

## Ador Fontech to amalgamate with Ador Welding...

**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

**Q4FY22 Results:** AWL reported decent Q4FY22 results.

- Revenues came in at ₹ 199.8 crore, up 23.6% YoY, 14.6% QoQ
- EBITDA came in at ₹ 17.7 crore up 13.3% YoY, aided by reduced losses in flares & process equipment business
- Consequently, adjusted PAT was at ₹ 12 crore, up 20.8% 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 ₹ 890 i.e. 18x 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 CAGR of 13.5% in FY22-24E with margins rebounding to 11% levels

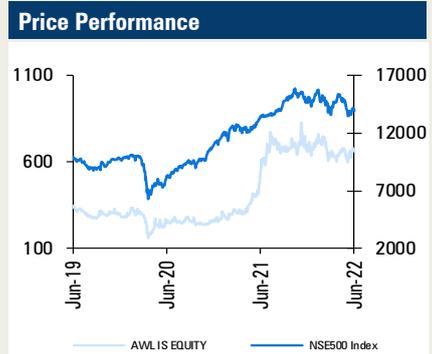
**Alternate Stock Idea:** Besides AWL, we also like AIA Engineering in our coverage.

- 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 ₹ 2570



Particulars	
Particular	Amount
Market Capitalization	₹ 927 Crore
Total Debt (FY22)	₹ 1 Crore
Cash and Inv (FY22)	₹ 3 Crore
EV (FY22)	₹ 924 Crore
52 week H/L (₹)	880 / 535
Equity capital	₹ 13.6 Crore
Face value (₹)	10.0

Shareholding pattern (%)				
(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	56.9	56.9	56.9	56.9
FII	0.0	0.2	0.3	0.2
DII	9.8	6.6	6.7	6.7
Others	33.3	36.3	36.1	36.2



**Recent event & Key risks**

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

**Research Analyst**

Chirag Shah  
Shah.chirag@icicisecurities.com

Ameya Mahurkar  
Ameya.mahurkar@icicisecurities.com

### 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%	751.3	851.5	13.5%
EBITDA (₹ crore)	42.9	20.1	58.4	14.2%	70.6	92.0	25.5%
EBITDA margin (%)	8.2	4.5	8.8		9.4	10.8	
Net Profit (₹ crore)	28.8	(10.4)	45.2	15.2%	51.1	67.2	-
EPS (₹)	21.2	(7.6)	33.2		37.5	49.4	
P/E (x)	32.2	(89.3)	20.5		18.2	13.8	
Price / Book (x)	3.5	3.9	3.5		3.1	2.7	
EV/EBITDA (x)	23.4	47.6	16.6		13.7	10.4	
RoCE (%)	12.0	6.1	19.9		23.7	26.4	
RoE (%)	10.8	3.1	13.6		17.1	19.4	

## Key takeaways of recent quarter & key triggers

### Q4FY22 Results: Decent growth, margins impacted amid challenges...

- Ador Welding (AWL) reported consolidated revenues at ₹ 199.8 crore, up 23.6% YoY and 14.6% QoQ led by better performance in consumables and equipment business
- For Q4FY22, the consumables segment revenue came in at ₹ 166 crore (which contributed ~83% to total revenue), up 36% YoY and 19% QoQ. Equipment & automation segment grew marginally by 0.6% to ₹ 26.8 crore YoY and grew 8.6% QoQ. While flares & process equipment business revenue came in at ₹ 7.1 crore, it de-grew 45.4% YoY. EBIT margin for consumable business improved 130 bps YoY to 11.2% but declined sequentially by 170 bps. Equipment & automation EBIT margin declined to 5.7% (vs. 17.4% in Q4FY21) while flares & process equipment business margin came in at 1.4% vs 7.8% in Q4FY21
- EBITDA came in at ₹ 17.7 crore, increasing 13.3% YoY and 7.7% QoQ. EBITDA margin came in at 8.8%, down 81 bps YoY and 57 bps QoQ. Gross margins for Q4FY22 were at 29% vs. 29.1% in Q4FY21. It declined 130 bps sequentially
- Adjusted PAT came in at ₹ 12 crore, up 20.8% YoY and 15.1% QoQ

