

ADOR WELDING LIMITED

Welding:
The Strength Behind Every Structure



Accumulate

Key Data

DATE	02-03-2024
CMP (Rs.)	1,474
Target	1,806
Sector	Capital Goods
BSE Code	517041
NSE Code	ADORWELD
Face Value (Rs.)	10
Market Cap (Mn)	20,669.67
52-week High/Low (Rs)	1,620-754

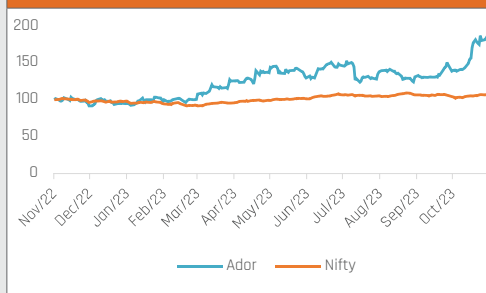
Source : NSE, BSE

Shareholding pattern (Sep-2023)

	%
Promoters	56.90
DIIs	4.02
FIIIs	0.13
Public	38.96
Total	100.00

Source : NSE, BSE

Price Performance



Retail Research

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Ador Welding Limited

Company Background

Ador Welding was established in 1951. Ador (formerly known as Advani-Derlikon) is one of the leading welding companies in India, manufacturing high-quality welding equipment, consumables, and welding automation solutions. Additionally, Ador has been in the Flares & Process Equipment Division for more than 30 years. The company has three manufacturing plants: the Chinchwad Plant (Welding Equipment Plant), the Raipur Plant (Welding Consumables Plant), and the Silvassa Plant (Welding Consumables Plant). The company also boasts a strong distribution network with over 300 distributors selling its products to more than 70 countries.

ADOR Welding brought hope to India by offering high-quality welding products. Before ADOR, people had to buy European products even after independence. They focus on customer satisfaction, efficient delivery, and sharing welding expertise. They also manufacture products for various industries and have expanded globally. ADOR prioritizes innovation, customer feedback, and industry education. They maintain their leadership position by understanding their strengths and meeting customer expectations. They engage with distributors and customers directly, ensuring their products align with customer needs.

Outlook and Valuation

Ador Welding is thriving with strong demand in both domestic and international markets, particularly in sectors like general infrastructure, railways, and shipbuilding. With a focus on capturing a larger market share in India, the company is investing in automation to enhance efficiency and improve margins. It has successfully expanded its presence in the Middle East through a commitment to product quality and strategic distribution partnerships. Additionally, in response to the increasing demand for welding equipment in India, the company is actively working on automation and refining its product mix to boost profitability.

Internally, they are actively pursuing digitization initiatives, with a specific emphasis on improving B2B supply chains and distributor networks. We foresee that investments in various industries necessitate welding activities, providing exposure to diverse sectors and mitigating risks. Promising growth prospects are expected in sectors such as railways, heavy engineering, automotive, shipbuilding, the cement industry, and more. We estimate the company's top line to grow at a CAGR of approximately 10.8% during FY23- FY26E, driven by an increase in volume. By applying a PE multiple of 28x to FY26E EPS of Rs 64.51, we arrive at a target price of Rs 1,806, indicating a 20% upside from the current levels. Therefore, we recommend an ACCUMULATE rating for a medium to long-term perspective.

