

Focused on core business to regain growth...

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 ~78% of FY21 revenue

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

Q2FY22 Results: AWL reported decent Q2FY22 results.

- Revenues came in at ₹ 159.5 crore, up 66.2% YoY crossing pre-Covid levels
- EBITDA came in at ₹ 13 crore (vs. loss of ₹ 4.8 crore in Q2FY21) aided by reduced losses in flares & process equipment business
- Consequently, adjusted PAT was at ₹ 9.6 crore (vs. loss of ₹ 5.6 crore, 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 ₹ 945 i.e. 23x P/E on FY23E 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 CAGR of 20.8% in FY21-23E with margins rebounding to 12% levels

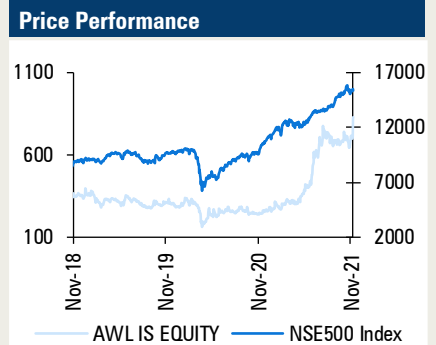
Alternate Stock Idea: Apart from AWL, in our coverage we also like Esab India.

- Going forward, new technologically advanced new product launches along with services and exports to drive long term growth
- BUY with a target price of ₹ 2850



Particulars	
Particular	Amount
Market Capitalization	₹ 1020 Crore
Total Debt (FY21)	₹ 28 Crore
Cash and Inv (FY21)	₹ 17 Crore
EV (FY21)	₹ 1031 Crore
52 week H/L (₹)	852 / 241
Equity capital	₹ 13.6 Crore
Face value (₹)	10.0

Shareholding pattern (%)				
(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	56.9	56.9	56.9	56.9
FII	0.0	0.0	0.0	0.2
DII	14.3	10.6	9.8	6.6
Others	28.9	32.6	33.3	36.3



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)	FY19	FY20	FY21	5-Year CAGR (FY16-21)	FY22E	FY23E	2-year CAGR FY21-FY23E
Revenue (₹ crore)	513.3	526.5	447.7	1.9%	584.2	652.9	20.8%
EBITDA (₹ crore)	43.9	42.9	20.1	-13.2%	63.1	78.3	97.4%
EBITDA margin (%)	8.6	8.2	4.5		10.8	12.0	
Net Profit (₹ crore)	24.5	28.8	(10.4)	-21.0%	43.2	55.8	-
EPS (₹)	18.0	21.2	(7.6)		31.7	41.0	
P/E (x)	41.6	35.4	(98.3)		23.6	18.3	
Price / Book (x)	3.9	3.8	4.3		3.8	3.3	
EV/EBITDA (x)	24.1	25.5	51.3		16.3	12.9	
RoCE (%)	13.3	12.0	6.1		21.0	23.3	
RoE (%)	9.4	10.8	3.1		16.0	17.9	

Key takeaways of recent quarter & key triggers

Q2FY22 Results: Decent growth, margins impacted amid challenges...

- Ador Welding (AWL) reported consolidated revenues at ₹ 159.5 crore, up 66.2% YoY surpassing pre-Covid level by better performance in consumables and equipment business
- For Q2FY22, consumables segment revenue came in at ₹ 126 crore (~79% to total revenue), up 55.6% YoY, equipment & automation segment grew 55.8% to ₹ 27.6 crore on a YoY basis. Flares & process equipment business revenue came in at ₹ 6.2 crore. EBIT margin for consumable business declined 500 bps YoY to 10.1%, Equipment & automation EBIT margin improved to 11.3% (vs. 5.4% in Q2FY21) while flares & process equipment business reported EBIT loss of ₹ 0.8 crore
- EBITDA came in at ₹ 13 crore (vs. loss of ₹ 4.8 crore in Q2FY21) aided by reduced losses in flares & process equipment business. EBITDA margin came to 8.2%, declining 50 bps QoQ. Gross margins for Q2FY22 declined 170 bps to 27.4% on a YoY basis
- Adjusted PAT came in at ₹ 9.6 crore (vs. net loss of ~ ₹ 5.6 crore in Q2FY21), amid higher other income. It reported exceptional gains worth ~₹ 7.2 crore towards profit from sale of property in Delhi