### Key triggers and update on amalgamation of Ador Fontech

- In FY22, consumable business volumes grew 33% YoY to 50,100 MT vs. 37,700 MT in FY21. At the same time, equipment business volumes grew 25.6% YoY to 10300 MT
- Ador Welding's revenue comes from various sectors with majority from general infra, heavy engineering, project engineering, railways, ship building, auto and oil & gas
- Ador Welding is quite upbeat on flares & process equipment (FPED) segment as they have targeted ₹ 50 crore of revenue for FY23E vs. ₹ 27 crore in FY22, and in coming years they are expecting it may reach ~ ₹ 100 crore with the return ratios of 18-20%. Currently, they have ~₹ 31 crore of orders in hand and the company is targeting ₹ 75 crore of orders for FY23. Also AWL is trying to reduce cost by rigorous monitoring, improving resource planning and execution to avoid delays. They are having discussions to develop processes for engineering tool development. AWL is trying to enhance its flare portfolio by identifying new technology partners
- FY23 focus areas will be investments in technology upgradation for welding consumables. It plans to strengthen its distribution as 65% of its revenue comes from distribution. The management also highlighted that online sales is also picking up with B2B as well as B2C
- International business: AWL is focusing more on exports business in the coming years and has set a target of 15-18% revenue coming from exports. Exports will be one of the growth drivers for the company. Also, it will focus on product mix, Make in India and upgradation of IT systems
- EBITDA margins are struggling around 10%. Historically, it used to be 15-18%. The company is focusing on improving margins, going forward, but in a step by step manner. The management guided that there will be quarter by quarter improvement in margins
- The working capital days came down from 87 to 69 days in FY22. Also, it has reduced debt from ₹ 28 crore to nil in FY22
- Why merge with Ador Fontech - This will achieve Ador group's vision of becoming a market leader and consolidate market position. Also, it will provide a diversified portfolio of products, economies of scale, optimal use of distribution network, sales force, human resources, manufacturing units, supply chain, research & training facilities

- Overall demand scenario looks fine as per management. In May there was a blip in demand for two to three weeks but from June onwards it started picking up
- Welding equipment industry is currently at ₹ 7500-8000 crore. Currently, the industry is subdivided as organised with 55% market share and unorganised with 45% market share. In that, AWL's market share in consumable is ~15% and 5-6% in equipment segment

**Exhibit 1: Variance Analysis**

Year	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Income from Operation	199.8	161.7	23.6	174.3	14.6	Revenue growth aided by better performance in consumables and equipment segments
Other Income	1.4	2.4	(40.0)	1.2	19.0	
Cost of materials consumed	126.1	119.89	5.2	135.8	(7.2)	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	15.7	(5.3)	(395.3)	(14.3)	(210.2)	
Employee cost	12.0	10.8	11.4	13.2	(9.1)	
Other expenses	28.3	20.7	36.4	23.1	22.4	
EBITDA	17.7	15.6	13.3	16.4	7.7	
EBITDA Margin (%)	8.8	9.6	-81 bps	9.4	-57 bps	Margins impacted owing to decline in gross margins
Depreciation	2.8	2.8	1.4	2.7	5.6	
Interest	0.7	1.5	(51.0)	0.9		
PBT	15.5	13.7	13.4	14.0	10.7	
Taxes	4.0	(2.3)	(277.9)	3.6	11.0	
Adjusted PAT	12.0	10.0	20.8	10.5	15.1	
<b>Segment Revenue</b>	<b>Q4FY22</b>	<b>Q4FY21</b>	<b>YoY (%)</b>	<b>Q3FY22</b>	<b>QoQ (%)</b>	
Consumable	166.0	122.2	35.9	139.5	19.0	
% Contribution	83.1	75.6		80.1		
Equipments & Automation	26.8	26.6	0.6	24.6	8.6	
% Contribution	13.4	16.5		14.1		
Flares & Process Equipment	7.1	13.1	(45.4)	10.5	(31.8)	
% Contribution	6.0	7.0		3.9		
Net Sales	199.8	161.7		174.3		