Financial Snapshot

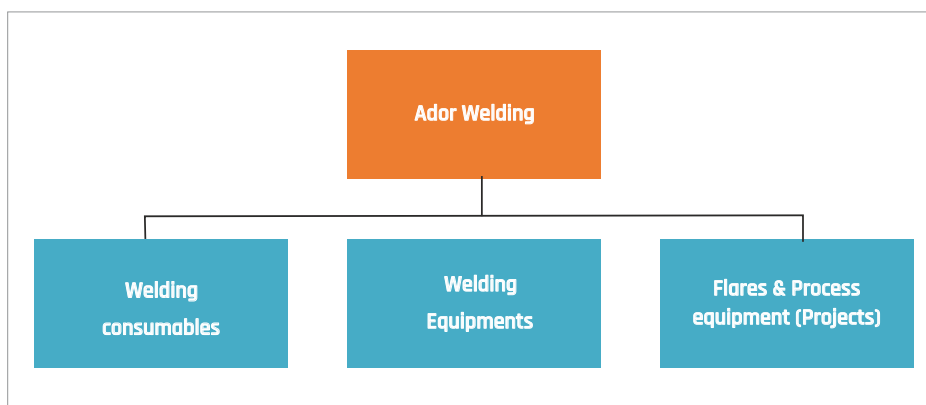
Particulars (in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Revenue	7,767.60	8,570.08	9,501.33	10,562.24	10.8%
EBITDA	886.50	959.85	1,083.15	1,246.34	12.0%
PAT	592.90	651.32	747.00	877.29	14.0%
PAT%	7.63%	7.60%	7.86%	8.31%	
EPS (₹)	43.60	47.90	54.93	64.51	14.0%
Debt/Equity	0.05	0.03	0.01	0.01	

Source: Company, ACMIL Retail Research

Company at glance

- Diversified end user industry base along with a strong distribution network.
- Consistently investing in capacity, internal processes, and new product development.
- Customization & customer focus, Quality assurance, also provides training & support leads to efficiency of products.
- Synergy benefits are expected post Ador Fontech Merger, which is likely to be completed by the end of December 2023.
- Export thrust as an opportunity.

