

## Decent performance...

**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

**Q2FY23 Results:** AWL reported decent Q2FY23 results.

- Revenues came in at ₹ 184.9 crore, up 15.9% YoY, 17.1% QoQ
- EBITDA came in at ₹ 15.2 crore up 16.3% YoY, aided by reduced losses in flares & process equipment business
- Consequently, adjusted PAT was at ₹ 10 crore, down 31% 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 ₹ 1015 i.e. 21x P/E on FY24E 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 15.8% and 26.3%, respectively, in FY22-24E with margins rebounding to 10.5% levels

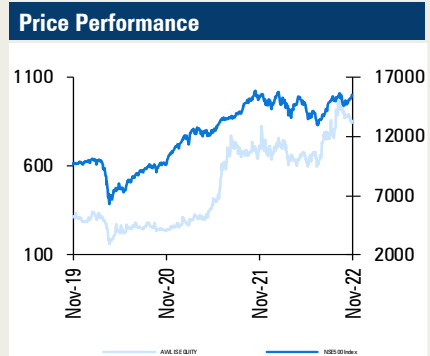
**Alternate Stock Idea:** Besides AWL, we also like AIA Engineering in our coverage.

- 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 ₹ 3240



Particulars	Amount
Market Capitalization	₹ 1168 Crore
Total Debt (FY22)	₹ 1 Crore
Cash and Inv (FY22)	₹ 3 Crore
EV (FY22)	₹ 1165 Crore
52 week H/L (₹)	880 / 535
Equity capital	₹ 13.6 Crore
Face value (₹)	10.0

Shareholding pattern (%)				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.9	56.9	56.9	56.9
FII	0.3	0.2	0.2	0.3
DII	6.7	6.7	6.7	4.8
Others	36.1	36.2	36.2	38.0



- 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)	FY20	FY21	FY22	5-Year CAGR (FY17-22)	FY23E	FY24E	2-year CAGR FY22-FY24E
Revenue (₹ crore)	526.5	447.7	661.5	8.4%	756.7	887.4	15.8%
EBITDA (₹ crore)	42.9	20.1	58.4	14.2%	70.4	93.2	26.3%
EBITDA margin (%)	8.2	4.5	8.8		9.3	10.5	
Net Profit (₹ crore)	28.8	(10.4)	45.2	15.2%	46.4	65.6	-
EPS (₹)	21.2	(7.6)	33.2		34.1	48.3	
P/E (x)	41.1	(114.0)	26.2		25.5	18.0	
Price / Book (x)	4.4	5.0	4.5		4.0	3.5	
EV/EBITDA (x)	29.4	60.0	20.2		16.8	12.7	
RoCE (%)	12.0	6.1	19.9		21.6	26.5	
RoE (%)	10.8	3.1	13.6		15.7	19.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & key triggers

### Q2FY23 Results: Decent performance

- Ador Welding (AWL) reported consolidated revenues at ₹ 184.9 crore, up 15.9% YoY and 17.1% QoQ led by better performance in consumable, flares & process business
- For Q2FY23, consumables segment revenue came in at ₹ 148.1 crore (which contributed ~80.1% to total revenue), up 17.5% YoY, 22% QoQ. Equipment & automation segment grew 3% to ₹ 28.5 crore YoY & 25.1% QoQ. Flares & process equipment business revenue came in at ₹ 8.5 crore, strongly growing 37% YoY and down by 39.1% QoQ. EBIT margin for consumable business expanded 100 bps YoY to 11.1% and contracted 400 bps QoQ, Equipment & automation EBIT margin came in at 6% (vs. 11.3% in Q2FY22) and (3% in Q1FY23) while flares & process equipment business margin came in at -0.5% vs -12.1% in Q2FY22 and 14.4% in Q1FY23
- EBITDA came in at ₹ 15.2 crore, up 16.3% YoY and down 6.8% QoQ. EBITDA margin came in at 8.2%, remaining flat YoY and contracting 210 bps QoQ. Gross margins for Q2FY23 was at 29.5% vs 27.4% in Q2FY22 and 33.9% in Q1FY23
- Adjusted PAT came in at ₹ 10 crore, down 31% YoY, 12.3% QoQ