Key triggers: Focus on reducing legacy costs, regaining core business

- **Domestic welding business:** Opportunity to improve margins and realisation in domestic welding business by way of reconfiguration of manufacturing systems, more cost rationalisation, advanced product developments, reduction of logistics costs and optimised product mix
- **International welding business:** To strengthen market presence in existing markets like Middle East, Africa etc., focus on repair and maintenance services, enhance application oriented selling, build equipment product line
- **Welding automation and equipment business:** Currently at a fairly nascent stage while the focus is on improving strike ratio of orders, enhance product portfolio. Within the equipment business, welding equipment, welding automation segments to drive growth while gas cutting/plasma cutting to have moderate growth
- **Projects business:** To consolidate business offerings, to focus on flares and process equipment business, stable revenue growth, increase margins, better cash flows and reduce costs. Use technology innovation to increase delivery efficiency
- **Commodity price impact:** The company is able to pass on prices on most products with a lag of approximately a month or two. Hence, no material impact on margins in the long term
- **Focus to reduce legacy cost:** AWL is working hard to remove legacy cost and translate to better margins
- **Exports:** Robust growth expected in the exports business with revenue share increasing from 8-10% in FY21 to 15-20% over the next two to three years
- **Outlook:** Overall, better demand outlook for consumables and equipment business in the long term driven by expected robust infrastructure spending, focus on increased domestic manufacturing. Margin improvements with focus on optimal product mix, value added products, technological shifts and operating leverage gain in the long term

Exhibit 1: Variance Analysis

Year	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Income from Operation	159.5	96.0	66.2	127.9	24.7	Revenue growth aided by better performance in consumables and equipment segments
Other Income	1.3	0.6	135.1	1.6	(15.7)	
Cost of materials consumed	112.9	78.49	43.8	104.90	7.6	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	2.9	(2.2)	(229.9)	(14.3)	(120.4)	
Employee cost	12.3	9.4	30.6	11.1	11.0	
Other expenses	18.4	15.1	21.5	15.0	22.2	
EBITDA	13.0	(4.8)	(369.2)	11.1	17.2	
EBITDA Margin (%)	8.2	(5.0)	1321 bps	8.7	-53 bps	Margins impacted owing to decline in gross margins
Depreciation	2.7	2.8	(4.7)	2.7	(1.9)	
Interest	1.2	1.5	(25.3)	0.9		
PBT	10.6	(8.6)	-	9.1	16.4	
Taxes	3.1	(3.0)	-	2.3	32.2	
Adjusted PAT	9.6	(5.6)	-	6.7	41.8	
Segment Revenue	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	
Consumable	126.0	81.0	55.6	104.2	20.9	
% Contribution	79.0	84.4		81.5		
Equipments & Automation	27.6	17.7	55.8	19.7	40.0	
% Contribution	17.3	18.5		15.4		
Flares & Process Equipment	6.2	-2.6	(336.3)	4.7	33.1	
% Contribution	0.0	0.0		0.0		

