improve in FY25 owing to higher realizations expected from saw flux product, as the company to benefit from its recently completed saw flux capacity addition.

Working capital-intensive nature of operations

DHIL's operations remain working capital intensive mainly on account of funds being blocked in inventory. With a diversified product portfolio, the company is required to maintain a high level of inventory for continuous operations. Inventory days improved during the year and remained at 77 days in FY23 vis-à-vis 103 days in FY22 owing to faster turnaround of finished goods during the current year.

DHIL offers around 60 days of credit period owing to low bargaining power against reputed customers and similar credit is received from suppliers due to established relations with them. DHIL's operating cycle improved from 108 days in FY22 to 81 days in FY23 on account of improvement in inventory and collection period. The creditor period remained at 46 days in FY23 vis-à-vis 36 days in FY22.The collection period improved from 56 days in FY22 to 50 days in FY23.

Presence in competitive and fragmented industry

The welding consumables industry is highly fragmented due to the presence of a large number of organised and unorganised players. The industry is characterised by minimal entry barriers, leading to an intense competition from both regional small-scale and some established players. The stiff competition in the industry limits the pricing flexibility of the industry participants, including DHIL, thus affecting the
profitability margins.

Key strengths

Well-established track record and extensive experience of the promoters in the industry

DHIL has been engaged in manufacturing of welding consumables for more than three decades which has enabled to develop established relations with reputed customers and suppliers and entail repeat orders from them. The promoter, Mr. Harsh Kumar Vora has a vast experience of more than three decades of experience in the business. He is supported by his son, Mr. Saurabh Vora and a qualified team of professionals with significant experience in their respective fields.

Diversified customer profile with reputed clientele

DHIL has a well-diversified and reputed customer base. With over three decades of operations in the industry, the promoters have developed long-standing & established relationship with its reputed clientele in various sectors across India, enabling DHIL to receive repetitive orders. DHIL offers a wide range of welding consumables for diverse applications in industries like Steel, Shipbuilding, Petrochemical, Construction, Transport, Energy and many more. DHIL receives orders from both private and government organizations through a tender bidding process. The top ten customers contributed 34.66% of its net sales in FY23 vis-à-vis 41.74% in FY22.

Well-diversified product portfolio supported by comprehensive sales and distribution network

DHIL offers comprehensive and advance range of products for all major industrial sectors. DHIL has a robust product profile with more than 800 electrode variants. Most of its products are approved from reputed engineering consultants and are certified by leading national / international inspection agencies such as Lloyd's Register of Shipping (LRS), American Bureau of Shipping (ABS), Bureau Veritas (BV), Det Norske Veritas (DNV), Bharat Heavy Electricals Ltd. (BHEL), DGQA (Defence Establishment) and many more.

DHIL has an established dealership network of nearly 150 dealers across India. As a variety of welding consumables are used in different industries, DHIL benefits from a wide product portfolio and a comprehensive distributor network.

Comfortable capital structure and moderate debt coverage indicators

The capital structure of DHIL remained comfortable with an overall gearing of 0.58 times as on March 31, 2023 vis-à-vis 0.66 times as on March 31, 2023. The same has improved owing to higher accretion of profits to reserves and infusion of equity by promoters during the year. Due to improvement in cash accruals, the debt coverage indicators improved significantly with total debt/GCA at 3.39x as on March 31, 2023 (PY:5.31) and interest coverage ratio at 4.52x in FY23(PY: 3.42x).

Liquidity: Adequate

The liquidity position is stretched as marked by the gross cash accruals of Rs. 6.39 crores vis-à-vis repayment obligations Rs. 1.92 crores and free cash balance of Rs. 0.16 crore as on March 31, 2023. The average utilization of working capital limits remained at 80% for the last 12 months ended January 2024.Further, the current ratio and quick ratio stood at 1.56 times and 0.82 times respectively as on March 31, 2023 vis-à-vis 1.68 times and 0.75 times respectively as on March 31, 2022. Cash flow from operations was at Rs.5.41 crore in FY23. (vis-à-vis Rs. 1.10 crore in FY22).

Assumptions/Covenants – Not Applicable

Environment, social, and governance (ESG) risks – Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

D & H India Limited (DHIL) was incorporated as a private limited company on March 30, 1985, and was converted into a public limited company on August 24, 1993 by late Mr. H. H. Melwani. The promoter, Mr. Harsh Kumar Vora has a vast experience of more than three decades of experience in the business. DHIL's shares are listed on the Bombay Stock Exchange since 1994. DHIL is engaged in the manufacturing of a wide range of welding consumables namely electrodes, manual metal arc electrodes, submerged arc welding flux & wires, CO2 welding wires, flux cored wires and a range of special purpose welding consumables & stainless-steel wires. These have applications in industries like infrastructure, thermal power plants, steel, shipbuilding, metal, cement and many more. DHIL has three manufacturing plants located at Indore, Ghatabillod and Chhattisgarh. DHIL has received ISO 9001-2008 certification for quality standards for all its manufacturing plants.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	90.75	138.60	111.70
PBILDT	4.83	9.37	7.06
PAT	2.42	4.18	2.49
Overall gearing (times)	0.66	0.58	NA
Interest coverage (times)	3.42	4.52	3.19

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	13.50	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	April, 2030	8.06	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	8.06	CARE BB+; Stable	-	1)CARE BB+; Stable (20-Jan-23)	-	-
2	Fund-based - LT-Cash Credit	LT	13.50	CARE BB+; Stable	-	1)CARE BB+; Stable (20-Jan-23)	-	-
3	Non-fund-based - ST-BG/LC	ST	3.50	CARE A4+	-	1)CARE A4+ (20-Jan-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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