

## Reasonable performance amid economic challenges

Ador Welding (AWL) reported consolidated revenues at ₹ 139.9 crore, down 6.9% YoY, impacted by disrupted business activities across sectors. Revenue for FY20 was at ₹ 526.5 crore, up 2.6% YoY. EBITDA was at ₹ 7.6 crore, down 23.2% YoY impacted by higher other operating expenses owing to one-time provisions. EBITDA margins fell 160 bps YoY to 7.6%. However, gross margins for Q4FY20, FY20 improved 280 bps, 100 bps to ~29%, 30.4%, respectively. EBITDA margin for FY20 was at 8.2% with a marginal decline of 40 bps YoY. PAT was at ₹ 6.9 crore, down 8.8% YoY, supported by lower effective tax rate for the quarter. For FY20, PAT was at ₹ 28.7 crore, up 17.1% YoY, aided by new tax regime benefit. AWL lost ~₹ 30-40 crore revenue in Q4FY20 due to Covid-19 lockdowns.

## Consumable segment to lead sustained long term growth...

For Q4FY20, consumable segment revenue was at ₹ 106.8 crore (contributes ~75% to revenue), down 4.9% YoY while EBIT margin fell 600bps to 13.2% impacted by higher other expenses, which included one-time provisions. It is expected to sustain EBIT margins at ~14-16% in the next two years. Consumable segment RoCE for FY20 was at 37.7%. We expect it to sustain in the range of 35-40% aided by mix of operating efficiencies, product mix and innovation & growing investments in infrastructure and manufacturing sectors once the economy starts reviving. Currently, operations are running at ~50% of pre-Covid levels. For FY20, consumable segment volumes grew 5.3% YoY to ~40000 MT and are expected to sustain these levels once business activities normalise.

## Green shoots in PEB business; to aid PAT, RoCE

Equipment and project & engineering business revenue fell 10.5% YoY to ₹ 34 crore while it reported loss of ₹ 1.7 crore at EBIT level (vs. ₹ 7.1 crore EBIT loss in Q4FY19). For FY20, this segment reported revenue at ₹ 122.9 crore, down 3.7%, YoY. Within this segment, equipment business fell ~4.7%, YoY and project engineering business (PEB) grew 18% YoY backed by decent execution for FY20. For FY20, PEB business reported PBT level loss of ~₹ 17 crore while equipment business reported PBT level profit of ~₹ 3.5 crore. We expect PEB losses to reduce further in next two years with focus on project execution ramp-up and cost efficiencies. Equipment business may continue to face headwinds in the near term.

## Valuation & Outlook

AWL has performed reasonably well in consumables business aided by gross margin improvement owing to product mix while PEB business has seen some green shoots and holds key. Debt, working capital position (increased to 90 days in FY20) will be closely watched amid economic slowdown. We value AWL on 15x FY22E EPS and arrive at a revised target price of ₹ 310. We maintain our **BUY** rating. Key risks: Delay in PEB execution, working capital stress.

### Key Financial Summary

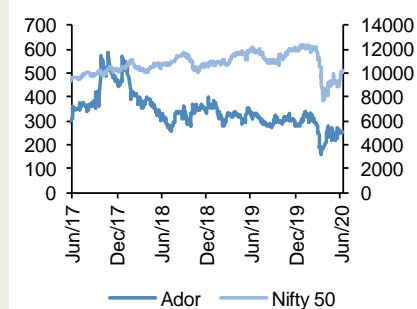
(₹Crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR FY20-22E
Revenue (₹crore)	458.3	513.3	526.5	405.2	540.8	1.3%
EBITDA (₹crore)	34.0	43.9	42.9	28.5	47.8	5.5%
EBITDA margin (%)	7.4	8.6	8.2	7.0	8.8	
Net Profit (₹crore)	18.4	24.5	28.7	13.0	28.1	-1.2%
EPS (₹)	13.5	18.0	21.1	9.5	20.6	
P/E (x)	19.4	14.5	12.4	27.5	12.7	
Price / Book (x)	1.5	1.4	1.3	1.3	1.2	
EV/EBITDA (x)	12.4	9.0	10.1	15.2	8.6	
RoCE (%)	10.0	13.3	12.0	7.2	12.7	
RoE (%)	7.5	9.4	10.7	4.8	9.7	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization	₹356 Crore
Total Debt (FY 20)	₹82 Crore
Cash and Inv (FY 20)	₹6 Crore
EV (FY 20)	₹432 Crore
52 week H/L (₹)	360 / 158
Equity capital	₹13.6 Crore
Face value (₹)	10.0