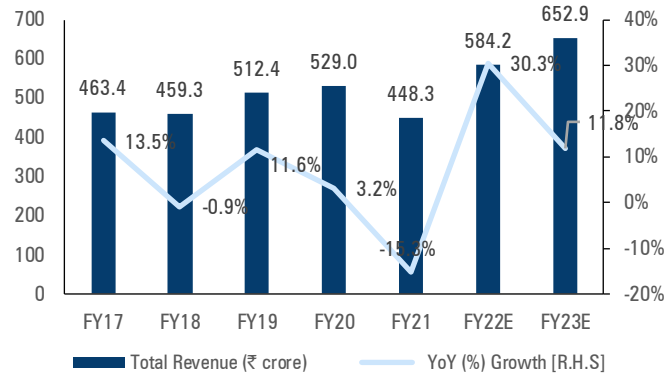
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21	FY22E		FY23E			
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	527	448	521	584	12.1	596	653	9.5
EBITDA	43	20	60	63	5.2	72	78	9.6
EBITDA Margin (%)	8.2	4.5	11.5	10.8	-72 bps	12.0	12.0	0 bps
PAT	29	7	42	43	3.5	216	56	(74.1)
EPS (₹)	21.2	-7.6	30.7	31.7	3.4	36.8	41.0	11.5

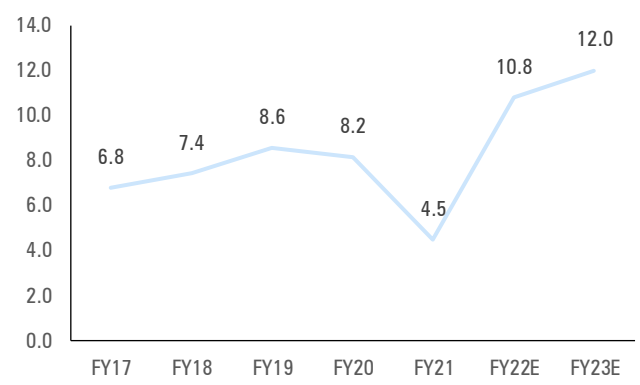
Source: Company, ICICI Direct Research

Exhibit 2: Overall revenue trend....



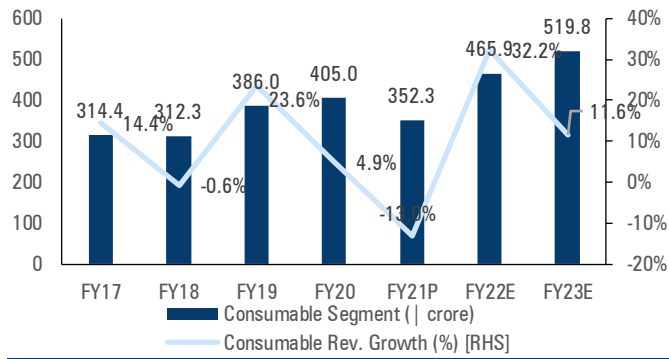
Source: Company, ICICI Direct Research

Exhibit 3: Overall EBITDA margin (%) trend...



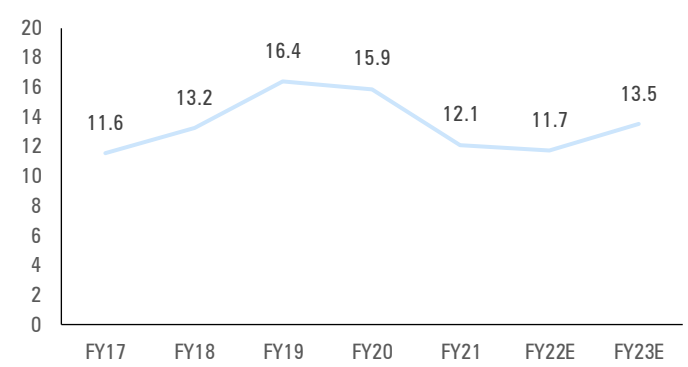
Source: Company, ICICI Direct Research

Exhibit 4: Consumable segment revenue trend



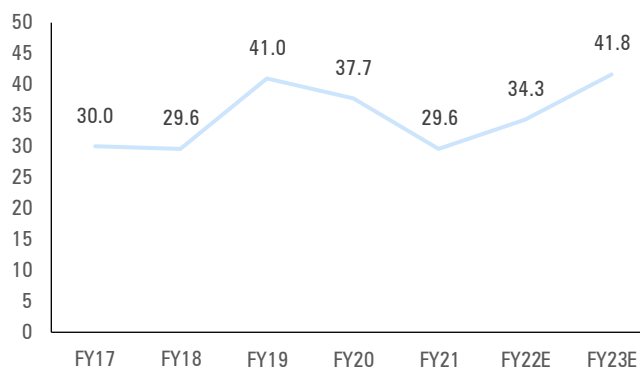
Source: Company, ICICI Direct Research

Exhibit 5: Consumable segment EBIT margin (%) trend.