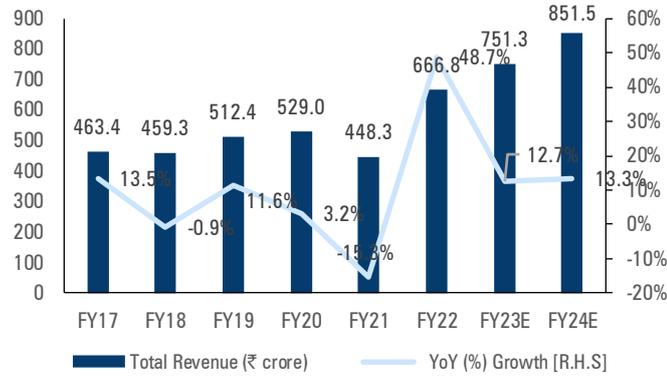
Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20	FY21	FY22	FY23E		FY24E			
(₹ Crore)	Actual	Actual	New	Old	New	% Change	Old	New	% Change
Revenue	527	448	661	653	751	15	-	851	-
EBITDA	43	20	58	78	71	-9	-	92	-
EBITDA Margin (%)	8.2	4.5	8.8	12.0	9.4	-260 bps	-	10.8	-
PAT	29	7	36	56	51	-9	-	67	-
EPS (₹)	21.2	-7.6	33.2	41.0	37.5	-8.5	-	49.3	-

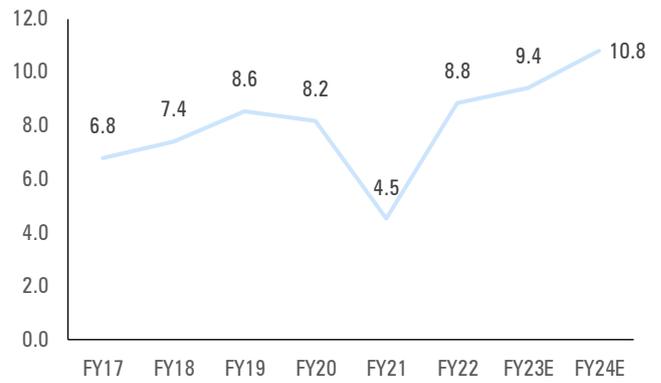
Source: Company, ICICI Direct Research

Exhibit 2: Overall revenue trend....