### Q2FY23 Earnings Conference Call highlights

- For the first half of FY23, volume growth was largely flat from H1FY22. However, for H2FY23, the management is confident that 15-20% volume growth will come as demand scenario is fairly good also with good product mix. The company has seen demand stabilisation since August, September 2022. In July, AWL consciously took the hit on margins to clear the high cost inventory. General infrastructure looks very good in terms of demand. Also, sectors like railways, defence, power, auto, oil & gas can contribute
- Sectoral contribution to total revenue is as follows: Heavy engineering contributes 30%, auto 20%, construction 10-11%, railways 8-10%. Total 65% of sales happened through distribution network while ~200 distributors are there currently and balance sales comes through direct sales
- **Consumables:** As per management guidance, in consumable segment there is scope for margin improvement of 150 bps from currently 11-12% and that is achievable by the next two to four quarters. Currently, capacity utilisation varies from 65-90% depending on products. The company is going to expand some product lines, which will take its capacity from 75000 TPA to 85000 TPA in coming years
- **Equipment:** Recently, AWL launched new improved machines in the equipment segment. This segment is growing rapidly thanks to automation. Volumes are expected to get better from here with 12-15% growth. In equipment segment, the management is expecting mid-teens margins in coming years. Current capacity utilisation is at 70%
- **Flares & Process Equipment (FPED):** AWL's FPED division has already surpassed the order booking target of ₹ 75 crore for FY23 while current orders in hand is at ₹ 134 crore. AWL received a major order in FPED business worth ₹ 145 crore (including GST) to design, engineering, fabrication, erection & commissioning of complete demountable flare package in ONGC's Uran project with execution timeline of 30 months. From this big project, 10% revenue will be incurred in Q4FY23. Also, ~55-60% revenue will come in FY24E while balance will be pushed into FY25. Margins are expected to be healthier for this project. AWL may require capital of ~₹ 35 crore and progressive payment for this project. FPED segment posted positive EBIT in H1FY23 owing to robust and stable order book.

- **Ador International:** Revenue grew 140% YoY for Ador International this quarter. The company plans to strengthen the market presence in existing markets like Middle East, Africa, etc, and enter new markets like Brazil. Recently, Ador opened a new showroom/office in JAFZA in Dubai. Also, it is restructuring its distribution network in Middle East. Ador is making efforts to position itself as an MNC company abroad. Ador International is on track to achieve 50% growth in FY23. Also, tremendous growth opportunities are seen in the exports markets. The company is on track to achieve ~₹ 45 crore of exports in FY23E
- **Capex:** Total capex planed for FY23E is ₹ 23.3 crore. Out of this, ₹ 5.7 crore has been spent in H1FY23 and of the remaining ₹ 17.5 crore will be utilised in H2FY23 mainly on technology upgradation and capacity enhancement for welding business/FPED and general IT and others. New product line is coming up.
- **Commodity price impact:** Fluctuation in steel prices is a major issue though volatility in steel prices has reduced since last quarter
- **Updates on amalgamation** of ADFL with AWL – Currently, it is in NCLT. The merger is supposed to happen by end of FY23E. However, it seems it may drag beyond that and will take about a year from now to be completed

