

ESAB India Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Remarks
Issuer Rating	-	CARE AA-(Is); Stable (Double A minus (Issuer Rating); Outlook:Stable)	Reaffirmed

#The issuer rating is subject to overall gearing not exceeding 0.15 times as on March 31, 2020

Detailed Rationale & Key Rating Drivers

The issuer rating assigned to ESAB India Limited (ESAB India) continues to factor in its established market position as one of the leading players in the domestic welding industry with track record of three decades & pan-India presence, strong financial risk profile characterized by relatively stable cash accruals, zero debt & comfortable liquidity position and synergy benefits derived from being part of ESAB group which has wide presence across the globe. The rating is however constrained by volatile input prices impacting the profitability, highly competitive nature of industry and cyclicity associated with the industry.

The ability of the company to maintain its market position and any significant debt funded acquisition/capex are key rating sensitivities.

Detailed description of the key rating drivers

Key Rating strengths

Established market position of ESAB India with three decades of track record

ESAB India is promoted by ESAB group which has global presence in welding business since 1904. ESAB India started its operations in 1987 by acquiring the welding business of Peico Electronics & Electricals Limited (now Philips India Limited). Over the years, ESAB India has also acquired welding business from two more companies. The company's main operations can be broadly divided into consumables (electrode, welding wire & flux) and welding equipment produced. ESAB India has production facility for Electrode consumables at Ambattur (Chennai), copper and stainless steel coated wire consumables at Nagpur and Welding Equipment production facility at Irungattukottai (Chennai). The company's distribution network is divided into 5 regions (viz. North, South, East, West and Central) with around 200 distributors across the country. **Sales through distributors accounts for around 80% with rest coming from direct sales to institutional clients.** ESAB India directly exports welding consumables and welding and cutting equipment to Nepal, Bhutan, Bangladesh, Sri Lanka, Kenya and Uganda. The company also exports products to Middle East, Asia Pacific, Europe and the USA through its group companies in Sweden, Singapore and Dubai. The company caters mainly to the needs of Indian market with export contributing to 4.67% of the total turnover of the company in FY18 (refers to the period April 01 to March 31) (PY: 4.79%). The consumables (electrode, welding wire & flux) and equipment produced and sold by ESAB India are an integral part of industries like Shipbuilding, Petrochemical, Construction, Transport, Offshore, Energy and Repair and Maintenance.

Synergy benefits derived from being part of ESAB group having wide presence across the globe

ESAB India is a part of ESAB Group which was established in the year 1904 engaged in production of welding consumables and equipment. The group's reach extends sales and support through their subsidiaries established in 80 countries having more than 8,700 employees and 26 manufacturing facilities across 4 continents. The group is having R&D centres in Europe, North America and India. ESAB India Limited is held by ESAB Holdings Limited, UK and Exelvia Group India BV which are 100% subsidiaries of Colfax Corporation (Colfax), an American industrial corporation headquartered in Annapolis Junction, Maryland. Colfax is a diversified global manufacturing and engineering company that provides gas and fluid handling and fabrication technology products and services to customers around the world under the Howden and ESAB brands.

Apart from the welding business, ESAB India provides its support service activities out of India in the areas of R&D and shared services for other subsidiaries of Colfax around the world.

Strong Financial risk profile characterized by comfortable capital structure and relatively stable cash accruals

By virtue of being leading player in the domestic market, ESAB India has been able to manage volatility and its impact arising from its major raw material (steel). Though PBILDT margin has been impacted by volatile steel prices, it stood in the range of 11-13.5% in the past fiscals as ESAB India has been able to pass on increase in raw material prices to its customers. With relatively stable profitability and in absence of borrowings, ESAB India has been generating relatively stable cash accruals. The tangible networth increased to Rs.375.5 crore as on March 31, 2018 from Rs.340.7 crore as on March 31, 2017. The total operating income was Rs.555.9 crore in FY17 as compared to Rs.483.4 crore in FY17 driven by volume growth in Electrodes, Cored Wires, Gas Equipment and Automation businesses. Overall Equipment business improved during FY18 and 9MFY19 and share of the same stood at around 32% of revenue as against 26% during FY16 and FY17. The company reported PAT of Rs. 37.2 crore during FY18 as compared to Rs.26.0 crore during FY17. The

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

company reported total income of Rs. 505.6 crore and PAT of Rs. 41.23 crore during 9MFY19 as against total income of Rs. 398.1 crore and PAT of Rs. 27.9 crore during 9MFY18 (refers to the period April 01 to December 31).