### Price Performance



### Key Highlights

- For Q4FY20, consumables segment revenue came in at ₹ 106.8 crore (which contributes ~75% to total revenue), down 4.9% on YoY
- For Q4FY20, equipment and project & engineering business revenue fell 10.5% YoY to ₹ 34 crore
- Value AWL on 15x FY22E EPS and arrive at a revised target price of ₹ 310. Maintain BUY rating

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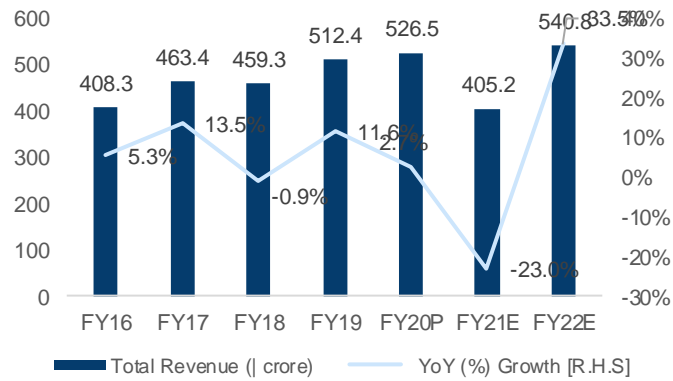
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**Exhibit 1: Variance Analysis**

Year	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Income from Operation	139.9	150.2	(6.9)	127.9	9.4	Impacted by 4.9% YoY decline in consumable segment (which contributes ~75% to revenue)
Other Income	1.6	1.9	(13.7)	2.6	(36.7)	
Cost of materials consumed	100.9	109.29	(7.7)	79.91	26.3	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	(1.4)	1.8	(181.8)	6.2	(123.1)	
Employee cost	9.5	11.0	(14.0)	11.7	(19.0)	
Other expenses	20.3	14.3	42.2	18.0	12.7	Other expenses increase due to some one-time provisions
EBITDA	10.6	13.9	(23.2)	12.0	(11.6)	
EBITDA Margin (%)	7.6	9.2	-162 bps	9.4	-181 bps	
Depreciation	2.9	2.6	12.2	2.7	5.9	
Interest	2.2	2.8	(23.9)	2.2		
PBT	7.3	10.4	(30.0)	9.7	(25.2)	
Taxes	0.4	2.8	(86.6)	2.7	(85.8)	
PAT	6.9	7.5	(8.8)	7.0	(2.0)	
<b>Segment Revenue</b>	<b>Q4FY 20</b>	<b>Q4FY 19</b>	<b>YoY (%)</b>	<b>Q3FY 20</b>	<b>QoQ (%)</b>	
Consumable	106.8	112.3	(4.9)	93.7	14.0	
% Contribution	76.4	74.8		73.3		
PEB	34.0	38.0	(10.5)	34.3	(1.0)	
% Contribution	24.3	25.3		26.8		