**Exhibit 1: Variance Analysis**

Year	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Income from Operation	184.9	159.5	15.9	157.9	17.1	Revenue growth aided by better performance in Flares & Process Equipment followed by consumables
Other Income	1.6	1.3	16.4	2.0	(23.2)	
Cost of materials consumed	120.0	112.89	6.3	122.0	(1.6)	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	10.3	2.9	252.9	(17.7)	(158.1)	
Employee cost	14.1	12.3	14.0	13.6	3.1	
Other expenses	25.4	18.4	38.2	23.7	7.1	
EBITDA	15.2	13.0	16.3	16.3	(6.8)	
EBITDA Margin (%)	8.2	8.2	3 bps	10.3	-210 bps	
Depreciation	2.9	2.7	8.3	2.8	3.2	
Interest	0.5	1.2	(56.5)	0.4		
PBT	13.3	10.6	26.2	15.1	(11.7)	
Taxes	3.4	3.1	9.1	3.4	(2.3)	
Adjusted PAT	10.0	9.6	4.2	11.4	(12.3)	
<b>Segment Revenue</b>	<b>Q2FY23</b>	<b>Q2FY22</b>	<b>YoY (%)</b>	<b>Q1FY23</b>	<b>QoQ (%)</b>	
Consumable	148.1	126.0	17.5	121.4	22.0	
% Contribution	80.1	79.0		76.9		
Equipments & Automation	28.5	27.6	3.0	22.7	25.1	
% Contribution	15.4	17.3		14.4		
Flares & Process Equipment	8.5	6.2	37.0	13.9	(39.1)	
% Contribution	4.6	3.9		8.8		
Net Sales	184.9	159.5		157.9		

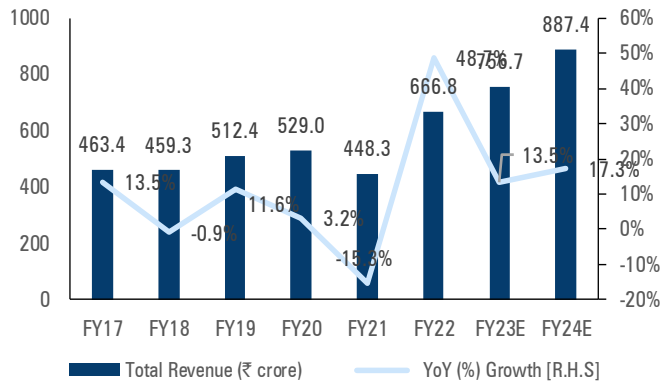
Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Actual	New	Old	New	% Change	Old	New	% Change
Revenue	527	448	661	751	757	1	851	887	4
EBITDA	43	20	58	71	70	-1	92	93	1
EBITDA Margin (%)	8.2	4.5	8.8	9.4	9.3	-10 bps	10.8	10.5	-30 bps
PAT	29	7	36	51	46	-9	67	66	-2
EPS (₹)	21.2	-7.6	33.2	37.5	34.1	-9.1	49.3	48.3	-2.1

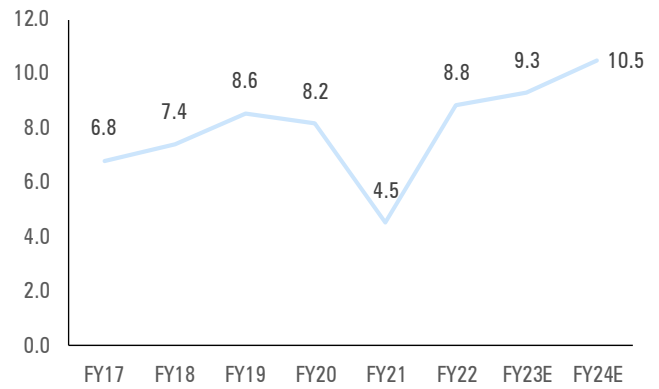
Source: Company, ICICI Direct Research

Exhibit 2: Overall revenue trend....



