

## Focusing on core welding business to regain growth...

We recently attended the analyst meet of Ador Welding (AWL). AWL aims to focus on core welding business, reduce legacy costs while streamlining projects business to regain growth momentum and improve profitability. In the domestic welding business, it aims to focus on improving margins, realisations with reconfiguration of manufacturing systems, cost rationalisation, advanced product developments, reduction of logistics costs and optimised product mix. In welding automation business, it aims to focus on improving strike ratio of orders, enhance product portfolio. In projects business, it aims to focus on flares, process equipment business, stable revenue growth, increase margins, better cash flows and reduced costs.

## Consumable, equipment business to drive long term growth...

In Q4FY21, consumables segment revenue came in at ₹ 122.2 crore (which contributes ~76% to revenue), up 14.3% YoY, 14% QoQ while equipment segment grew 49.6% to ₹ 26.6 crore YoY. Consumables segment is expected to sustain EBIT margins in the ~15-16% range and RoCE in the 35-40% range aided by mix of operating efficiencies, product mix and execution ramp-up in infrastructure and manufacturing sectors amid economic recovery. For FY21, consumable segment volumes declined ~15% YoY to ~37736 MT. We expect consumables volumes to grow at ~8% CAGR to 43525 MT in FY23E. Also, equipment segment EBIT margin improved to 17.4% aided by demand revival.

## Clean-up of projects business to aid PAT, RoCE...

While projects business revenue declined 19.2% to ₹ 13.1 crore, it is EBIT positive with 7.8% margin (vs. ₹ 8.2 crore EBIT loss in Q3FY21) indicating a turnaround. In FY21, this segment reported revenue at ₹ 24.7 crore, down 47.4%, YoY badly affected by project headwinds. However, we expect projects business focus to be on project closures of legacy projects and focus only on profitable projects in flares and process equipment, going forward. AWL has provided ₹ 15.5 crore as provision for doubtful debt and bad debt written off in projects business as one-time clean-up of books. The provision was made towards cost overrun in a few international projects.

## Valuation & Outlook

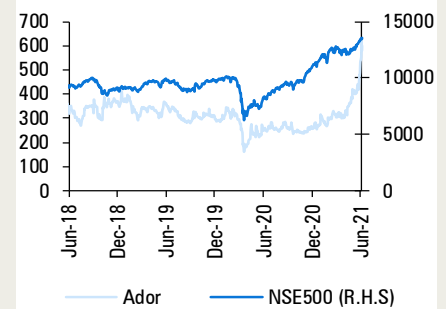
AWL reported a consistent performance in the consumables segment while equipment business rebounded with margin improvement and projects business registered positive EBIT, indicating a better performance, going ahead. Debt, working capital position improved further. We believe better sales volumes in consumables, rebound in equipment sales and projects business turnaround would drive growth and profitability in coming years. We value AWL on 20x FY23E EPS and arrive at a revised target price of ₹ 735 (earlier ₹ 590) and maintain our **BUY** rating.



### Particulars

Particular	Amount
Market Capitalization	₹ 815 Crore
Total Debt (FY21)	₹ 28 Crore
Cash and Inv (FY21)	₹ 17 Crore
EV (FY21)	₹ 825 Crore
52 week H/L (₹)	494 / 235
Equity capital	₹ 13.6 Crore
Face value (₹)	10.0

### Price Performance



### Key risks to our call

- Sustained slowdown in Infrastructure and industrial project executions could adversely affect demand for welding consumables
- Further headwinds in projects business could affect long term prospects and profitability of the company