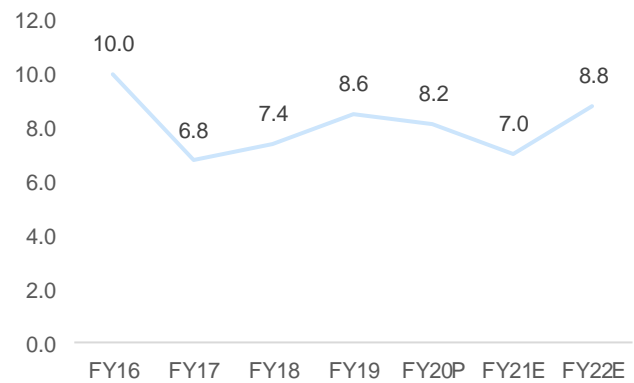
Source: Company, ICICI Direct Research

**Exhibit 2: Total revenue trend....**



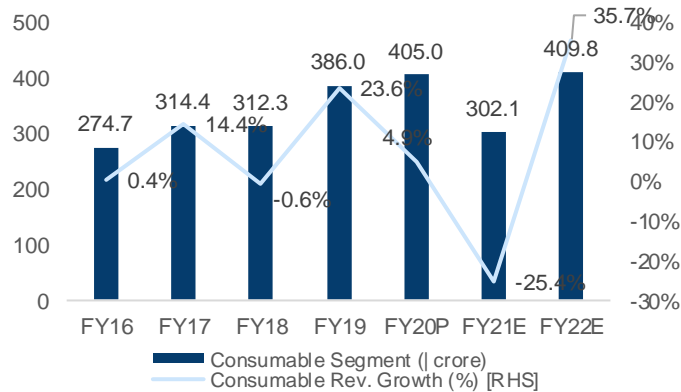
Source: Company, ICICI Direct Research

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



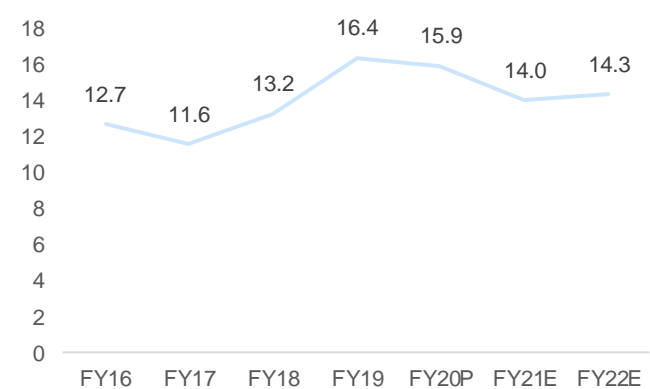
Source: Company, ICICI Direct Research

**Exhibit 4: Consumable segment revenue trend**



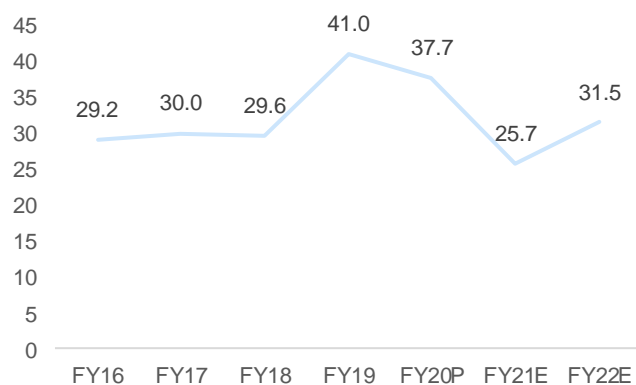
Source: Company, ICICI Direct Research

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



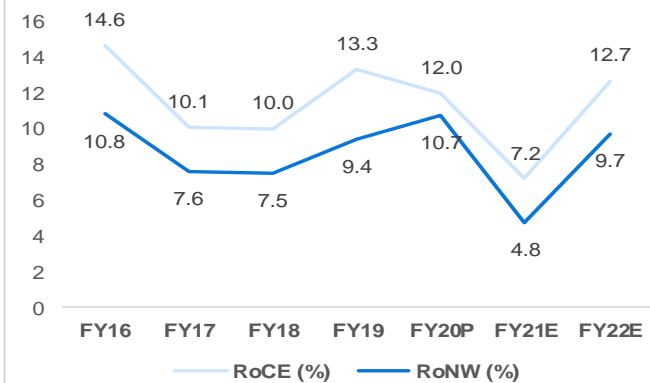
Source: Company, ICICI Direct Research

**Exhibit 2: Consumable segment RoCE trend..**



Source: Company, ICICI Direct Research

**Exhibit 3: Overall RoE, RoCE trend....**



Source: Company, ICICI Direct Research

**Exhibit 4: Profit & loss statement** (₹ crore)

(₹Crore)	FY19	FY20P	FY21E	FY22E
Net Sales	513.3	526.5	400.2	535.8
Other Operating Income	-	-	5.0	5.0
<b>Total Operating Incon</b>	<b>513.3</b>	<b>526.5</b>	<b>405.2</b>	<b>540.8</b>
% Growth	12.0	2.6	(23.0)	33.5
Other Income	10.4	10.1	8.1	10.8
Total Revenue	523.6	536.6	413.3	551.6
Cost of materials consum	350.8	360.3	272.9	367.5
Purchase of stock-in-tra	9.7	6.5	6.1	8.4
Other Expenses	65.5	74.7	62.0	72.2
Total expenditure	469.4	483.6	376.7	493.0
<b>EBITDA</b>	<b>43.9</b>	<b>42.9</b>	<b>28.5</b>	<b>47.8</b>
% Growth	29.1	(2.2)	(33.6)	67.4
Interest	9.1	8.6	8.4	9.1
Depreciation	9.7	10.8	10.9	12.0
PBT	35.5	33.7	17.3	37.5
Tax	11.0	5.0	4.4	9.4
<b>PAT</b>	<b>24.5</b>	<b>28.7</b>	<b>13.0</b>	<b>28.1</b>
% Growth	33.3	17.1	(54.9)	116.7
EPS	18.0	21.1	9.5	20.6

