

Margins to stabilise...

About the stock: Ador Welding (AWL) is a leading player in the welding consumables (~19% market share), welding equipment, automation and projects business. Welding consumables contributed ~81% of revenue in FY22.

- AWL is expected to continue strong RoCE, positive free cash flow trajectory in consumables in coming years despite a challenging environment
- Aims to reduce legacy costs in projects business to improve return ratios

Q3FY23 Results: AWL reported strong Q3FY23 results.

- Revenues came in at ₹ 198.5 crore, up 13.9% YoY, 7.4% QoQ
- EBITDA came in at ₹ 24 crore, up 46.4% YoY, with 12.1% margins, expanding 269 bps YoY
- Consequently, adjusted PAT was at ₹ 16.6 crore, up 58.9% YoY

What should investors do? Going forward, better consumables volumes, rebound in equipment sales and projects business turnaround to drive growth, profitability.

- Considering strong growth outlook, margin revival, we maintain **BUY** rating

Target Price and Valuation: We value AWL at ₹ 1055 i.e. 20x P/E on average of FY24E & FY25E EPS.

Key triggers for future price performance:

- AWL aims to focus on core welding business, reduce legacy costs while streamlining projects business to regain growth and improve profitability
- Domestic welding & automation business to focus on improving margins and realisations with cost rationalisation, enhance advanced product portfolio, improving strike ratio of order wins and optimised product mix
- Overall, we expect revenue, EBITDA CAGR of 17.8% and 22.7%, respectively, in FY23-25E with margins rebounding to 10.2% levels

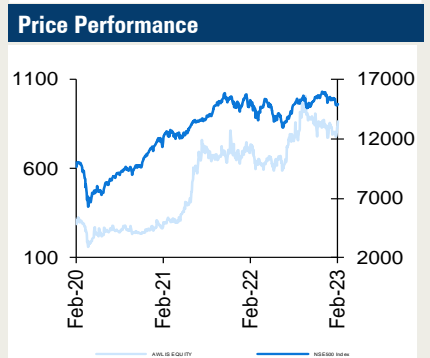
Alternate Stock Idea: Besides AWL, we also like AIA Engineering in our coverage.

- AIA to gain incremental volume growth in coming years despite likely base volume impact due to anti-dumping in Canada, South Africa
- BUY with a target price of ₹ 3135



Particulars	
Particular	Amount
Market Capitalization	₹1156 Crore
Total Debt (FY22)	₹1 Crore
Cash and Inv (FY22)	₹3 Crore
EV (FY22)	₹1153 Crore
52 week H/L (₹)	1038 / 586
Equity capital	₹13.6 Crore
Face value (₹)	10.0

Shareholding pattern (%)				
(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoti	56.9	56.9	56.9	56.9
FII	0.2	0.2	0.3	0.2
DII	6.7	6.7	4.8	4.4
Others	36.2	36.2	38.0	38.4



Recent event & Key risks

- **Key Risk:** (i) Headwinds in overall infrastructure and project execution (ii) Volatile raw material costs, further headwinds in projects business

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Key Financial Summary

(₹Crore)	FY21	FY22	FY23E	5-Year CAGR (FY18-23E)	FY24E	FY25E	2-year CAGR FY23E-FY25E
Revenue (₹crore)	447.7	661.5	751.3	10.4%	919.5	1,041.9	17.8%
EBITDA (₹crore)	20.1	58.4	70.6	15.7%	93.8	106.3	22.7%
EBITDA margin (%)	4.5	8.8	9.4		10.2	10.2	
Net Profit (₹crore)	(10.4)	45.2	46.5	20.4%	67.0	76.4	28.1%
EPS (₹)	(7.6)	33.2	34.2		49.3	56.1	
P/E (x)	(111.4)	25.6	24.8		17.2	15.1	
Price / Book (x)	4.9	4.4	3.9		3.4	2.9	
EV/EBITDA (x)	58.7	19.8	16.3		12.3	10.8	
RoCE (%)	6.1	19.9	21.6		26.7	26.3	
RoE (%)	3.1	13.6	15.8		19.6	19.2	