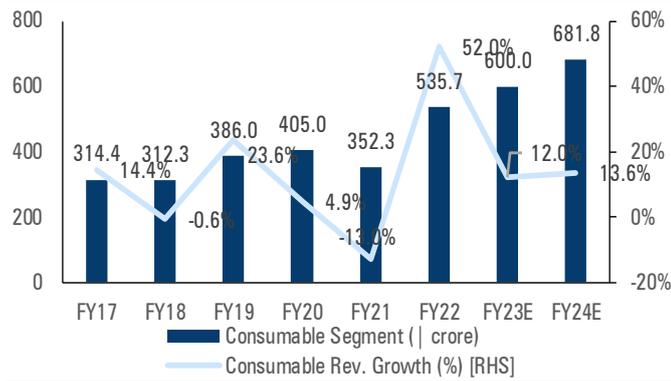
Source: Company, ICICI Direct Research

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



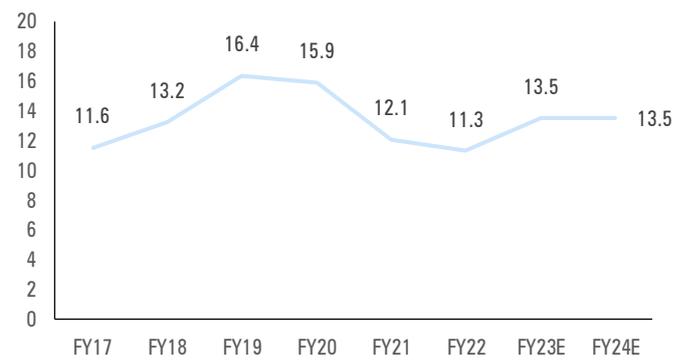
Source: Company, ICICI Direct Research

Exhibit 4: Consumable segment revenue trend



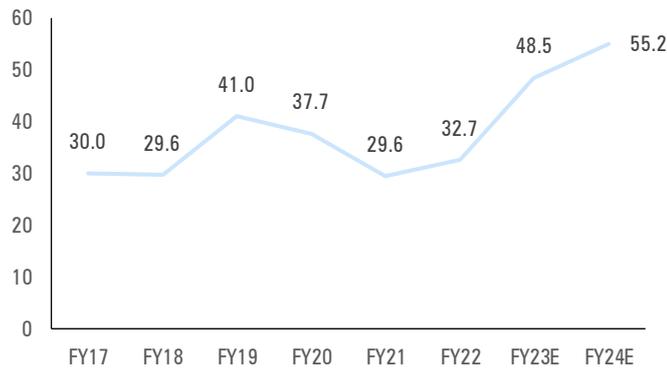
Source: Company, ICICI Direct Research

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



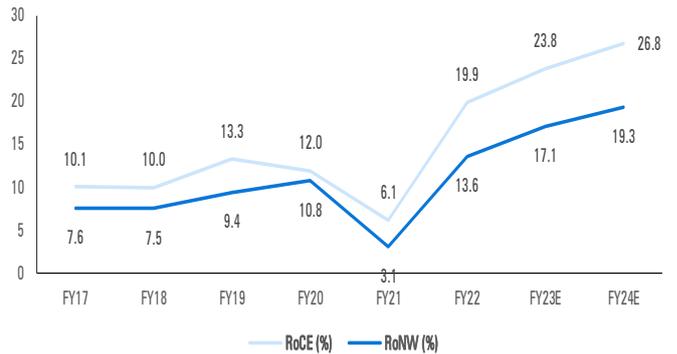
Source: Company, ICICI Direct Research

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	751.3	851.5
Other Operating Income	-	-	-	-
<b>Total Operating Income</b>	<b>447.7</b>	<b>661.5</b>	<b>751.3</b>	<b>851.5</b>
% Growth	(15.0)	47.8	13.6	13.3
Other Income	7.4	5.5	15.0	17.0
Total Revenue	455.1	667.0	766.4	868.5
Cost of materials consumed	326.2	421.3	510.9	570.5
Purchase of stock-in-trade	9.5	58.5	7.5	8.5
Other Expenses	66.1	84.6	100.7	110.7
Total expenditure	427.6	603.1	680.7	759.5
<b>EBITDA</b>	<b>20.1</b>	<b>58.4</b>	<b>70.6</b>	<b>92.0</b>
% Growth	(53.2)	190.4	21.0	30.2
Interest	6.4	3.7	5.3	6.0
Depreciation	11.2	10.9	12.2	13.4
PBT	(14.1)	58.2	68.2	89.6
Tax	(3.7)	13.1	17.2	22.6
<b>PAT</b>	<b>(10.4)</b>	<b>45.2</b>	<b>51.0</b>	<b>67.0</b>
% Growth	(136.1)	(535.1)	13.0	31.4
EPS	(7.6)	33.2	37.5	49.3