Company & Business Overview

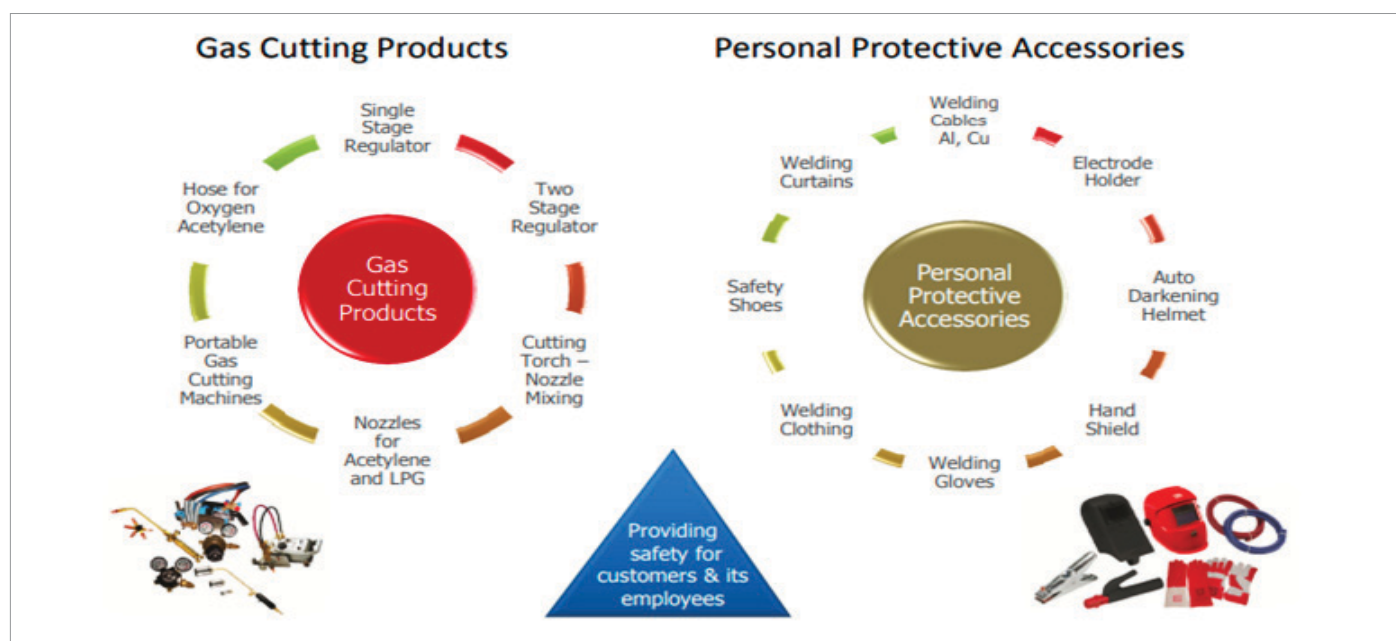


Source: Company, ACMIIL Retail Research

Product Category List

Segment	Types of products
Consumables	Electrodes, wires, agency items related to consumables. Manufactured from Silvassa, Raipur, and Chennai plants.
Equipment and Automation	Equipment, spares, cutting products, and agency items related to equipment, cutting products etc. Manufactured from the Chinchwad plant.
Flares & Process Equipment Division (projects)	Flares & Process Equipment Division (FPED) is a multi-disciplined SBU that provides services like design, manufacture, erection & commissioning, mechanical, electrical, and instrumentation of process packages, process equipment, flare systems & components, and EPC contracts.

Source: Company, ACMIIL Retail Research



Source: Company, ACMIIL Retail Research

End users of the welding Industry



Source: Company, ACMIIL Retail Research

Leading Clientele of different categories



Source: Company, ACMIIL Retail Research

Investment Rationale

The second largest player in Domestic Welding Industry

Ador Welding is one of India's leading players in the field of Welding Products, Technologies, and Services. Its market share is approximately 15% in the consumable and around 8-9% in the equipment segment. The company is keen on strengthening its position with high penetration in the unorganized market, new product development, along with technology innovation. Since its inception, the company has achieved various milestones, such as establishing the first electrode plant and becoming the first Indian supplier to meet specific technical requirements set by NPCIL (nuclear powerhouse in India) for welding consumables.

Government capex push for infrastructure in the recent budget and Private Capex Revival will drive future growth in coming years.

The capex-led growth strategy will ensure future growth for Ador Welding. The government has proposed higher allocations to build ports, roads & other infrastructure. The company will gain benefits from overall infrastructure and manufacturing spending in India led by 'Make in India', 'Aatmanirbhar Bharat', and the PLI scheme that will further boost the demand for welding consumables in the long run.

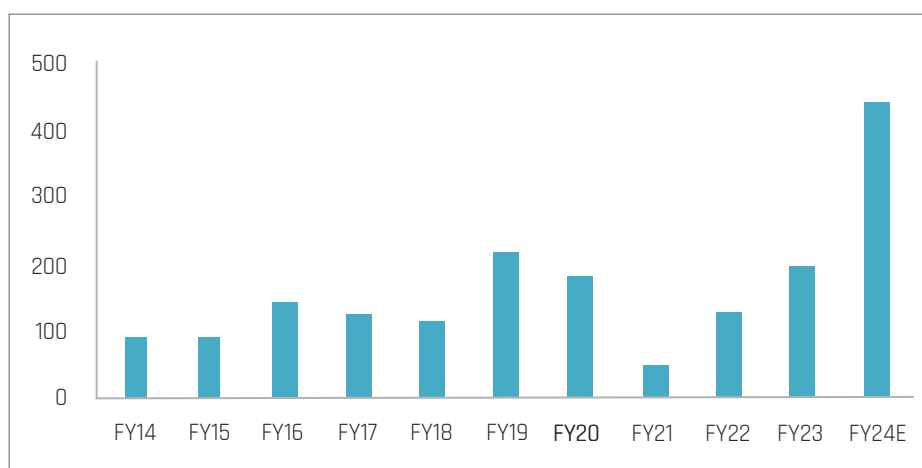
Strong distributor network, diverse customer base across industries, and optimistic prospects due to increased capital expenditure in various sectors

The company has a strong distribution network with 300+ distributors selling products to more than 70 countries. It caters to various industries like automobiles, railways, cement, building & construction, chemicals, pipelines, oil & gas etc. Capital expenditure in various industries requires welding activities, offering exposure to multiple sectors and diversifying risks. There are significant growth opportunities anticipated in the railway, heavy engineering, automotive, ship building and cement industry. The demand for welding materials, such as electrodes, wires, and shielding gases, is closely tied to steel consumption in various industries, including construction, automotive, aerospace, and manufacturing. As steel usage increases due to activities like construction projects and infrastructure development, the need for welding materials rises in proportion. Welding, being the primary method for joining steel components, is integral to these sectors.