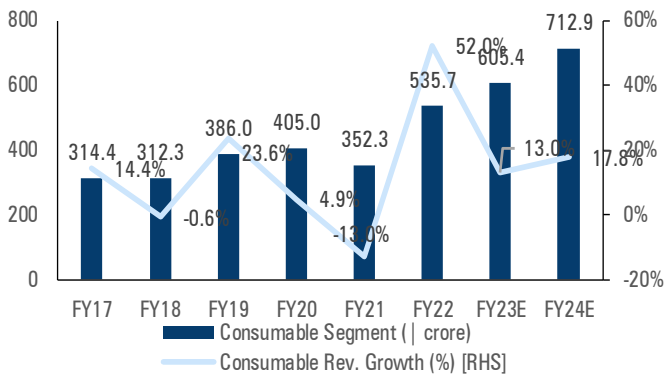
Source: Company, ICICI Direct Research

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



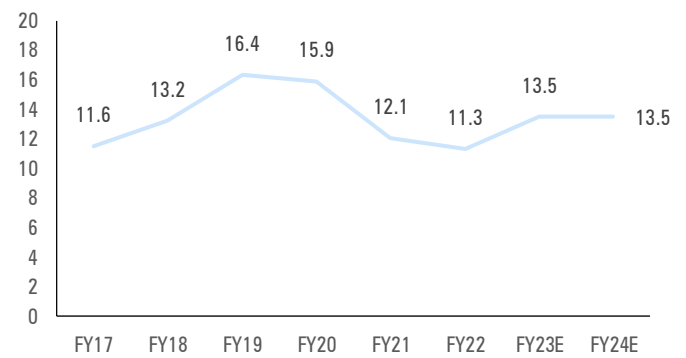
Source: Company, ICICI Direct Research

Exhibit 4: Consumable segment revenue trend



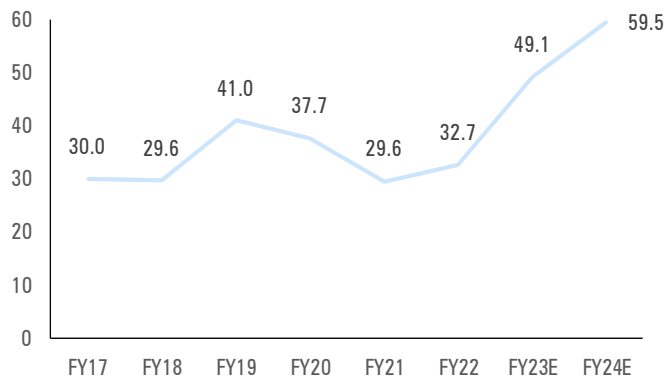
Source: Company, ICICI Direct Research

Exhibit 5: Consumable segment EBIT margin (%) trend



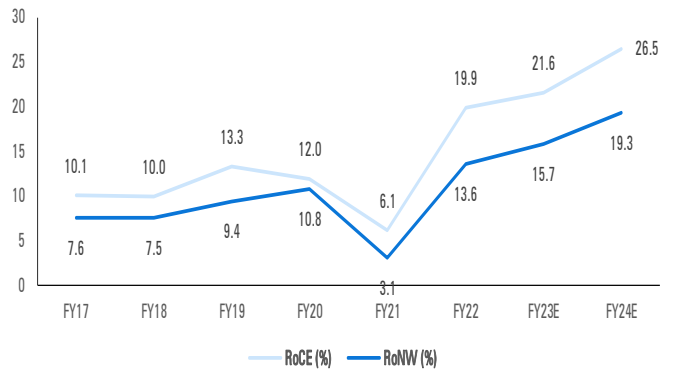
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
Net Sales	447.7	661.5	756.7	887.4
Other Operating Income	-	-	-	-
<b>Total Operating Income</b>	<b>447.7</b>	<b>661.5</b>	<b>756.7</b>	<b>887.4</b>
% Growth	(15.0)	47.8	14.4	17.3
Other Income	7.4	5.5	7.6	13.3
Total Revenue	455.1	667.0	764.3	900.7
Cost of materials consumed	326.2	421.3	514.5	594.6
Purchase of stock-in-trade	9.5	58.5	7.6	8.9
Other Expenses	66.1	84.6	103.7	120.7
Total expenditure	427.6	603.1	686.3	794.2
<b>EBITDA</b>	<b>20.1</b>	<b>58.4</b>	<b>70.4</b>	<b>93.2</b>
% Growth	(53.2)	190.4	20.6	32.4
Interest	6.4	3.7	3.8	5.3
Depreciation	11.2	10.9	12.2	13.4
PBT	(14.1)	58.2	62.0	87.7
Tax	(3.7)	13.1	15.6	22.1
<b>PAT</b>	<b>(10.4)</b>	<b>45.2</b>	<b>46.4</b>	<b>65.6</b>
% Growth	(136.1)	(535.1)	2.7	41.6
EPS	(7.6)	33.2	34.1	48.3