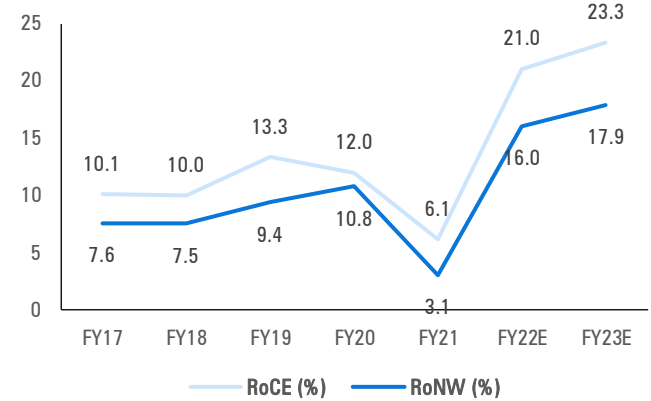
Source: Company, ICICI Direct Research

Exhibit 6: Consumable segment RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 7: Overall RoE, RoCE trend....



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit & loss statement (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	526.5	447.7	584.2	652.9
Other Operating Income	-	-	-	-
Total Operating Income	526.5	447.7	584.2	652.9
% Growth	2.6	(15.0)	30.5	11.8
Other Income	10.1	7.4	10.5	13.1
Total Revenue	536.6	455.1	594.7	665.9
Cost of materials consumed	360.3	326.2	403.1	438.7
Purchase of stock-in-trade	6.5	9.5	3.5	6.5
Other Expenses	74.7	66.1	70.7	78.3
Total expenditure	483.6	427.6	521.1	574.5
EBITDA	42.9	20.1	63.1	78.3
% Growth	(2.2)	(53.2)	213.9	24.2
Interest	8.6	6.4	4.7	4.6
Depreciation	10.8	11.2	11.3	12.3
PBT	33.7	(14.1)	57.7	74.5
Tax	5.0	(3.7)	14.5	18.8
PAT	28.8	(10.4)	43.2	55.8
% Growth	17.2	(136.1)	(515.8)	29.3
EPS	21.2	(7.6)	31.7	41.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	28.8	7.3	43.2	55.8
Depreciation	10.8	11.2	11.3	12.3
Interest	8.6	6.4	4.7	4.6
Other income	-	-	-	-
Prov for Taxation	5.0	(3.7)	14.5	18.8
Cash Flow before WC changes	53.1	21.2	73.6	91.4
Change in Working Capital	(32.1)	101.4	(29.7)	(11.4)
Taxes Paid	(9.5)	(0.6)	(14.5)	(18.8)
Cashflow from Operating Activities:	11.4	122.0	29.4	61.3
(Purchase)/Sale of Fixed Assets	(20.5)	(6.1)	(13.0)	(19.7)
(Purchase)/Sale of Investments	0.7	(6.5)	5.0	(6.0)
Other Income	-	-	-	-
Cashflow from Investing Activities	(19.8)	(12.6)	(8.0)	(25.7)
Issue/(Repayment of Debt)	16.9	(53.9)	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(22.8)	(37.2)	(11.5)	(13.1)
Interest	(8.6)	(6.4)	(4.7)	(4.6)
Others	1.2	-	-	-
Cashflow from Financing Activities:	(13.2)	(97.5)	(16.1)	(17.7)
Changes in Cash	(21.6)	11.9	5.3	17.9
Opening Cash/Cash Equivalent	26.8	5.2	17.1	22.3
Closing Cash/ Cash Equivalent	5.2	17.1	22.3	40.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Share Capital	13.6	13.6	13.6	13.6
Reserves & Surplus	253.8	223.9	255.6	298.3
Networth	267.4	237.5	269.2	311.9
Total Debt	81.9	28.0	28.0	28.0
Deferred tax liability (net)	4.3	-	-	-
Total Liabilities	360.4	270.5	300.1	343.7
Gross Block	282.8	267.6	281.6	299.6
Acc: Depreciation	165.6	159.3	170.6	182.8
Net Block	117.2	109.3	111.0	116.8
Capital WIP	0.3	3.3	3.3	5.0
Investments	12.5	19.0	14.0	20.0
Inventory	62.2	62.5	67.2	73.3
Sundry debtors	129.8	105.4	111.0	115.6
Cash and bank balances	5.2	17.1	22.3	40.2
Loans and advances	1.6	1.2	1.5	1.7