Liquidity profile

As on March 31, 2018, ESAB's liquidity profile remains strong with cash balance of Rs.46.9 crore, liquid investments of Rs.124.5 crore and nil debt. However during Q3FY19, the company declared dividend payout resulting in cash outflow of Rs. 167 crore (including dividend distribution tax) due to which the company's liquid assets reduced to around Rs.60 crore (excluding cash margin of Rs.11 crore provided as bank guarantee lien) as on 31st December 2018. Nevertheless, the company's liquidity position remained comfortable as there are no committed loan repayments and major capital expenditure.

Key Rating weaknesses

Risk associated with volatile raw material prices

The company's key raw materials are Mild Steel, MS Wire Rods, Non Ferrous Metals, Minerals, Chemicals and Piece Parts. Mild Steel and MS Wire Rods constitute around 50% of the total cost of Raw Materials consumed during FY18, followed by Piece Parts which constituted around 20%. The company procured most of its total raw materials from domestic sources during FY18. The Price of the raw material in India has witnessed increasing trend during FY18. The average domestic flat steel prices (HR coils and CR coils) and long steel products (bars/rods) increased by 18-33% during 9MFY19 as compared to 9MFY18.

Cyclicality associated with the industry

Both Equipment and consumables are sold to the industries such as cement, sugar, steel, fabrication, mining and power for both capex and maintenance related work on regular basis and the R&M is linked majorly to the infrastructure sector including power and railways for new and maintenance of existence projects. The welding industry's performance is majorly linked to the core industries as well as infrastructure sector whose performances are cyclical in nature. Though, the short term outlook looks sluggish due delay in pick up in in the economy, however, given the projected growth in manufacturing gross domestic product and Government's initiatives for developing the infrastructure sector to improve economic growth, the medium to long term prospects of the company is expected to be favourable.

Intense competition from both domestic and global players

The welding industry comprises welding equipment, consumables and welding services. The welding consumables market accounts for a significant share in the welding industry compared to welding equipment and welding services. Electrodes and filler metals are the key consumables used in various welding processes. Welding finds wide application in various industries such as automobiles, building & construction, pipelines, and oil & gas. The Indian welding industry comprises various large, medium, and small-scale companies both from domestic and global players and large number of small and unorganized players. The highly competitive environment in the welding industry of Indian market limits the scope for expansion of the company however the establishment of own distribution network remains critical success factor in this industry which was already developed by key market players. However with the entry of more players into this segment, with their low cost and technology, would result in increasing competitive pressures going forward.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

ESAB India started its operations in 1987 by acquiring the welding business of Peico Electronics & Electricals Limited (now Philips India Limited). The Company continued its expansion in the Indian market with the purchase of Indian Oxygen Limited's welding business in 1991 and Flotech Welding & Cutting Systems Limited in 1992, followed by the merger of Maharashtra Weldaids Limited in 1994. ESAB India is part of the ESAB Group (holding 73.72% stake). The ultimate holding company of ESAB is Colfax Corporation USA listed in New York Stock Exchange.

ESAB India is one of the leading suppliers of welding and cutting products in the country. With a comprehensive sales and distribution network of ~200 distributors spread across India, ESAB India is one of the major players in the organized sector in the welding/ electrode manufacturing segment. Around 80% of the total sales of the company generated through distributors and the balance through directly to the end users.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	483.4	555.9
PBILD	52.9	65.5
PAT	26.0	37.2
Overall gearing (times)	0.0	0.0
Interest coverage (times)	146.9	327.5

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA- (Is); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA- (Is); Stable	1)CARE AA- (Is); Stable (17-Apr-18)	-	-	-

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