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement (₹ crore)				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	(10.4)	45.2	46.4	65.6
Depreciation	11.2	10.9	12.2	13.4
Interest	6.4	3.7	3.8	5.3
Other income	(25.4)	9.0	-	-
Prov for Taxation	(3.7)	13.1	15.6	22.1
Cash Flow before WC changes	(21.9)	81.8	77.9	106.5
Change in Working Capital	108.4	(10.4)	(5.8)	(23.7)
Taxes Paid	(0.6)	(13.1)	(15.6)	(22.1)
<b>Cashflow from Operating Activiti</b>	<b>85.9</b>	<b>58.4</b>	<b>56.6</b>	<b>60.7</b>
(Purchase)/Sale of Fixed Assets	(6.1)	(2.7)	(27.9)	(30.0)
(Purchase)/Sale of Investments	(6.5)	(9.2)	(6.0)	(6.0)
Other Income	-	-	-	-
<b>Cashflow from Investing Activiti</b>	<b>(12.6)</b>	<b>(11.9)</b>	<b>(33.9)</b>	<b>(36.0)</b>
Issue/(Repayment of Debt)	(53.9)	(27.3)	9.4	-
Changes in Minority Interest	-	-	-	-
Changes in Network	(37.2)	(8.0)	(17.7)	(19.0)
Interest	(6.4)	(3.7)	(3.8)	(5.3)
Others	-	-	-	-
<b>Cashflow from Financing Activiti</b>	<b>(97.5)</b>	<b>(39.1)</b>	<b>(12.1)</b>	<b>(24.4)</b>
Changes in Cash	1.2	(1.6)	10.6	0.3
Opening Cash/Cash Equivalent	3.8	5.0	3.4	14.0
Closing Cash/ Cash Equivalent	5.0	3.4	14.0	14.3

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet (₹ crore)				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	13.6	13.6	13.6	13.6
Reserves & Surplus	223.9	252.1	280.8	327.4
<b>Networth</b>	<b>237.5</b>	<b>265.7</b>	<b>294.4</b>	<b>341.0</b>
Total Debt	28.0	0.7	10.1	10.1
Deferred tax liability (net)	-	-	-	-
<b>Total Liabilities</b>	<b>270.5</b>	<b>272.5</b>	<b>308.9</b>	<b>356.3</b>
Gross Block	267.6	267.6	297.6	327.6
Acc: Depreciation	159.3	170.2	182.4	195.8
Net Block	109.3	97.4	115.2	131.8
Capital WIP	3.3	7.1	5.0	5.0
Investments	19.0	28.2	34.2	40.2
Inventory	62.5	90.0	99.5	116.7
Sundry debtors	105.4	93.2	105.9	124.2
Cash and bank balances	5.0	3.4	14.0	14.3
Loans and advances	1.2	0.4	0.5	0.6
Other Current Assets	22.3	18.9	26.5	31.1
Total current Assets	198.2	205.9	248.6	289.5
CL& Prov.	78.9	77.5	103.9	120.8
Net Current Assets	93.5	102.7	112.2	130.6
<b>Total Assets</b>	<b>268.5</b>	<b>272.5</b>	<b>308.8</b>	<b>357.0</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	(7.6)	33.2	34.1	48.3
Cash EPS	0.6	41.2	43.1	58.2
BV	174.7	195.4	216.5	250.7
DPS	13.0	12.5	13.0	14.0
Cash Per Share	117.1	125.2	134.1	144.0
<b>EBITDA Margin</b>	<b>4.5</b>	<b>8.8</b>	<b>9.3</b>	<b>10.5</b>
PBT / Net Sales	2.0	7.2	7.7	9.0
PAT Margin	1.6	5.5	6.1	7.4
Inventory days	50.9	49.6	48.0	48.0
Debtor days	85.9	51.4	51.1	51.1
Creditor days	60.3	39.2	47.0	47.0
RoE	3.1	13.6	15.7	19.3
<b>RoCE</b>	<b>6.1</b>	<b>19.9</b>	<b>21.6</b>	<b>26.5</b>
RoIC	3.7	19.0	20.9	24.6
<b>P/E</b>	<b>(112.5)</b>	<b>25.9</b>	<b>25.2</b>	<b>17.8</b>
EV / EBITDA	59.3	20.0	16.5	12.5
EV / Net Sales	2.7	1.8	1.5	1.3
Market Cap / Sales	2.6	1.8	1.5	1.3
Price to Book Value	4.9	4.4	4.0	3.4
Debt/EBITDA	1.4	0.0	0.1	0.1
<b>Net Debt / Equity</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Current Ratio	2.4	2.6	2.2	2.3
Quick Ratio	1.6	1.5	1.3	1.3