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### Key Financial Summary

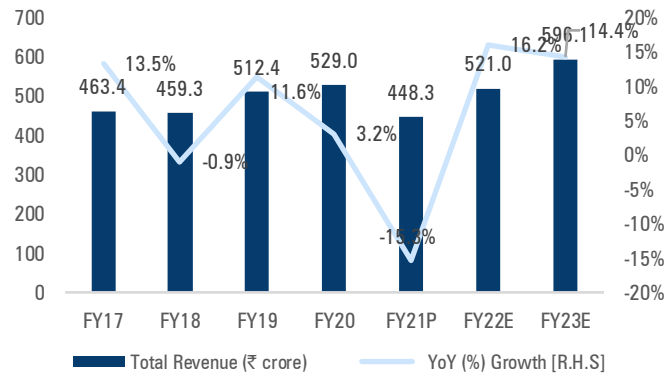
(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY20-FY23E
Revenue (₹ crore)	513.3	526.5	447.7	521.0	596.1	4.2%
EBITDA (₹ crore)	43.9	42.9	20.1	59.9	71.5	18.5%
EBITDA margin (%)	8.6	8.2	4.5	11.5	12.0	
Net Profit (₹ crore)	24.5	28.8	(10.4)	41.7	50.0	20.2%
EPS (₹)	18.0	21.2	(7.6)	30.7	36.8	
P/E (x)	33.2	28.3	(78.5)	19.5	16.3	
Price / Book (x)	3.1	3.0	3.4	3.0	2.7	
EV/EBITDA (x)	19.4	20.8	41.1	13.7	11.2	
RoCE (%)	13.3	12.0	6.1	19.9	21.2	
RoE (%)	9.4	10.8	3.1	15.6	16.4	

Source: Company, ICICI Direct Research

## Key Analyst Meet Highlights

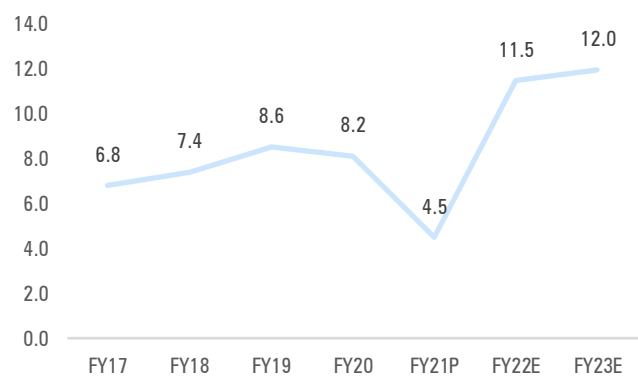
- **Domestic welding business:** Opportunity to improve margins in and realisation in domestic welding business by the way of reconfiguration of manufacturing systems, more cost rationalisation, advanced product developments, reduction of logistics costs and optimised product mix
- **International welding 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:** It is currently at a fairly nascent stage while the focus is on improving strike ratio of orders, enhance product portfolio. Within equipment business, welding equipment, welding automation segments are expected to drive growth while gas cutting/plasma cutting may see moderate growth
- **Projects business:** It plans to consolidate business offerings, to focus on flares and process equipment business, focus on stable revenue growth, increase margins, better cash flows and reduce costs. It will use technology innovation to increase delivery efficiency.
- **Commodity price impact:** The company is able to pass on prices with a lag of approximately a month. 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 is expected in the exports business with revenue share increasing from 8-10% in FY21 to 15-20% over the next two to three years
- **Capex:** AWL has guided for ₹ 15-20 crore capex for FY22, which is at similar levels to previous year
- **Outlook:** Overall, better demand outlook for consumables and equipment business in the long term is 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 long term

Exhibit 2: Total revenue trend....