Offers a wide range of welding products, services, customization, quality assurance & support

Ador Welding offers a wide range of welding products, including equipment, accessories, and consumables. Their diverse product portfolio caters to various welding processes and customer needs, providing comprehensive solutions under one roof. They offer a comprehensive range of welding equipment and consumables, catering to various welding solutions such as Arc welding, MIG & TIG welding (precision engineering techniques), and more. This variety allows users to find products that suit their specific needs. They also provide customization services, allowing customers to tailor products according to their specific requirements. This flexibility ensures that clients receive welding solutions that precisely meet their needs. The company offers training and support services related to their products. This education ensures that customers understand the correct usage of Ador Welding products, maximizing efficiency and safety in welding processes. The company is known for its commitment to quality. Their products undergo stringent quality control measures, ensuring that customers receive reliable and high-performance welding solutions. This focus on quality assurance enhances their reputation for delivering products that work well and can be trusted.

Consistently investing in capacity, internal processes and new product development & Focuses on innovation and technological advancements for future growth strategy



Capital Expenditure (in Mn)

Source: Company, ACMIIL Retail Research

Capex planned for FY24E is mainly for:

- Automation/modernization at Consumables and Equipment Plants.
- Plant & Machinery for capacity expansion of certain products, and also for improvement of "productivity & in-process quality".
- Replacement of Old Machineries.
- Upgradation of R&D Infrastructure.
- Information Technology (IT) upgradation, digitalization & Compliances.
- Replacement of Vehicles.

Ador Welding stands out in the welding industry due to its strong focus on innovation and technology. They invest significantly in research and development, leading to the development of cutting-edge welding solutions. Collaborating with industry experts and strategic partners, they create innovative products by exchanging knowledge. Ador Welding is recognized for its excellence and innovation, being the only company in India with a specialized clean room for advanced welding equipment production. They prioritize quality, evident through their NABL accredited laboratory and CE certification for select products. Their technical expertise extends to both welding consumables and equipment, competing globally. Their Champ T400 welding equipment received the prestigious "India Design Award." Additionally, their Project Engineering Business (PEB) achieved a milestone with the innovative Mobile Flare system. Ador Welding's dedication to innovation and quality has established them as a leader in the welding industry, earning recognition nationally and internationally.

Synergy benefits are expected post the Ador Fontech Merger, which is likely to be completed by the end of December 2023.

This merger will establish one of the largest manufacturers and refurbishment players in the welding and cutting products industry. By consolidating all products under the unified brand "ADOR," the combined entity will offer a diverse product range, benefit from economies of scale, optimize operations, and enhance market presence. These efforts aim to maximize shareholder value by achieving synergies across manufacturing, marketing, research and development, supply chains, and customer satisfaction. Utilizing shared resources, expertise, and technologies, the merger will drive future growth and boost organizational efficiency, ultimately contributing to the company's competitive advantage and delivering increased shareholder returns. Post merger, the Growth in Revenue & profitability may be more than projected numbers

Skilled Workforce, Make-in-India advantage & BIS to give an edge

India benefits from a vast pool of skilled and unskilled workers, resulting in the availability of trained welders and welding technicians. Additionally, the mandatory requirement of BIS marking for products used in Government Industries has created opportunities for "Made-in-India" products. Manufacturers like ADOR can obtain BIS certification seamlessly, as their products are already designed and manufactured in India, surpassing standard requirements. This scenario positions leading Indian welding equipment and consumables manufacturers for significant growth in the coming years.

Experienced Management

The company was incorporated in 1951 by J. B. Advani & Company (holding a 50% stake), which was the first company of the Ador group. Their extensive experience in management has given them an understanding of the market's dynamics. The company boasts a strong and experienced management team, essential for strategic decision-making and long-term success.

Export thrust as an opportunity

The company is investing in business development for the international market and new product lines. The priority markets for exports are the Middle East, North Africa & Americas. The company is looking to increase exports to over 20% of sales in the next 5-6 years.