Source: Company, ICICI Direct Research

**Exhibit 5: Cash flow statement** (₹ crore)

(₹Crore)	FY19	FY20P	FY21E	FY22E
Profit after Tax	24.5	28.7	13.0	28.1
Depreciation	9.7	10.8	10.9	12.0
Interest	9.1	8.6	8.4	9.1
Other income	-	-	-	-
Prov for Taxation	11.0	5.0	4.4	9.4
Cash Flow before WC change	54.3	53.1	36.6	58.6
Change in Working Capital	24.7	(32.1)	(14.1)	5.4
Taxes Paid	(10.2)	(9.5)	(4.4)	(9.4)
<b>Cashflow from Operating A</b>	<b>68.8</b>	<b>11.4</b>	<b>18.2</b>	<b>54.6</b>
(Purchase)/Sale of Fixed Ass	(22.6)	(20.5)	(3.0)	(12.5)
(Purchase)/Sale of Investmen	(1.1)	0.7	-	-
Other Income	-	-	-	-
<b>Cashflow from Investing A</b>	<b>(23.7)</b>	<b>(19.9)</b>	<b>(3.0)</b>	<b>(12.5)</b>
Issue/(Repayment of Debt)	(16.4)	16.9	-	(7.0)
Changes in Minority Interest	-	-	-	-
Changes in Networth	(8.2)	(22.7)	(8.2)	(11.5)
Interest	(9.1)	(8.6)	(8.4)	(9.1)
Others	(0.9)	2.1	-	-
<b>Cashflow from Financing A</b>	<b>(34.5)</b>	<b>(12.3)</b>	<b>(16.6)</b>	<b>(27.6)</b>
Changes in Cash	10.7	(20.7)	(1.4)	14.5
Opening Cash/Cash Equivalen	16.2	26.8	6.1	4.7
Closing Cash/ Cash Equivalen	26.8	6.1	4.7	19.2

Source: Company, ICICI Direct Research

**Exhibit 6: Balance Sheet** (₹ crore)

(₹Crore)	FY19	FY20P	FY21E	FY22E
Share Capital	13.6	13.6	13.6	13.6
Reserves & Surplus	247.8	253.8	258.6	275.2
<b>Networth</b>	<b>261.4</b>	<b>267.4</b>	<b>272.2</b>	<b>288.8</b>
Total Debt	65.0	81.9	81.9	74.9
Deferred tax liability (net)	8.9	4.3	4.3	4.3
<b>Total Liabilities</b>	<b>338.3</b>	<b>361.3</b>	<b>358.6</b>	<b>368.2</b>
Gross Block	263.4	285.0	287.5	299.5
Acc: Depreciation	157.1	167.8	178.8	190.7
Net Block	106.3	117.2	108.8	108.8
Capital WIP	1.0	0.3	0.8	1.3
Investments	13.2	12.5	12.5	12.5
Inventory	51.6	62.2	63.6	63.9
Sundry debtors	84.6	129.8	128.1	128.6
Cash and bank balances	26.8	6.1	4.7	19.2
Loans and advances	1.6	1.6	1.2	1.6
Other Current Assets	28.9	19.4	20.0	22.5
Total current Assets	275.4	281.1	275.6	289.3
CL& Prov.	70.5	64.1	66.9	71.5
Net Current Assets	184.7	196.0	198.8	206.2
<b>Total Assets</b>	<b>338.2</b>	<b>361.3</b>	<b>358.5</b>	<b>368.3</b>

Source: Company, ICICI Direct Research

**Exhibit 7: Key ratios**

(Year-end March)	FY19	FY20P	FY21E	FY22E
EPS	18.0	21.1	9.5	20.6
Cash EPS	25.2	29.0	17.6	29.4
BV	192.2	196.7	200.2	212.4
DPS	5.0	13.0	5.0	7.0
Cash Per Share	115.5	123.4	131.5	140.3
<b>EBITDA Margin</b>	<b>8.6</b>	<b>8.2</b>	<b>7.0</b>	<b>8.8</b>
PBT / Net Sales	6.7	6.1	4.3	6.6
PAT Margin	4.8	5.5	3.2	5.2
Inventory days	36.7	43.1	57.3	43.1
Debtor days	60.2	90.0	115.4	86.8
Creditor days	47.6	42.2	57.3	46.1
RoE	9.4	10.7	4.8	9.7
<b>RoCE</b>	<b>13.3</b>	<b>12.0</b>	<b>7.2</b>	<b>12.7</b>
RoIC	15.9	11.6	6.6	13.4
<b>P/E</b>	<b>14.5</b>	<b>12.4</b>	<b>27.5</b>	<b>12.7</b>
EV / EBITDA	9.0	10.1	15.2	8.6
EV / Net Sales	0.8	0.8	1.1	0.8
Market Cap / Sales	0.7	0.7	0.9	0.7
Price to Book Value	1.4	1.3	1.3	1.2
Debt/EBITDA	1.5	1.9	2.9	1.6
<b>Net Debt / Equity</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>
Current Ratio	2.4	3.3	3.2	3.0
Quick Ratio	1.6	2.4	2.2	2.1

Source: Company, ICICI Direct Research

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