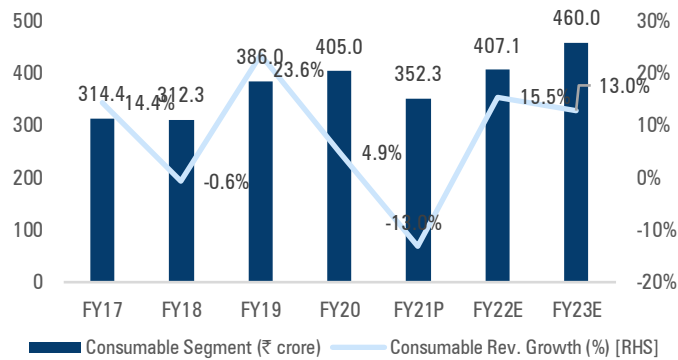
Source: Company, ICICI Direct Research

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



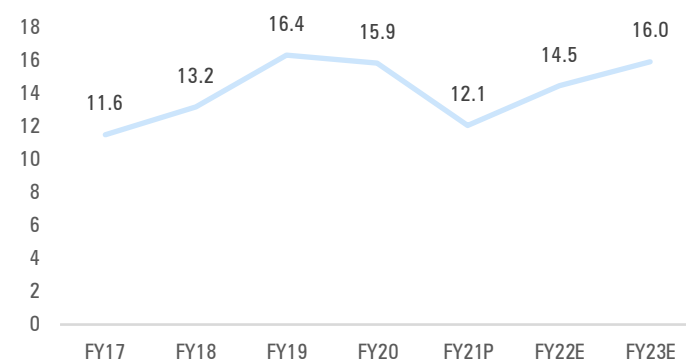
Source: Company, ICICI Direct Research

Exhibit 4: Consumable segment revenue trend



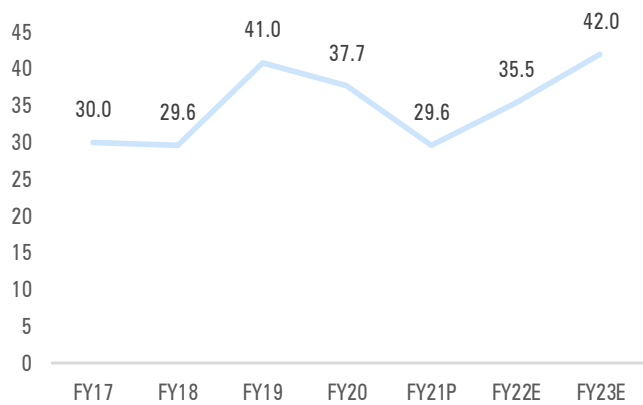
Source: Company, ICICI Direct Research

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



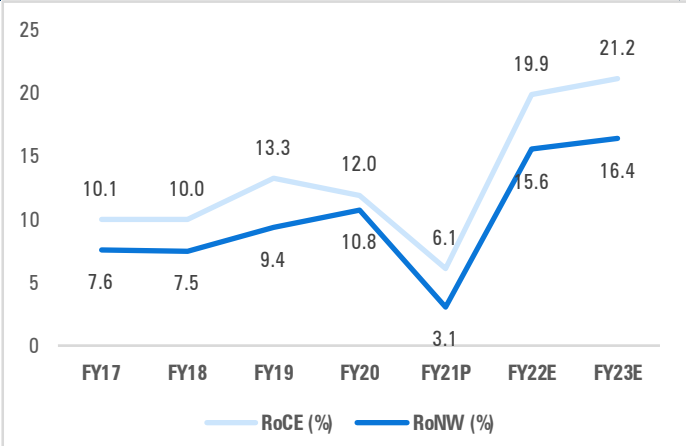
Source: Company, ICICI Direct Research

Exhibit 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	521.0	596.1
Other Operating Income	-	-	-	-
<b>Total Operating Income</b>	<b>526.5</b>	<b>447.7</b>	<b>521.0</b>	<b>596.1</b>
% Growth	2.6	(15.0)	16.4	14.4
Other Income	10.1	7.4	10.9	11.9
Total Revenue	536.6	455.1	531.9	608.0
Cost of materials consumed	360.3	326.2	350.6	401.1
Purchase of stock-in-trade	6.5	9.5	3.6	6.0
Other Expenses	74.7	66.1	67.2	71.5
Total expenditure	483.6	427.6	461.1	524.5
<b>EBITDA</b>	<b>42.9</b>	<b>20.1</b>	<b>59.9</b>	<b>71.5</b>
% Growth	(2.2)	(53.2)	198.1	19.4
Interest	8.6	6.4	3.1	3.6
Depreciation	10.8	11.2	12.0	13.0
PBT	33.7	(14.1)	55.7	66.8
Tax	5.0	(3.7)	14.0	16.8
<b>PAT</b>	<b>28.8</b>	<b>(10.4)</b>	<b>41.7</b>	<b>50.0</b>
% Growth	17.2	(136.1)	(501.7)	19.9
EPS	21.2	(7.6)	30.7	36.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement (₹ crore)				
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Profit after Tax	28.8	7.3	41.7	50.0
Depreciation	10.8	11.2	12.0	13.0
Interest	8.6	6.4	3.1	3.6
Other income	-	-	-	-
Prov for Taxation	5.0	(3.7)	14.0	16.8
Cash Flow before WC changes	53.1	21.2	70.9	83.4
Change in Working Capital	(32.1)	101.3	(27.9)	(7.1)
Taxes Paid	(9.5)	(0.6)	(14.0)	(16.8)
<b>Cashflow from Operating Activities</b>	<b>11.4</b>	<b>121.9</b>	<b>29.0</b>	<b>59.5</b>
(Purchase)/Sale of Fixed Assets	(20.5)	(6.1)	(14.0)	(19.7)
(Purchase)/Sale of Investments	0.7	(6.5)	5.0	(6.0)
Other Income	-	-	-	-
<b>Cashflow from Investing Activities</b>	<b>(19.8)</b>	<b>(12.6)</b>	<b>(9.0)</b>	<b>(25.7)</b>
Issue/(Repayment of Debt)	16.9	(53.9)	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(22.8)	(37.1)	(11.5)	(13.1)
Interest	(8.6)	(6.4)	(3.1)	(3.6)
Others	1.2	-	-	-
