

Stable results, despite input cost pressure AWL was able to maintain its margin, higher tax outgo kept PAT in check; Recommend Accumulate with a revised TP of Rs 352

Current	Previous
CMP: Rs 306	
Rating: Accumulate	Rating: Buy
Target: Rs 352	Target: Rs 384

(NR-Not Rated)

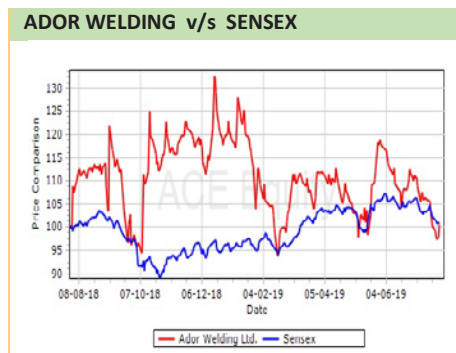
Stock Info	
INDEX	
BSE	517041
NSE	ADORWELD
Bloomberg	AWL IN
Reuters	ADOR.BO
Sector	Industrial Goods
Face Value (Rs)	10
Equity Capital (Rs Mn)	136
Market Cap (Rs Mn)	4,162
52w H/L (Rs)	425 /285
Avg Weekly Vol (BSE+NSE)	38,600

Shareholding Pattern	%
(As on June, 2019)	
Promoters	56.7
Public & Others	43.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ADOR WELDING	-6.8	-10.9	4.5
SENSEX	-2.3	5.0	2.6

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Ador Welding (AWL) came out with stable set of results in Q1FY20. Consolidated revenue for the quarter grew 26.1% YoY to Rs 1299 mn. EBITDA for Q1FY20 came at Rs 94 mn, a growth of 22% YoY. EBITDA margin was mostly stable, faced slight contraction of 24bps YoY to 7.2%. AWL was able to maintain its margin during the quarter despite a steep rise (+34.3% YoY) in its raw material costs, which is commendable keeping in mind the overall industry slowdown. PAT for the quarter stood at Rs 45 mn, a growth of 4.7% YoY. This was despite a higher tax outgo (effective tax rate 41.2% against 27.1% in Q1FY19) during the quarter. We remain positive on Ador Welding from longer term perspective, however due to overall industry and macro slowdown, downgrade our rating from Buy to Accumulate with a revised target price of Rs 352.

Q1FY20 Highlights

- For Q1FY20 revenue grew 26.1% YoY to Rs 1299mn against Rs 1030mn in Q1FY19, while on sequential basis revenue saw de-growth of 13.5% QoQ on a high base, as Q4 accounts for largest share of revenue for industrial goods company like AWL.
- As far as segmental performance is concerned, consumable segment continue to post stellar results with consumable segment revenue growing by 38.8% YoY to Rs 1045mn in Q1FY20 against Rs 753 mn in Q1FY19. Equipment & Project segment business saw some stabilisation with narrowing of underperformance vis-a-vis previous few quarters. Equipment & Project segment posted revenue of Rs 255 mn in Q1FY20 against Rs 278 mn in Q1FY19. The consumable segment contributed 80% of the revenues while equipment & project division contributed the rest.
- EBITDA margin for the quarter was more or less stable (-24bps YoY) at 7.2% despite EBIT loss in the Equipment & Project segment (Rs 50mn loss in Q1FY20). Stability in the margin came due to higher margin for the consumable segment during Q1FY20 (47bps YoY expansion to 15.7%).
- Finance cost increased by 22.7% YoY to Rs 20mn in Q1FY20, though on sequential basis it came down by 30% QoQ. As per management the debt of AWL has peaked out in FY19 as is evident from the improving working capital cycle (135 days v/s 159 days in FY18). AWL has also reported positive free cash flow (FCF of ~Rs 232mn) for the first time in FY19 after two dismal years of negative FCF (in FY17 & FY18). Going forward management expects interest cost to come down further.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	4,583	340	184	13.5	7.4	7.5	22.6
FY19	5,133	439	245	18.0	8.6	9.4	17.0
FY20E	5,843	555	321	23.6	9.5	10.5	13.0
FY21E	6,941	708	435	32.0	10.2	12.5	9.6

Source: Company, Arihant Research

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Q1FY20 Financial Performance

Rs Mn (consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	1,299	1,502	1,030	-13.5%	26.1%
Raw Material Cost	923	1,111	687	-16.9%	34.3%
Employee cost	110	110	106	-0.6%	3.2%
Other Expenses	172	143	159	20.4%	8.0%
EBITDA	94	138	77	-31.9%	22.0%
EBITDA margin %	7.2%	9.2%	7.5%	-195bps	-24bps
Other Income	28	19	22	46.3%	25.8%
Depreciation	26	26	24	0.8%	6.2%
EBIT	96	132	75	-26.9%	28.3%
Finance cost	20	28	16	-29.6%	22.7%
Exceptional Item	-	-	-		
PBT	76	103	59	-26.2%	29.8%
Tax Expense	31	28	16	11.0%	97.5%
Effective tax rate %	41.2%	27.4%	27.1%	+1378bps	+1412bps
PAT	45	75	43	-40.2%	4.7%
PAT margin %	3.4%	5.0%	4.2%	-154bps	-71bps
EPS (Rs)	3.3	5.5	3.1	-40.2%	4.7%

Source: Company, Arianth Research

Future Outlook

With gradual increase in capacity utilisation (70.9% in FY19 from 57.1% in FY18), we expect revenue growth of AWL to bounce-back strongly to 18.8% in FY21E from a dismal 3.6% in FY18 (already improved to 12% in FY19). With 16.3% CAGR revenue growth over FY19-21E and improving EBITDA margin from 7.4% in FY18 to 10.2% in FY21E (already improved to 8.6% in FY19), we expect AWL's PAT to grow from Rs 245 mn in FY19 to Rs 435 mn in FY21E, thereby registering a CAGR of 33.2% over FY19-21E.