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement (₹ crore)				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	(10.4)	45.2	51.0	67.0
Depreciation	11.2	10.9	12.2	13.4
Interest	6.4	3.7	5.3	6.0
Other income	(25.4)	9.0	-	-
Prov for Taxation	(3.7)	13.1	17.2	22.6
Cash Flow before WC changes	(21.9)	81.8	85.7	109.0
Change in Working Capital	108.4	(10.4)	(4.8)	(18.2)
Taxes Paid	(0.6)	(13.1)	(17.2)	(22.6)
<b>Cashflow from Operating Activit</b>	<b>85.9</b>	<b>58.4</b>	<b>63.7</b>	<b>68.3</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)	(5.3)	(6.0)
Others	-	-	-	-
<b>Cashflow from Financing Activiti</b>	<b>(97.5)</b>	<b>(39.1)</b>	<b>(13.5)</b>	<b>(25.0)</b>
Changes in Cash	1.2	(1.6)	16.2	7.3
Opening Cash/Cash Equivalent	3.8	5.0	3.4	19.6
Closing Cash/ Cash Equivalent	5.0	3.4	19.6	26.9

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	285.4	333.4
<b>Networth</b>	<b>237.5</b>	<b>265.7</b>	<b>299.0</b>	<b>347.0</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>313.5</b>	<b>362.1</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	98.8	112.0
Sundry debtors	105.4	93.2	105.2	119.2
Cash and bank balances	5.0	3.4	19.6	26.9
Loans and advances	1.2	0.4	0.5	0.5
Other Current Assets	22.3	18.9	26.3	29.8
Total current Assets	198.2	205.9	252.6	291.0
CL& Prov.	78.9	77.5	103.3	116.2
Net Current Assets	93.5	102.7	117.1	138.2
<b>Total Assets</b>	<b>268.5</b>	<b>272.5</b>	<b>313.4</b>	<b>362.1</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	(7.6)	33.2	37.5	49.3
Cash EPS	0.6	41.2	46.5	59.2
BV	174.7	195.4	219.9	255.2
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>9.4</b>	<b>10.8</b>
PBT / Net Sales	2.0	7.2	7.8	9.2
PAT Margin	1.6	5.5	6.8	7.9
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	17.1	19.3
<b>RoCE</b>	<b>6.1</b>	<b>19.9</b>	<b>23.8</b>	<b>26.8</b>
RoIC	3.7	19.0	21.1	24.7
<b>P/E</b>	<b>(89.3)</b>	<b>20.5</b>	<b>18.2</b>	<b>13.8</b>
EV / EBITDA	47.3	15.8	13.0	9.9
EV / Net Sales	2.1	1.4	1.2	1.1
Market Cap / Sales	2.1	1.4	1.2	1.1
Price to Book Value	3.9	3.5	3.1	2.7
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)	1586	1,930	Buy	222477	50.2	65.5	72.9	31.6	24.2	21.7	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2350	2,900	Buy	83688	29.5	36.6	48.2	79.7	64.1	48.8	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2169	2,570	Buy	20458	64.6	76.3	85.7	33.6	28.4	25.3	16.5	17.2	17.1	13.2	13.7	13.7
Thermax (THERMA)	2012	2,449	Buy	23974	26.2	39.3	54.4	76.7	51.2	37.0	11.3	15.6	19.2	9.0	12.2	14.9
KEC International (KECIN)	389	379	Hold	10001	12.7	15.8	25.3	30.7	24.6	15.4	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	154	209	Buy	3560	0.7	2.8	3.3	217.6	55.9	46.7	2.5	9.2	10.2	1.3	6.5	7.3
Elgi Equipment (ELGEQU)	399	390	Buy	12645	5.7	6.6	8.7	69.9	60.5	45.9	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	245	290	Buy	57162	9.6	11.0	12.2	25.4	22.2	20.2	26.2	27.9	27.9	19.6	20.9	20.9
Cochin Shipyard (COCSHI)	319	340	Hold	4196	42.9	38.6	42.3	7.4	8.3	7.5	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	3383	3,720	Buy	16725	77.0	89.6	103.5	43.9	37.8	32.7	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2457	2,810	Buy	18481	43.5	54.8	62.5	77.8	61.7	54.1	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	122	220	Buy	1182	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	221	230	Buy	2626	9.8	11.5	13.6	22.5	19.2	16.2	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	723	870	Buy	3959	18.1	21.7	27.2	42.1	35.2	28.1	23.8	24.4	25.8	16.4	18.1	19.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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