Sustainable practices & ESG focus

Ador Welding adheres to ethical manufacturing practices, ensuring that their products are produced responsibly and sustainably. Ethical considerations are integrated into their production processes. The company has tied up with the State Pollution Control Board recognized vendors, who collect the Hazardous Waste from our plant and send it to the Common Hazardous Waste Treatment, Storage, and Disposal Facility. The company has taken significant steps toward environmental sustainability by discontinuing the use of thermocol since December 2022 and adopting eco-friendly alternatives. Expanded Polyethylene (EPE) foam is now used for packaging, reducing plastic consumption by 29% at the Chinchwad Plant. Wooden packing materials have been replaced with Honeycomb material to conserve trees, and VCI paper has been introduced instead of cling wrap film for spool packaging. Additionally, water usage has been reduced by 50% at the Silvassa Plant and 18% at the Raipur Plant and Gardens through the implementation of drip irrigation systems. These initiatives showcase the company's commitment to responsible business practices and environmental conservation.

Industry Overview

Welding Industry's Significance in Manufacturing

The welding industry is a cornerstone of the manufacturing sector, constituting approximately 17% of the GDP. Welding plays a vital role in various manufacturing processes, directly influencing the final product's quality. In the fiscal year 2022-23, the economy initially faced challenges due to the lingering effects of Covid and global disruptions, resulting in supply chain interruptions, extended production schedules, and increased import costs. Inflationary pressures were also experienced in locally sourced raw materials, particularly in steel prices.

Domestic steel demand is forecasted to grow by 9-10% for FY24 due to government capital expenditure (capex). The manufacturing industry is experiencing substantial growth, contributing to a positive outlook for the market. One reason is the energy sector's increased demand for welding materials, which is boosting the market. Additionally, the auto industry is expanding, and new technologies, such as using lasers to weld different types of metal in electric cars, are driving market growth. Furthermore, the market is benefiting from the growth of the railway and mining industries in India. These factors are contributing to the expansion of the welding equipment and consumables segments in India.

Growth in the Indian Welding Industry

The Indian Welding Equipment & Consumables market is poised for substantial growth, with a projected CAGR of over 7% from 2023 to 2028. This growth is attributed to India's large population, driving increased demand for housing, healthcare, and transportation. Consequently, there is a rising need for welding equipment and consumables across various industries.

