

Stable results, despite losses in PEB division AWL maintained its margin at 8.4% level due to robust show in consumables division, lower tax outgo boosted PAT; Maintain Accumulate

Current	Previous
CMP: Rs 322	Rating
Rating: Accumulate	Accumulate
Target: Rs 374	Target: Rs 352

(CMP as on November 14, 2019)

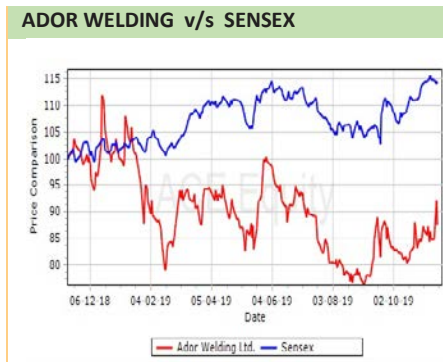
Stock Info	
INDEX	
BSE	517041
NSE	ADORWELD
Bloomberg	AWL IN
Reuters	ADOR.BO
Sector	Industrial Goods
Face Value (Rs)	10
Equity Capital (Rs Mn)	136
Market Cap (Rs Mn)	4,379
52w H/L (Rs)	445 /279
Avg Weekly Vol (BSE+NSE)	14,030

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ADOR WELDING	12.2	-0.3	-12.4
SENSEX	8.0	7.9	14.6

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Ador Welding reported good set of numbers in Q2FY20, mostly in line with our estimate except a miss on revenue front. Consolidated revenue for the quarter stood at Rs 1,289 mn, below our estimate of Rs 1,548 mn, registering +2.5% YoY/-0.8% QoQ growth. Consolidated EBITDA for Q2FY20 grew +7.3% YoY/+15.6% QoQ to Rs 109 mn, mostly in line with our estimate of Rs 108 mn, while EBITDA margin expanded +38bps YoY/+120bps QoQ to 8.4% beating our estimate of 7%. PAT witnessed a robust growth of +49.5% YoY/+131.9% QoQ to Rs 104 mn, which was far above our estimate of Rs 70 mn. The stupendous growth in PAT was on the back of lower effective tax rate for the quarter. Effective tax rate for the quarter stood at -13.7% as against 33.9% YoY and 41.2% QoQ. We remain positive on Ador Welding from longer term perspective, and maintain our Accumulate rating on the stock with a revised target price of Rs 374.

Q2FY20 Highlights

- As far as segmental performance is concerned, consumable segment posted stable results with consumable segment revenue growing by 4.6% YoY to Rs 999 mn in Q2FY20 against Rs 955 mn in Q2FY19. However Equipment & Project segment was a drag as it posted muted performance vis-a-vis previous few quarters. Equipment & Project segment posted revenue of Rs 291 mn in Q2FY20 against Rs 302 mn in Q2FY19. The consumable segment contributed 77% of the revenues while equipment & project division contributed the rest.
- EBITDA margin for the quarter was higher (+38 bps YoY) at 8.4% despite EBIT loss in the Equipment & Project segment (Rs 56 mn loss in Q2FY20). Expansion in the margin came due to higher margin of the consumable segment during Q2FY20 (+222 bps YoY expansion to 17.8%).
- Finance cost was stable at Rs 22 mn in Q2FY20, though on sequential basis it went up by 11% QoQ. The management is aiming to become debt free/nominal debt by FY21E end.

Valuations

At CMP of Rs 322, AWL is trading at FY20E and FY21E, P/E multiples of 13.3x and 9.5x respectively. After factoring in good Q2FY20 results we have revised our FY20E/FY21E estimates upwards to factor in lower effective tax rate. We continue to value the stock at a target P/E of 11x its FY21E earnings, which yields a target price of Rs 374 per share. **We maintain our Accumulate rating on the stock with revised target price of Rs 374, giving an upside of 16.1%.**

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	23.8
FY19	5,133	439	245	18.0	8.6	9.4	17.8
FY20E	5,779	509	329	24.2	8.8	10.5	13.3
FY21E	6,868	654	463	34.0	9.5	12.5	9.5

Source: Company, Arihant Research

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Q2FY20 and H1FY20 Financial Performance