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	2,012	2,355	Buy	282324	56.8	66.1	76.7	35.4	30.4	26.2	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,846	3,660	Buy	101352	29.5	36.7	50.5	96.5	77.5	56.4	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,685	3,239	Buy	25325	64.6	89.8	92.5	41.6	29.9	29.0	16.5	19.9	17.9	13.2	15.8	14.3
Thermax (THERMA)	2,140	2,536	Hold	25499	36.5	51.7	61.0	58.6	41.4	35.1	14.6	18.3	18.7	11.4	14.3	14.4
KEC International (KECIN)	419	515	Buy	10772	12.9	15.4	30.3	32.4	27.2	13.8	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	151	209	Buy	3491	0.7	3.9	3.6	213.3	38.9	42.2	2.5	10.4	10.6	1.3	7.5	7.7
Elgi Equipment (ELGEQU)	499	520	Hold	15814	7.2	9.4	11.4	69.7	53.2	43.7	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	108	135	Buy	78799	3.2	3.8	4.5	33.7	28.4	24.0	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	668	745	Buy	8787	42.9	38.6	42.8	15.6	17.3	15.6	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	5,070	5,215	Buy	25065	77.0	108.7	130.3	65.8	46.6	38.9	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	3,594	3,561	Buy	27034	43.5	61.3	71.2	82.6	58.6	50.5	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	149	220	Buy	1444	7.8	9.2	12.1	19.1	16.2	12.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	325	365	Buy	3870	8.8	15.1	19.2	36.9	21.5	16.9	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1355	1,555	Buy	7031	18.1	22.0	30.4	74.8	61.7	44.6	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,619	3,300	Buy	87577	151.9	132.7	145.0	17.2	19.7	18.1	27.4	30.5	30.1	26.3	23.1	22.8
ABB (ABB)	3,093	3,275	Buy	65543	25.5	40.5	37.2	121.4	76.4	83.1	45.0	49.2	57.3	11.2	12.9	15.1
Ador Welding (ADOWEL)	858	1,014	Buy	1167	33.2	34.1	48.3	25.8	25.2	17.8	19.9	21.6	26.5	13.6	15.7	19.3
Bharat Dynamics (BHADYN)	933	1,200	Buy	17100	27.3	33.0	42.7	34.2	28.3	21.9	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	833	562	Buy	16801	30.3	31.2	40.1	27.5	26.7	20.8	20.0	18.1	20.9	16.1	14.6	16.6
Solar Industries India (SOLIN)	3,980	4,701	Buy	36015	48.8	76.6	99.7	81.6	52.0	39.9	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	917	1,085	Buy	908	62.7	49.5	72.3	14.6	18.5	12.7	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	422	520	Buy	689	24.7	28.7	34.6	17.1	14.7	12.2	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,930	2,180	Buy	6716	43.7	50.0	62.2	44.2	38.6	31.0	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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