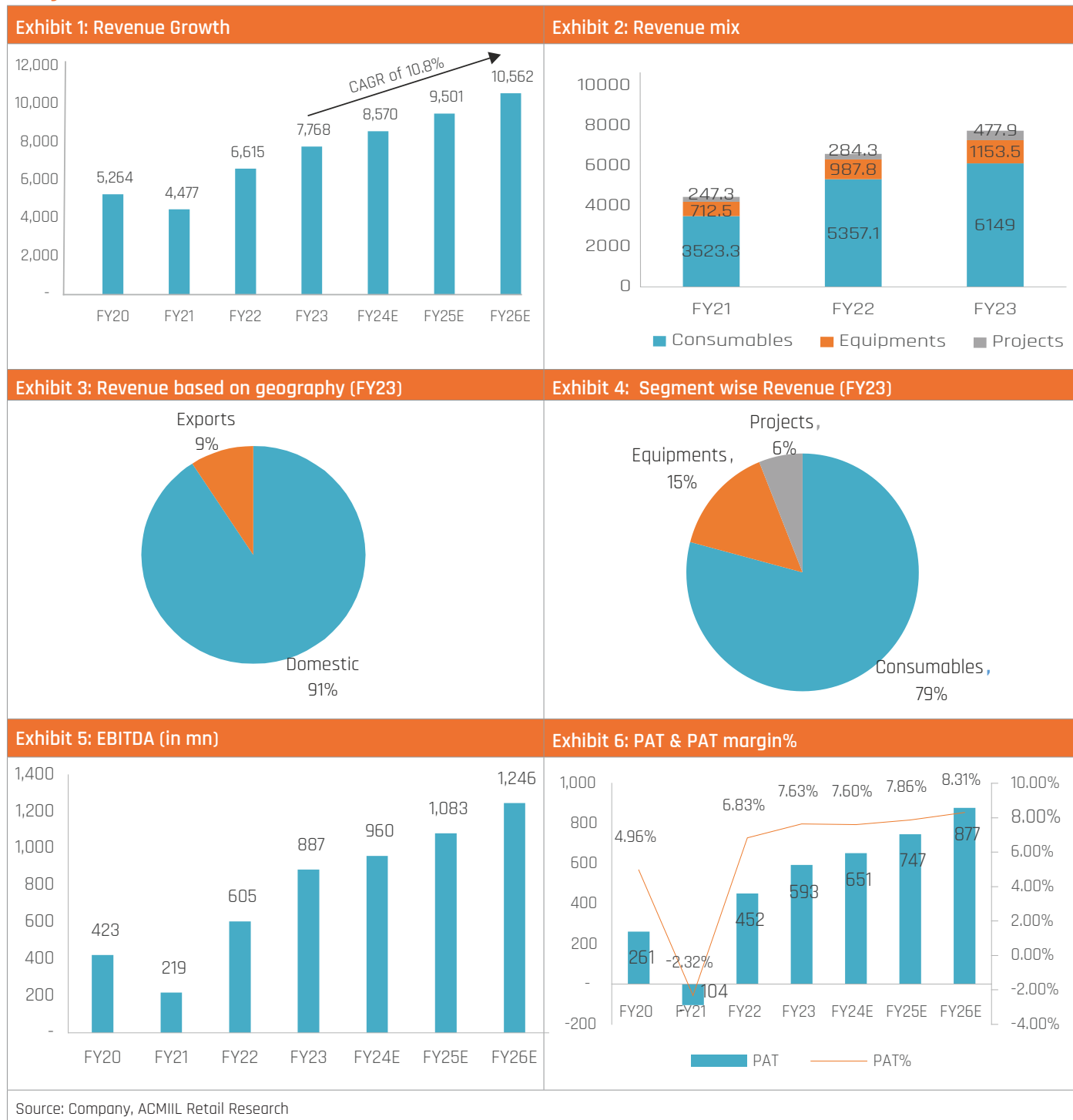
Market Growth and Demand Factors

Intensified market competition has shifted the focus of end-users towards the quality of welding products. This demand surge has led to a need for high-quality welding equipment and consumables that meet stringent quality standards. Moreover, the increasing usage of welding equipment in diverse industries as stated below has amplified the demand for welding services. Consequently, there is a growing need for welding equipment and consumables that are easy to repair and maintain.

Industry/Sector	Exposure
Infrastructure & Construction	India has ambitious plans for infrastructure development, encompassing highways, bridges, airports, and smart cities. Rapid urbanization and the demand for modern infrastructure drive the need for welding in construction projects. This industry in India is one of the largest contributors to the country's GDP.
Realty	Welding is crucial in building residential complexes, commercial spaces, and industrial facilities, driving the demand for welding services.
Automotive Industry	This sector is growing, with an increasing demand for passenger vehicles, commercial vehicles, and two-wheelers. Welding is a fundamental process in automobile manufacturing, leading to a consistent demand for welding services and products.
Shipbuilding and Ports	With a vast coastline and a focus on maritime trade, shipbuilding and port development projects require extensive welding work. India's expanding shipping industry generates demand for welding applications in building ships and port infrastructure.
Oil and Gas Sector	India's energy needs drive demand for welding services in the oil and gas industry. Welding is essential for pipelines, refineries, and exploration activities, with increasing emphasis on domestic oil and gas production.
Manufacturing and Engineering	Welding plays a crucial role in various manufacturing sectors, including aerospace, electronics, and machinery. As India aims to boost domestic manufacturing through initiatives like "Make in India," the demand for welding services rises correspondingly.
Renewable Energy	India is investing in renewable energy sources such as solar and wind power. Welding is essential in manufacturing components like solar panels and wind turbine structures, contributing to the demand for welding services.
Defense and Aerospace	It requires advanced welding technologies for manufacturing aircraft, missiles, and defense equipment. India's efforts to strengthen its defense capabilities contribute to the demand for specialized welding services.
Source: Company, ACMIIL Retail Research	

During periods of high capital expenditure (capex), industries make significant investments in new structures, manufacturing plants, and equipment. This heightened investment results in a greater demand for steel, driving the need for welding materials. These materials are essential for construction, fabrication, and maintenance during the construction or upgrading of facilities. The cyclical nature of capex significantly influences the demand for both steel and welding materials, emphasizing the interconnected relationship between industrial investment, steel consumption, and the requirements for welding materials. This mutual relationship highlights the significance of understanding and adjusting to capital expenditure cycles when managing the demand for welding materials in various industrial sectors.

