

Ador Welding

BUY

Subdued Performance, Expect a better H2

Summary

Ador Welding (AWL) reported subdued financial performance in Q2FY25 which was impacted by one-offs relating to the amalgamation of Ador Fontech. The products segment witnessed margin dip of 404 bps QoQ to 10.2% owing to slowdown of demand and weaker steel prices. Margins for the ONGC Flares project are also expected to be better in H2FY25 with better execution and rigorous cost control. We expect Ador Welding to benefit from the multi-year domestic capex upcycle as it caters to diverse capex led industries such as heavy engineering, infrastructure, construction among others. The company is the second largest player in the welding industry in India with a strong market share of ~16% in welding consumables space and ~8% market share in welding equipment space. We maintain our BUY rating on Ador Welding with TP of Rs1,621.

Key Highlights and Investment Rationale

- Strong Play on Capex Upcycle – Welding Consumables to Drive Growth:** Currently, AWL derives ~80% of its revenue from welding consumables segment with products ranging from electrodes, fluxes, flux cored wires to industries like Oil & Gas, Heavy Engineering, Shipbuilding, Power, Sugar, Construction, Railways and Automotive etc. We believe AWL is well-placed to gain from overall infrastructure and manufacturing spending in India led by 'Make in India', 'Aatmanirbhar Bharat' and PLI schemes that will further boost the demand for welding consumables in the long-run.
- Amalgamation of Ador Fontech complete:** We incorporate the restated consolidated financials of the company which include the numbers of Ador Welding, Ador Fontech and its subsidiary 3D Future Technologies from FY24 onwards for a complete assessment of the business.

TP **Rs1,621**

CMP **Rs1,141**

Potential upside/downside 42%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.8	(3.6)	19.2
Rel to Sensex	(2.6)	(11.2)	(3.8)

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	59	80	87
Consensus	--	--	--
% difference	--	--	--

Key Stock Data

Bloomberg/Reuters	AWL IN/ADOR.BO
Sector	Capital Goods
Shares o/s (mn)	17
Market cap. (Rs mn)	19,852
3-m daily avg. trd. value (Rs mn)	--
52-week high / low	Rs1,770 / 1,108
Sensex / Nifty	77,580 / 23,533

Shareholding Pattern (%)

Promoters	56.9
FII	0.1
DII	7.7
Public	35.3

Financial snapshot

(Rs Mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,768	10,736	12,022	12,777	13,960
Change yoy, %	17	38	12	6	9
EBITDA	872	1,176	1,334	1,732	1,889
Change yoy, %	49	35	13	30	9
EBITDA Margin(%)	11.2	11.0	11.1	13.6	13.5
Adj.PAT	599	865	805	1,081	1,184
EPS (Rs)	44	64	59	80	87
Change yoy, %	56.8	44.4	(6.9)	34.3	9.5
P/E(x)	25.9	17.9	19.3	14.3	13.1
Dividend Yield (%)	1.1	1.5	1.6	1.7	1.8
EV/EBITDA (x)	17.9	13.2	11.6	8.6	7.6
RoE (%)	19.8	21.7	16.1	19.0	18.1
RoCE (%)	24.6	24.2	21.2	24.7	23.7

Source: IDBI Capital Research, Company

Jason Soans

jason.soans@idbicapital.com
+91-22-4069 1992

Exhibit 1: Quarterly Snapshot (Consolidated)

Consolidated (Rs Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ%
Net Sales	2,692	2,773	(2.9)	2,695	(0.1)
Expenditure	-2,491	-2,416	3.1	2,422	(202.9)
<i>as % of sales</i>	-92.5	-87.1		89.9	
Consumption of RM	-1,756	-1,763	(0.4)	1,696	(203.5)
<i>as % of sales</i>	-65.2	-63.6		63.0	
Employee Cost	-291	-251	16.0	275	(205.8)
<i>as % of sales</i>	-10.8	-9.1		10.2	
Other expenditure	-444	-402	10.6	451	(198.6)
<i>as % of sales</i>	-16.5	-14.5		16.7	
EBITDA	201	357	(43.7)	273	(26.2)
Depreciation	-45	-39	15.4	43	(203.7)
EBIT	156	318	(50.9)	229	(31.8)
Other Income	51	40	28.8	52	(1.5)
Interest	-14	-9	53.9	12	(211.4)
PBT	93	349	(73.2)	269	(65.2)
Total Tax	-26	-90	(70.5)	70	(137.7)
Adjusted PAT	139	259	(46.5)	199	(30.1)
Extra ordinary items	-100	0	NA	0	NA
Reported PAT	67	259	(74.2)	199	(66.3)
Adjusted EPS	10.2	19.1	(46.5)	14.6	(30.1)
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	7.5	12.9	(541)	10.1	(264)
EBIT	5.8	11.5	(567)	8.5	(270)
EBT	3.5	12.6	(911)	10.0	(650)
PAT	5.2	9.4	(420)	7.4	(221)
Effective Tax rate	(28.3)	(25.7)	(261)	(26.1)	(220)