Key takeaways of recent quarter & key triggers

Q3FY23 Results: Decent performance

- Ador Welding (AWL) reported consolidated revenues at ₹ 198.5 crore, up 13.9% YoY and 7.4% QoQ led by better performance in all segments consumable, equipment and flares & process business
- For Q3FY23, consumables segment revenue came in at ₹ 158.1 crore (which contributed ~79.6% to total revenue), up 13.3% YoY and 6.8% QoQ. Equipment & automation segment grew by 14.6% to ₹ 28.2 crore YoY and de-grew marginally by 0.8% QoQ. Flares & process equipment business revenue came in at ₹ 12.4 crore and grew 18.8% YoY and strongly grew 46.6% QoQ. EBIT margin for consumable business expanded 230 bps YoY to 15.2% and 410 bps QoQ, Equipment & automation EBIT margin came in at 8.6% (vs. 4.1% in Q3FY22) and (6% in Q2FY23) while flares & process equipment business margin came in at 13.1% vs. 4.5% last year at the same time and -0.5% in Q2FY23
- EBITDA came in at ₹ 24 crore, up 46.4% YoY, 58.6% QoQ. EBITDA margin was at 12.1%, expanding 269 bps YoY and 391 bps QoQ. While gross margins for Q3FY23 were at 33.4% vs. 30.3% in Q3FY22, 29.5% in Q2FY23
- Adjusted PAT was at ₹ 16.6 crore, up 58.9% YoY and 66.6% QoQ

Q3FY23 Earnings Conference Call highlights

- General demand remains robust for the quarter. Also, the government's capital expenditure outlay will be at ₹ 10 lakh crore for FY24. This will be fairly positive for the company as well. Lot of traction coming from sectors like general infra/heavy engineering, railways, oil & gas, steel and cement etc. Those will remain a key driver for the company
- **Consumables** segment is the key driver for AWL. The company has seen a volume growth of ~11-12% for the quarter. The same will be targeted for the next year. In Q3FY23, EBITDA margins in consumables segment were strong. This will be sustainable, going forward, as per the management. The company has overcome the inventory issue that it was facing
- **Equipment:** In the equipment segment the demand is quite strong. Increasing automation and equipment sales are poised to bring good revenues for coming quarters. Recently, the company launched new products. It is getting a few large orders from two to three big customers. The company has a decent order book in this division. However, a few challenges in the supply chain are still there
- **Ador International:** Revenue grew 100% YoY for Ador International in Q3FY23. This division is scaling new heights and will be the key focus area for AWL. The company is seeing a lot of opportunities in the export business and enters new markets like Brazil. For FY23E, Ador International will see growth of ~60% vs. FY22. Even, going ahead, the division can grow 40-50%
- **FPED** segment revenue is expected to grow significantly next year as ONGC revenues have not yet started. They will start from Q4FY23. Total ~7-8% of the order value (₹ 145 crore (including GST)) will come in this quarter itself. Also, 75-80% will come in the next financial year, and balance after that. Going forward, AWL plans to build up an order book step by step. The management sees a healthy pipeline here
- **Update on amalgamation of ADFL with AWL:** The company has filed an application with NCLT. The management is hopeful that it will get complete by this calendar year

Exhibit 1: Variance Analysis

Year	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Income from Operation	198.5	174.3	13.9	184.9	7.4	Revenue growth aided by growth across segments
Other Income	1.8	1.2	52.1	1.6	17.9	
Cost of materials consumed	145.1	135.84	6.8	120.0	20.9	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	(12.9)	(14.3)	(9.7)	10.3	(225.6)	
Employee cost	14.2	13.2	7.4	14.1	0.9	
Other expenses	28.1	23.1	21.6	25.4	10.8	
EBITDA	24.0	16.4	46.4	15.2	58.6	
EBITDA Margin (%)	12.1	9.4	269 bps	8.2	391 bps	Margin profile getting strong
Depreciation	2.9	2.7	8.6	2.9	1.4	
Interest	0.8	0.9	(15.6)	0.5		
PBT	22.2	14.0	58.1	13.3	66.4	
Taxes	5.6	3.6	55.5	3.4	67.6	
Adjusted PAT	16.6	10.5	58.9	10.0	66.6	
Segment Revenue	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Consumable	158.1	139.5	13.3	148.1	6.8	
% Contribution	79.6	80.1		80.1		
Equipments & Automation	28.2	24.6	14.6	28.5	(0.8)	
% Contribution	14.2	14.1		15.4		
Flares & Process Equipment	12.4	10.5	18.8	8.5	46.6	Again good show
% Contribution	6.3	6.0		4.6		
Net Sales	198.5	174.3		184.9		