Other Current Assets	19.4	22.3	23.4	26.1
Total current Assets	280.1	210.3	227.2	258.8
CL& Prov.	64.1	78.9	86.6	89.0
Net Current Assets	195.1	105.6	114.6	141.8
Total Assets	360.3	270.5	300.0	343.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	21.2	(7.6)	31.7	41.0
Cash EPS	29.1	0.6	40.0	50.1
BV	196.6	174.7	198.0	229.4
DPS	13.0	13.0	7.0	8.0
Cash Per Share	121.8	117.1	125.4	134.5
EBITDA Margin	8.2	4.5	10.8	12.0
PBT / Net Sales	6.1	2.0	8.9	10.1
PAT Margin	5.5	1.6	7.4	8.5
Inventory days	43.1	50.9	42.0	41.0
Debtor days	90.0	85.9	69.4	64.6
Creditor days	42.2	60.3	51.0	47.0
RoE	10.8	3.1	16.0	17.9
RoCE	12.0	6.1	21.0	23.3
RoIC	11.6	3.7	21.5	25.0
P/E	35.4	(98.3)	23.6	18.3
EV / EBITDA	25.5	51.3	16.3	12.9
EV / Net Sales	2.1	2.3	1.8	1.5
Market Cap / Sales	1.9	2.3	1.7	1.6
Price to Book Value	3.8	4.3	3.8	3.3
Debt/EBITDA	1.9	1.4	0.4	0.4
Net Debt / Equity	0.3	0.0	0.0	0.0
Current Ratio	3.3	2.4	2.3	2.4
Quick Ratio	2.4	1.6	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 3: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1955	2,150	Buy	274326	81.9	51.9	52.9	23.9	37.6	36.9	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2376	2,550	Buy	84614	28.3	37.9	45.1	84.0	62.7	52.7	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1880	2,230	Buy	17732	59.7	60.4	69.7	31.5	31.1	27.0	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1686	1,800	Buy	20090	17.3	26.7	40.0	97.2	63.2	42.2	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	416	455	Hold	6436	41.3	25.8	37.8	10.1	16.1	11.0	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	474	550	Buy	12187	21.5	19.9	32.3	22.0	23.8	14.7	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	132	150	Hold	3052	0.4	2.4	5.4	294.6	54.0	24.5	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	222	260	Buy	7035	3.2	3.9	6.2	68.6	57.1	36.1	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	223	250	Buy	54336	8.5	9.6	11.3	26.3	23.1	19.8	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	372	500	Buy	5059	46.4	44.0	55.6	8.0	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3862	3,960	Buy	20469	67.6	78.1	98.9	57.1	49.4	39.0	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1947	2,240	Hold	12461	19.0	30.8	40.0	102.3	63.2	48.7	13.7	19.4	25.1	10.7	15.1	19.6
NRB Bearing (NRBBEA)	135	175	Buy	1310	5.6	8.0	9.8	24.1	16.9	13.8	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	255	320	Buy	2882	7.1	9.7	13.9	35.9	26.3	18.3	26.9	22.3	26.2	15.3	14.9	17.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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