Source: Company, IDBI Capital

Exhibit 2: Quarterly Snapshot (Consolidated)

Segment Revenue(Rs mn)	2QFY25	2QFY24	YoY%	1QFY25	QoQ%
Products	2,117	2,208	(4.1)	2,075	2.0
Services	194	54	261.9	225	(13.7)
M&R Division	465	526	(11.6)	450	3.5
Less: Intersegment	-99	-32	205.2	-68	45.7
Total	2,678	2,756	(2.8)	2,682	(0.1)
Margins (%)	YoY (bps)			QoQ (bps)	
Products	10.2	14.7	(443)	14.3	(404)
Services	(18.2)	(40.9)	2,266	(20.3)	213
M&R Division	14.8	18.0	(317)	16.5	(170)

Source: Company, IDBI Capital

Conference call highlights

■ Demand Outlook:

- 78% of the sales revenue came from the sale of products while the rest was from services.
- The margins for Ador took a hit majorly due to the falling steel prices. The management commented that the steel prices seem to have bottomed out and hence should improve going ahead. This should translate to betterment in margins as well.
- The management commented that the demand scenario for the business has been on the softer side, with the order flow being lower than expectations. However, as the steel prices improve, the demand is expected to make a comeback.
- The exports of the company are expected to 20-25% higher in FY25 than the Rs 120 cr which was clocked in FY24. Ador has entered into the US and the Australian markets. UAE and Saudi Arabia are also showing good demand.
- Volume growth has been flat in 1HFY25 on YoY basis. Consumables segment(Products segment) witnessed dip in margin and revenue in Q2FY25.

■ Future Guidance:

- The management has recognized that their core strength lies in executing projects which are within their own plant and premises.
- Going ahead, the management will favor projects which have higher margins, even if the order size itself is small.
- The results of this strategy are expected to show up as early as the next 6 months, wherein the margin should see a significant bump up.

■ **Others:**

- Ador recorded an exceptional one-time expense of Rs417Mn. The major chunk of this was due to the downward valuation of a company subsidiary, due to it continually making losses.
- Since the written-down business is planned to continue to function for now, the management is well cognizant that these losses might put a drag on the consolidated level profits and is actively pursuing strategies to ensure the consolidated profit stays protected.
- The integration of Ador Fontech with Ador Welding has been going on as planned, with the formalities already in place. The integration is expected to bring manufacturing synergies and cost efficiencies.

Financial Summary

Profit & Loss Account

(Rs Mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	6,615	7,768	10,736	12,022	12,777	13,960
<i>Change (yoy, %)</i>	48	17	38	12	6	9
Operating expenses	(6,031)	(6,896)	(9,560)	(10,687)	(11,045)	(12,071)
EBITDA	584	872	1,176	1,334	1,732	1,889
<i>Change (yoy, %)</i>	190	49	35	13	30	9
<i>Margin (%)</i>	8.8	11.2	11.0	11.1	13.6	13.5
Depreciation	(109)	(116)	(158)	(180)	(192)	(209)
EBIT	475	756	1,018	1,154	1,540	1,680
Interest paid	(37)	(24)	(41)	(63)	(75)	(75)
Other income	55	67	194	-	-	-
Pre-tax profit	582	791	1,171	1,091	1,465	1,605
Tax	(131)	(198)	(307)	(286)	(384)	(420)
<i>Effective tax rate (%)</i>	22.4	25.1	26.2	26.2	26.2	26.2
Minority Interest	-	-	-	-	-	-
Net profit	431	595	865	805	1,081	1,184
Exceptional items	90	(8)	-	-	-	-
Adjusted net profit	382	599	865	805	1,081	1,184
<i>Change (yoy, %)</i>	422	57	44	(7)	34	10
EPS	28.1	44.0	63.6	59.2	79.5	87.1
Dividend per sh	-	12.5	17.5	18.4	19.3	20.3
<i>Dividend Payout %</i>	-	28.4	28	31	24	23