Story in Charts (Values in Mn.)



Healthy Q2FY24, positive for medium to long term perspective (Concall Highlights)

- Revenues for Q2FY23 saw an uptick of 22% at Rs 2,259.60 mn vs Rs 1,848.70 mn YoY. It was majorly driven by Equipment segment (55%) & Consumables segment (19%).
- In the current quarter, the volume for the consumable & equipment segment was around 22% & 35% respectively. The management expects similar growth for consumables going forward.
- With regard to margins, the equipment segment is also good margin business, with the potential for margin expansion that could reach double digits in medium to long term. This will also incorporate the benefits of the merger with Ador Fontech.
- It continue to maintain double digit EBITDA Margin as projected for medium term perspectives.
- The company has delivered strong numbers, as mentioned above. The management's commentary was optimistic and continue to grow better than Industry in medium to long term. The company is on track to deliver the projected revenue and profit numbers.

Financial Statements

Consolidated Profit & Loss Statement Quarterly:

Particulars (in mn)	Q2FY23	Q2FY24	YoY%	Q1FY24	Q2FY24	QoQ%
Sales	1,848.70	2,259.60	22%	1,896.30	2259.6	19%
Total Expenses	1,697.20	1,986.60	17%	1,735.60	1986.6	14%
EBITDA	151.50	273.00	80%	160.70	273	70%
EBITDA%	8.2%	12.08%	389 bps	8.5%	12%	361 bps
Interest	5.00	8.90	78%	7.10	8.9	25%
Depreciation	28.70	33.40	16%	33.40	33.4	0%
Other Income	15.60	31.10	99%	30.20	31.1	3%
PBT	133.40	261.80	96%	150.40	261.8	74%
Tax	33.60	66.00	96%	38.00	66	74%
PAT	99.80	195.80	96%	112.40	195.8	74%
PAT%	5.4%	9%	327 bps	5.9%	9%	274 bps
EPS (in Rs)	7.3	14.4	96%	8.3	14.4	74%

Source: Company, ACMIIL Retail Research

Consolidated Profit & Loss Statement Yearly:

Particulars (in mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5,263.60	4,476.80	6,614.80	7,767.60	8,570.08	9,501.33	10,562.24
Total Expenditure	4,840.70	4,258.30	6,010.30	6,881.10	7,610.23	8,418.18	9,315.89
EBITDA	422.90	218.50	604.50	886.50	959.85	1,083.15	1,246.34
Other Income	90.30	73.90	54.80	66.70	67.00	69.00	71.00
Interest	100.40	81.60	58.00	38.00	33.68	27.93	22.35
Depreciation	107.50	111.70	109.00	116.10	116.73	120.23	117.28
PBT*	305.30	-140.60	582.10	791.10	868.43	995.99	1,169.72
Tax	44.10	-36.80	130.50	198.20	217.11	249.00	292.43
PAT	261.20	-103.80	451.60	592.90	651.32	747.00	877.29
PAT%	4.96%	-2.32%	6.83%	7.63%	7.60%	7.86%	8.31%
EPS (In Rs)	19.21	-7.63	33.21	43.60	47.90	54.93	64.51
Debt/Equity	0.33	0.12	0.01	0.05	0.03	0.01	0.01

*PBT is adjusted after exceptional items

Source: Company, ACMIIL Retail Research

Risks and concerns

- Economic downturns reduce construction and manufacturing needs, impacting welding services.
- Intense industry competition from organized and unorganized players can lead to price wars, necessitating innovation to maintain profitability.

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