<b>Cashflow from Financing Activities</b>	<b>(13.2)</b>	<b>(97.4)</b>	<b>(14.6)</b>	<b>(16.7)</b>
Changes in Cash	(21.6)	11.9	5.4	17.1
Opening Cash/Cash Equivalent	26.8	5.2	17.1	22.5
Closing Cash/ Cash Equivalent	5.2	17.1	22.5	39.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet (₹ crore)				
(₹ Crore)	FY20	FY21P	FY22E	FY23E
Share Capital	13.6	13.6	13.6	13.6
Reserves & Surplus	253.8	224.0	254.2	291.2
<b>Networth</b>	<b>267.4</b>	<b>237.6</b>	<b>267.8</b>	<b>304.8</b>
Total Debt	81.9	28.0	28.0	28.0
Deferred tax liability (net)	4.3	-	-	-
<b>Total Liabilities</b>	<b>360.4</b>	<b>270.6</b>	<b>298.9</b>	<b>338.7</b>
Gross Block	282.8	286.1	300.1	318.1
Acc: Depreciation	165.6	176.8	188.8	201.8
Net Block	117.2	109.3	111.3	116.3
Capital WIP	0.3	3.3	3.3	5.0
Investments	12.5	19.0	14.0	20.0
Inventory	62.2	62.5	63.7	67.0
Sundry debtors	129.8	105.4	104.7	105.5
Cash and bank balances	5.2	17.1	22.5	39.6
Loans and advances	1.6	1.2	1.3	1.5
Other Current Assets	19.4	22.4	20.8	23.8
Total current Assets	280.1	210.4	214.6	239.2
CL& Prov.	64.1	78.9	75.6	76.0
Net Current Assets	195.1	105.7	111.7	133.4
<b>Total Assets</b>	<b>360.3</b>	<b>270.6</b>	<b>298.8</b>	<b>338.7</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	21.2	(7.6)	30.7	36.8
Cash EPS	29.1	0.6	39.5	46.4
BV	196.6	174.7	197.0	224.1
DPS	13.0	5.0	7.0	8.0
Cash Per Share	121.8	130.0	138.8	148.4
<b>EBITDA Margin</b>	<b>8.2</b>	<b>4.5</b>	<b>11.5</b>	<b>12.0</b>
PBT / Net Sales	6.1	2.0	9.2	9.8
PAT Margin	5.5	1.6	8.0	8.4
Inventory days	43.1	50.9	44.6	41.0
Debtor days	90.0	85.9	73.4	64.6
Creditor days	42.2	60.3	49.5	43.5
RoE	10.8	3.1	15.6	16.4
<b>RoCE</b>	<b>12.0</b>	<b>6.1</b>	<b>19.9</b>	<b>21.2</b>
RoiC	11.6	3.7	19.9	22.7
<b>P/E</b>	<b>28.3</b>	<b>(78.5)</b>	<b>19.5</b>	<b>16.3</b>
EV / EBITDA	20.8	41.1	13.7	11.2
EV / Net Sales	1.7	1.8	1.6	1.3
Market Cap / Sales	1.5	1.8	1.6	1.4
Price to Book Value	3.0	3.4	3.0	2.7
Debt/EBITDA	1.9	1.4	0.5	0.4
<b>Net Debt / Equity</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Current Ratio	3.3	2.4	2.5	2.6
Quick Ratio	2.4	1.6	1.7	1.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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