Balance Sheet

(Rs Mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	2,821	3,235	4,730	5,285	6,104	7,013
Share capital	136	136	136	136	136	136
Reserves & surplus	2,685	3,099	4,594	5,149	5,968	6,877
Total Debt	7	159	425	625	625	625
Other liabilities	(27)	(46)	(94)	(94)	(94)	(94)
Curr Liab & prov	1,101	1,123	1,654	1,756	1,816	1,911
Current liabilities	989	996	1,460	1,562	1,622	1,717
Provisions	112	128	194	194	194	194
Total liabilities	1,081	1,235	1,984	2,287	2,347	2,441
Total equity & liabilities	3,901	4,470	6,714	7,572	8,451	9,455
Net fixed assets	1,125	1,098	1,597	1,717	1,625	1,516
Investments	272	307	500	650	800	950
Other non-curr assets	48	48	120	120	120	120
Current assets	2,457	3,017	4,498	5,086	5,907	6,869
Inventories	900	1,162	1,452	1,626	1,728	1,888
Sundry Debtors	932	1,252	1,801	2,017	2,143	2,342
Cash and Bank	76	69	472	671	1,263	1,867
Loans and advances	550	534	773	773	773	773
Total assets	3,901	4,470	6,714	7,572	8,451	9,455

Cash Flow Statement

(Rs Mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	582	791	1,171	1,091	1,465	1,605
Depreciation	109	116	158	180	192	209
Tax paid	(143)	(179)	(307)	(286)	(384)	(420)
Chg in working capital	(218)	(652)	(952)	(287)	(169)	(264)
Other operating activities	(66)	60	39	63	75	75
Cash flow from operations (a)	264	137	109	761	1,180	1,204
Capital expenditure	(173)	(148)	(585)	(300)	(100)	(100)
Chg in investments	100	12	(193)	(150)	(150)	(150)
Other investing activities	19	39	-	-	-	-
Cash flow from investing (b)	(55)	(97)	(777)	(450)	(250)	(250)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(273)	152	267	200	-	-
Dividend (incl. tax)	-	(170)	(238)	(250)	(262)	(276)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(41)	(28)	(39)	(63)	(75)	(75)
Cash flow from financing (c)	(314)	(47)	(10)	(113)	(337)	(351)
Net chg in cash (a+b+c)	(104)	(7)	(678)	199	592	604

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	207	238	348	389	449	516
Adj EPS (Rs)	28.1	44.0	63.6	59.2	79.5	87.1
Adj EPS growth (%)	422	57	44	-7	34	10
EBITDA margin (%)	8.8	11.2	11.0	11.1	13.6	13.5
Pre-tax margin (%)	8.8	10.2	10.9	9.1	11.5	11.5
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	-0.1	-0.2
ROCE (%)	17	25	24	21	25	24
ROE (%)	15	20	22	16.1	19.0	18.1

DuPont Analysis

Asset turnover (x)	1.7	1.9	1.9	1.7	1.6	1.6
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.4
Net margin (%)	5.8	7.7	8.1	6.7	8.5	8.5

Working Capital & Liquidity ratio

Inventory days	50	55	49	49	49	49
Receivable days	51	59	61	61	61	61
Payable days	47	39	33	33	34	34

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	40.6	25.9	17.9	19.3	14.3	13.1
Price/Book value (x)	5.5	4.8	3.3	2.9	2.5	2.2
EV/Net sales (x)	2.3	2.0	1.4	1.3	1.2	1.0
EV/EBITDA (x)	26.5	17.9	13.2	11.6	8.6	7.6
Dividend Yield (%)	0.0	1.1	1.5	1.6	1.7	1.8

Source: Company; IDBI Capital Research

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

IDBI Capital Markets & Securities Ltd.**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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