Valuations

At CMP of Rs 313, AWL is trading at FY20E and FY21E, P/E multiples of 13.3x and 9.8x respectively. After factoring in Q1FY20 results we have kept our FY20E and FY21E estimates intact, however we have reduced our target P/E to 11x from 12x earlier to factor in the overall macro slowdown in the economy. At 11x FY21E earnings AWL's fair value comes at Rs 352 per share. We change our rating from Buy to Accumulate, with a revised target price of Rs 352, giving an upside of 15%.

Consolidated Financials

Income Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	4,424	4,583	5,133	5,843	6,941
<i>Change (%)</i>	8.3%	3.6%	12.0%	13.8%	18.8%
Raw materials	3,060	3,216	3,508	4,148	4,928
Stock Adjustments	-35	-13	17	0	0
Employee costs	394	385	416	467	569
Other expenses	612	587	655	672	736
Total Expenses	4,123	4,243	4,694	5,288	6,233
EBITDA	301	340	439	555	708
Other Income	92	96	104	105	108
Depreciation	114	102	97	102	106
Interest	11	53	91	80	60
PBT	269	281	355	478	650
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	269	281	355	478	650
Tax	90	97	110	158	214
<i>Rate (%)</i>	33.6%	34.5%	30.9%	33.0%	33.0%
PAT	179	184	245	321	435
<i>Change (%)</i>	-20.3%	3.1%	33.3%	30.6%	35.8%

Source: Company, Arianth Research

Balance Sheet (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share Capital	136	136	136	136	136
Reserves & Surplus	2,213	2,314	2,478	2,917	3,348
Net Worth	2,349	2,450	2,614	3,053	3,484
Loan Funds	356	813	650	400	300
Deferred Tax & other liabilities	78	85	92	90	90
Capital Employed	2,783	3,348	3,354	3,542	3,873
Application of Funds					
Gross Block	2,350	2,423	2,680	2,780	2,630
Less: Accumulated Depreciation	1,420	1,481	1,578	1,680	1,785
Net Block	931	942	1,102	1,101	845
CWIP	132	101	11	11	11
Other non current assets	213	255	268	268	268
Deferred tax assets	26	35	35	35	35
Net fixed assets	1,303	1,332	1,416	1,414	1,158
Investments	107	24	37	37	37
Debtors	765	920	846	800	856
Inventories	478	538	516	455	473
Cash & bank balance	215	175	281	660	1,223
Loans & advances & other CA	911	1,293	1,193	1,121	1,141
Total current assets	2,370	2,927	2,837	3,035	3,693
Current liabilities	897	891	871	880	951
Provisions	98	44	64	64	64
Net current assets	1,374	1,992	1,902	2,091	2,678
Total Assets	2,783	3,348	3,354	3,542	3,873

Source: Company, Arianth Research

Cash Flow Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	269	281	355	478	650
Depreciation	114	102	97	102	106
Interest & others	-81	-43	-13	-25	-48
Cash flow before WC changes	301	340	439	555	708
(Inc)/dec in working capital	-402	-736	66	-25	-352
Operating CF after WC changes	-101	-396	505	530	355
Less: Taxes	-90	-97	-110	-158	-214
Operating cash flow	-191	-493	395	372	141
(Inc)/dec in F.A + CWIP	-76	-31	-176	-100	150
(Pur)/sale of investment	28	82	-13	0	0
Cash flow from investing	-48	52	-189	-100	150
Free cash flow (FCF)	-241	-474	232	272	291
Loan raised/(repaid)	330	457	-163	-250	-100
Equity raised	0	0	0	0	0
Interest & others	66	25	170	463	479
Dividend	-82	-82	-106	-106	-106
Cash flow from financing activities	313	400	-100	106	273
Net inc /(dec) in cash	74	-41	107	378	564
Opening balance of cash	141	215	175	281	660
Closing balance of cash	215	175	281	660	1,223

Source: Company, Arianth Research

Key Ratios (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	13.1	13.5	18.0	23.6	32.0
CEPS	21.5	21.0	25.2	31.1	39.8
BVPS	172.7	180.2	192.2	224.5	256.1
DPS	5.0	5.0	6.5	6.5	6.5
Payout (%)	38.1%	36.9%	36.0%	27.6%	20.3%
Valuation (x)					
P/E	23.3	22.6	17.0	13.0	9.6
P/CEPS	14.3	14.6	12.2	9.9	7.7
P/BV	1.8	1.7	1.6	1.4	1.2
EV/EBITDA	14.3	14.1	10.3	7.0	4.6
Dividend Yield (%)	1.6%	1.6%	2.1%	2.1%	2.1%
Return Ratio (%)					
EBIDTA Margin	6.8%	7.4%	8.6%	9.5%	10.2%
PAT Margin	4.0%	4.0%	4.8%	5.5%	6.3%
ROE	7.6%	7.5%	9.4%	10.5%	12.5%
ROCE	6.7%	7.1%	10.2%	12.8%	15.6%
Leverage Ratio (%)					
Total D/E	0.2	0.3	0.2	0.1	0.1
Net D/E	0.1	0.3	0.1	-0.1	-0.3
Turnover Ratios					
Asset Turnover (x)	1.6	1.4	1.5	1.6	1.8
Inventory Days	56	60	52	40	35
Receivable Days	63	73	60	50	45
Payable days	82	74	66	55	50

Source: Company, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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