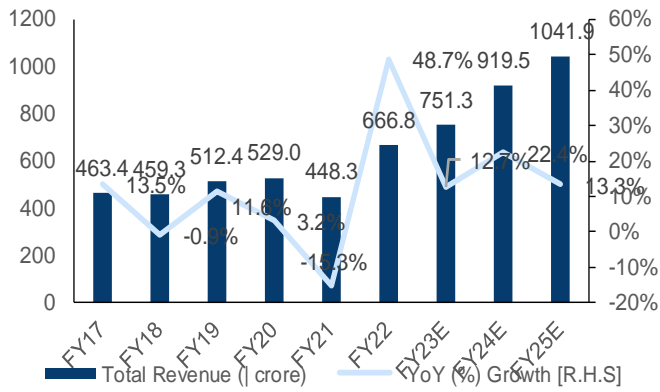
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21	FY22	FY23E	FY24E	FY25E				
(₹C rore)	Actual	Actual	New	Old	New	% C hange	Old	New	% C hange
Revenue	448	661	751	887	920	4	-	1042	-
EBITDA	20	58	71	93	94	1	-	106	-
EBITDA Margin (%)	4.5	8.8	9.4	10.5	10.2	-30 bps	-	10.2	-
PAT	7	36	47	66	67	2	-	76	-
EPS (₹)	-7.6	33.2	34.2	48.3	49.3	2.0	-	56.1	-

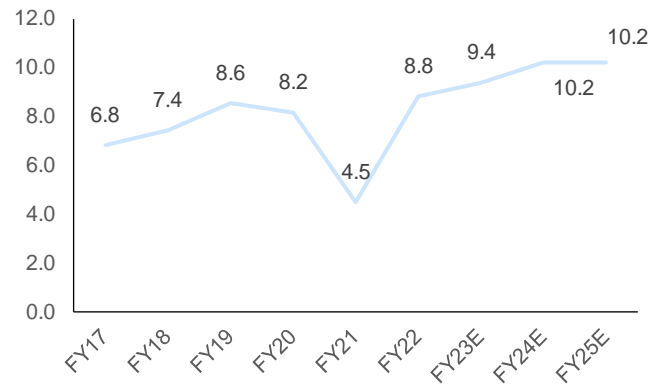
Source: Company, ICICI Direct Research

Exhibit 3: Overall revenue trend....



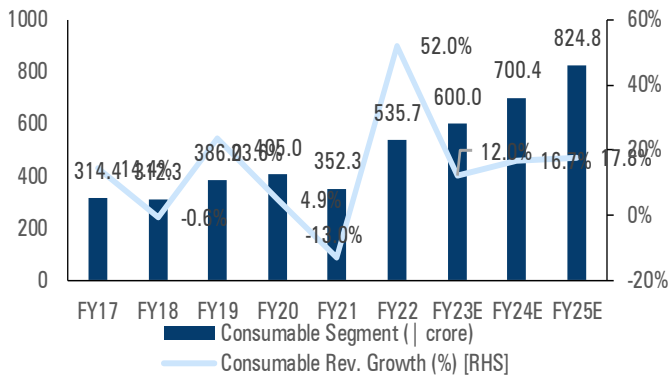
Source: Company, ICICI Direct Research

Exhibit 4: Overall EBITDA margin (%) trend...



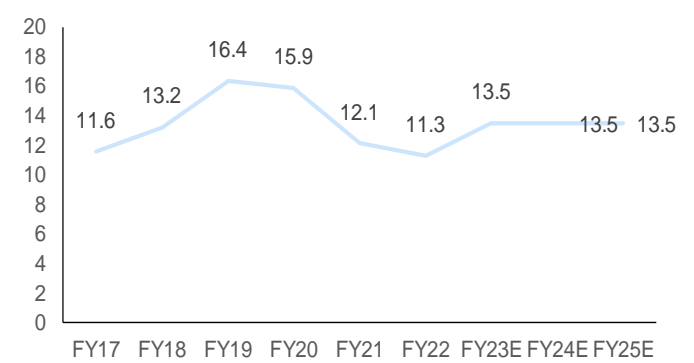
Source: Company, ICICI Direct Research

Exhibit 5: Consumable segment revenue trend



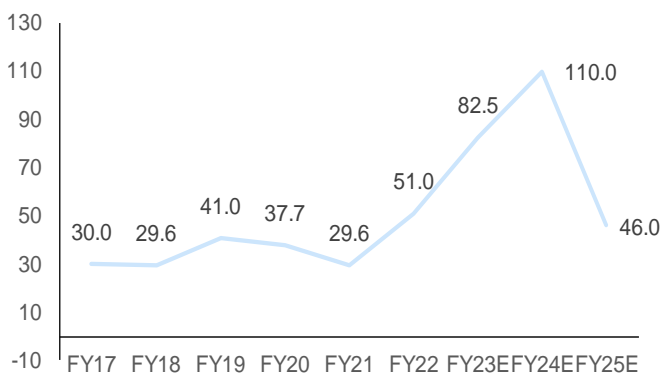
Source: Company, ICICI Direct Research

Exhibit 6: Consumable segment EBIT margin (%) trend



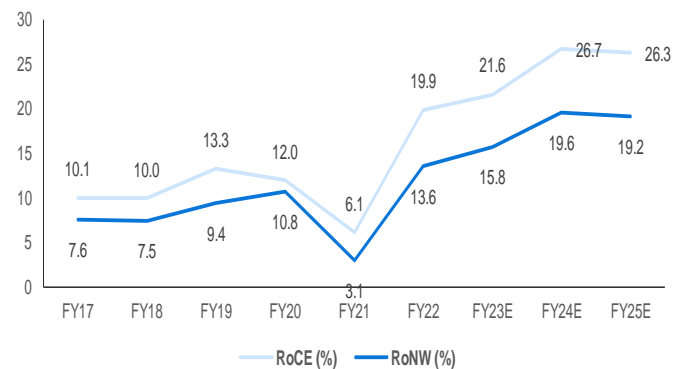
Source: Company, ICICI Direct Research

Exhibit 7: Consumable segment RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 8: Overall RoE, RoCE trend....



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit & loss statement (₹ crore)				
(₹Cr ore)	FY22	FY23E	FY24E	FY25E
Net Sales	661.5	751.3	919.5	1,041.9
Other Operating Income	-	-	-	-
Total Operating Income	661.5	751.3	919.5	1,041.9
% Growth	47.8	13.6	22.4	13.3
Other Income	5.5	7.5	13.8	15.6
Total Revenue	667.0	758.8	933.3	1,057.6
Cost of materials consume	421.3	510.9	616.1	698.1
Purchase of stock-in-trade	58.5	7.5	9.2	10.4
Other Expenses	84.6	102.2	126.9	144.8
Total expenditure	603.1	680.7	825.7	935.6
EBITDA	58.4	70.6	93.8	106.3
% Growth	190.4	21.0	32.8	13.3
Interest	3.7	3.8	4.6	5.2
Depreciation	10.9	12.2	13.4	14.7
PBT	58.2	62.2	89.6	102.0
Tax	13.1	15.7	22.5	25.7
PAT	45.2	46.5	67.0	76.4
% Growth	(535.1)	3.0	44.0	13.9
EPS	33.2	34.2	49.3	56.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement (₹ crore)				
(₹Cr ore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	45.2	45.2	67.0	76.4
Depreciation	10.9	10.9	13.4	14.7
Interest	3.7	3.7	4.6	5.2
Other income	9.0	9.0	-	-
Prov for Taxation	13.1	13.1	22.5	25.7
Cash Flow before WC changes	81.8	81.8	107.6	121.9
Change in Working Capital	(10.4)	(10.4)	(30.5)	(22.2)
Taxes Paid	(13.1)	(13.1)	(22.5)	(25.7)
Cashflow from Operating Acti	58.4	58.4	54.5	74.0
(Purchase)/Sale of Fixed Assets	(2.7)	(2.7)	(30.0)	(30.0)
(Purchase)/Sale of Investments	(9.2)	(9.2)	(6.0)	(6.0)
Other Income	-	-	-	-
Cashflow from Investing Activ	(11.9)	(11.9)	(36.0)	(36.0)
Issue/(Repayment of Debt)	(27.3)	(27.3)	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(8.0)	(8.0)	(19.0)	(20.4)
Interest	(3.7)	(3.7)	(4.6)	(5.2)
Others	-	-	-	-
Cashflow from Financing Acti	(39.1)	(39.1)	(23.6)	(25.6)
Changes in Cash	(1.6)	(1.6)	(5.1)	12.4
Opening Cash/Cash Equivalent	5.0	5.0	15.1	10.0
Closing Cash/Cash Equivalent	3.4	3.4	10.0	22.4

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet (₹ crore)				
(₹Cr ore)	FY22	FY23E	FY24E	FY25E
Share Capital	13.6	13.6	13.6	13.6
Reserves & Surplus	252.1	252.1	280.9	384.9
Networth	265.7	265.7	294.5	398.5
Total Debt	0.7	0.7	10.1	10.1
Deferred tax liability (net)	-	-	-	-
Total Liabilities	272.5	272.5	309.0	414.7
Gross Block	267.6	267.6	297.6	357.6
Acc: Depreciation	170.2	170.2	182.4	210.5
Net Block	97.4	97.4	115.2	147.1
Capital WIP	7.1	7.1	5.0	5.0
Investments	28.2	28.2	34.2	46.2
Inventory	90.0	90.0	98.8	137.0
Sundry debtors	93.2	93.2	105.2	145.9
Cash and bank balances	3.4	3.4	15.1	22.4
Loans and advances	0.4	0.4	0.5	0.6
Other Current Assets	18.9	18.9	26.3	36.5
Total current Assets	205.9	205.9	248.1	345.6
CL & Prov.	77.5	77.5	103.3	140.7
Net Current Assets	102.7	102.7	112.6	160.1
Total Assets	272.4	272.5	308.9	418.6

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
EPS	33.2	34.2	49.3	56.1
Cash EPS	41.2	43.2	59.2	66.9
BV	195.4	216.6	251.9	293.0
DPS	12.5	13.0	14.0	15.0
Cash Per Share	125.2	134.1	144.0	154.8
EBITDA Margin	8.8	9.4	10.2	10.2
PBT / Net Sales	7.2	7.8	8.7	8.8
PAT Margin	5.5	6.2	7.3	7.3
Inventory days	49.6	48.0	48.0	48.0
Debtor days	51.4	51.1	51.1	51.1
Creditor days	39.2	47.0	47.0	47.0
RoE	13.6	15.8	19.6	19.2
RoCE	19.9	21.6	26.7	26.3
RoIC	19.0	21.1	24.4	24.6
P/E	25.6	24.8	17.2	15.1
EV / EBITDA	19.8	16.3	12.3	10.8
EV / Net Sales	1.7	1.5	1.3	1.1
Market Cap / Sales	1.7	1.5	1.3	1.1
Price to Book Value	4.4	3.9	3.4	2.9
Debt/EBITDA	0.0	0.1	0.1	0.1
Net Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.6	2.2	2.3	2.3
Quick Ratio	1.5	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 13 ICICI Direct coverage universe (Capital Goods)

Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		(₹Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
L&T (LARTOU)	2,145	2,795	Buy	300986	59.8	74.5	90.1	35.9	28.8	23.8	8.7	10.7	12.1	11.8	13.4	14.6	
Siemens Ltd	3,115	3,630	Buy	110939	35.4	46.4	53.8	87.9	67.2	57.9	15.6	18.2	19.1	11.3	13.4	14.0	
AIA Engineering (AIAENG)	2,792	3,230	Buy	26339	107.3	97.9	107.0	26.0	28.5	26.1	23.5	18.6	18.2	18.5	14.9	14.3	
Thermax (THERMA)	2,125	2,536	Hold	25321	36.5	51.7	61.0	58.2	41.1	34.8	14.6	18.3	18.7	11.4	14.3	14.4	
KEC International (KECIN)	465	545	Buy	11955	6.6	24.4	36.3	70.4	19.1	12.8	9.6	18.4	21.8	4.9	15.6	19.4	
Greaves Cotton (GREAVE)	141	209	Buy	3256	0.7	3.9	3.6	199.0	36.2	39.4	2.5	10.4	10.6	1.3	7.5	7.7	
Elgi Equipment (ELGEQU)	429	520	Hold	13592	7.2	9.4	11.4	59.9	45.7	37.6	19.0	21.4	22.0	19.8	21.3	21.1	
Bharat Electronics (BHAELE)	96	135	Buy	70210	3.2	3.8	4.5	30.0	25.3	21.3	26.1	28.4	30.0	19.5	21.2	22.4	
Cochin Shipyard (COCSHI)	494	745	Buy	6493	42.9	38.6	42.8	11.5	12.8	11.5	10.9	10.5	10.6	12.7	11.0	11.3	
SKF (SKFIND)	4,477	5,215	Buy	22133	77.0	108.7	130.3	58.1	41.2	34.4	26.0	30.7	31.3	20.6	23.3	23.4	
Timken India (TIMIND)	2,969	3,560	Buy	22333	43.5	61.3	71.2	68.3	48.4	41.7	25.3	36.2	42.0	19.7	27.9	32.2	
NRB Bearing (NRBBEA)	147	220	Buy	1425	7.8	9.2	12.1	18.8	16.0	12.1	15.0	15.3	19.2	12.6	12.6	14.8	
Action Construction (ACTCON)	378	385	Buy	4498	8.8	15.1	19.2	42.9	25.0	19.7	23.0	25.6	26.7	13.9	18.3	18.9	
Data Patterns (DATPAT)	1468	1,555	Buy	7616	18.1	22.0	30.4	81.0	66.8	48.3	23.8	24.9	28.4	16.4	18.2	21.0	
HAL (HINAER)	2,456	3,300	Buy	82113	151.9	132.7	145.0	16.2	18.5	16.9	27.4	30.5	30.1	26.3	23.1	22.8	
ABB (ABB)	3,130	3,275	Buy	66327	25.5	40.5	37.2	122.9	77.3	84.1	45.0	49.2	57.3	11.2	12.9	15.1	
Ador Welding (ADOWEL)	848	1,054	Buy	1154	33.2	34.2	49.3	25.5	24.8	17.2	19.9	21.6	26.7	13.6	15.8	19.6	
Bharat Dynamics (BHADYN)	837	1,200	Buy	15345	27.3	33.0	42.7	30.7	25.4	19.6	24.6	24.7	27.9	17.3	17.7	20.0	
Mazagon Dock (MAZDOC)	722	1,025	Hold	14560	30.3	39.8	46.6	23.8	18.1	15.5	20.0	22.9	23.5	16.1	18.2	18.5	
Solar Industries India (SOLIN)	3,887	4,700	Buy	35177	48.8	76.6	99.7	79.7	50.8	39.0	22.5	32.5	34.6	23.9	29.0	28.8	
Anup Engineering (THEANU)	1,137	1,080	Buy	1126	62.7	49.5	72.3	18.1	23.0	15.7	15.3	16.6	19.4	12.2	12.5	14.5	
Control Prints (CONTROLPR)	472	555	Buy	771	24.7	28.7	34.6	19.1	16.4	13.6	17.9	21.4	23.4	13.8	15.4	16.3	
KSB Ltd. (KSBPUM)	1,790	2,180	Buy	6229	43.7	50.0	62.2	41.0	35.8	28.8	15.7	16.0	18.3	14.7	14.9	15.9	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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