Rs Mn (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	1,289	1,299	1,257	-0.8%	2.5%	2,587	2,287	13.2%
Raw Material Cost	883	923	889	-4.3%	-0.7%	1,806	1,576	14.6%
Employee cost	105	109	100	-3.5%	5.7%	214	206	4.2%
Other Expenses	192	172	167	11.1%	14.5%	364	326	11.5%
EBITDA	109	94	101	15.6%	7.3%	203	179	13.7%
EBITDA margin %	8.4%	7.2%	8.1%	+120bps	+38bps	7.8%	7.8%	+4bps
Other Income	31	28	50	11.5%	-37.6%	59	72	-18.1%
Depreciation	26	26	24	1.9%	11.0%	52	48	8.6%
EBIT	114	96	128	18.1%	-10.9%	210	203	3.6%
Finance cost	22	20	22	11.0%	-0.9%	42	39	9.0%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	91	76	105	19.9%	-13.0%	168	164	2.3%
Tax Expense	-13	31	36	-	-	19	52	-63.3%
Effective tax rate %	-13.7%	41.2%	33.9%	-5488bps	-4755bps	11.3%	31.4%	-2016bps
PAT	104	45	69	131.9%	49.5%	149	112	32.4%
PAT margin %	8.1%	3.4%	5.5%	+461bps	+253bps	5.7%	4.9%	+84bps
EPS (Rs)	7.6	3.3	5.1	131.9%	49.5%	10.9	8.3	32.4%

Source: Company, Aриhant Research

Segmental Analysis

Revenue Break-Up (Rs Mn)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Consumables	999	1,045	955	-4.4%	4.6%	2,045	1,708	19.7%
Equipment & Projects	291	255	302	14.2%	-3.7%	546	580	-5.9%
Less: Intersegment	-2	-2	-0	-	-	-3	-2	-
Net Revenue	1,289	1,299	1,257	-0.8%	2.5%	2,587	2,287	13.2%
EBIT Break-Up (Rs Mn)								
Consumables	178	164	149	8.0%	19.6%	342	264	29.8%
Equipment & Projects	-56	-50	3	-	-	-106	-4	-
Total EBIT	122	115	151	5.9%	-19.6%	236	259	-8.8%
EBIT Margin %								
Consumables	17.8%	15.7%	15.5%	+204bps	+222bps	16.7%	15.4%	+130bps
Equipment & Projects	-19.2%	-19.5%	0.9%	+21bps	-2017bps	-19.3%	-0.8%	-1859bps

Source: Company, Aриhant Research

Post Result Conference Call Highlights

- Ador management is confident of maintaining a run rate of Rs 1,000 mn revenue and 16-17% margin in its consumable business.
- The company is having Rs 500-540 mn of order book and is confident of executing around Rs 470 mn of orders in FY20E.
- The poor performance of PEB division (Equipment & Project Division) can be attributed to losses in the project division, as fixed costs are high for project division, hence unless a specific threshold of revenue gets crossed, the fixed cost burden impacts performance.
- Equipment portion of the PEB division is doing well and reported positive number of Rs 20 mn at PBT level, however due to losses in project division, the overall PEB segment reported Rs 56 mn of EBIT loss during Q2FY20.

Consolidated Financials

Income Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	4,424	4,583	5,133	5,779	6,868
<i>Change (%)</i>	8.3%	3.6%	12.0%	12.6%	18.8%
Raw materials	3,060	3,216	3,508	4,103	4,876
Stock Adjustments	-35	-13	17	0	0
Employee costs	394	385	416	439	563
Other expenses	612	587	655	728	775
Total Expenses	4,123	4,243	4,694	5,270	6,214
EBITDA	301	340	439	509	654
Other Income	92	96	104	116	124
Depreciation	114	102	97	102	100
Interest	11	53	91	78	52
PBT	269	281	355	445	626
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	269	281	355	445	626
Tax	90	97	110	116	163
<i>Rate (%)</i>	33.6%	34.5%	30.9%	26.0%	26.0%
PAT	179	184	245	329	463
<i>Change (%)</i>	-20.3%	3.1%	33.3%	34.2%	40.6%

Source: Company, Arian 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	3,000	3,567
Net Worth	2,349	2,450	2,614	3,136	3,703
Loan Funds	356	813	650	600	400
Deferred Tax & other liabilities	78	85	92	90	90
Capital Employed	2,783	3,348	3,354	3,825	4,193
Application of Funds					
Gross Block	2,350	2,423	2,680	2,630	2,430
Less: Accumulated Depreciation	1,420	1,481	1,578	1,680	1,779
Net Block	931	942	1,102	951	651
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	1,264	964
Investments	107	24	37	37	37
Debtors	765	920	846	950	941
Inventories	478	538	516	562	668
Cash & bank balance	215	175	281	918	1,460
Loans & advances & other CA	911	1,293	1,193	1,108	1,129
Total current assets	2,370	2,927	2,837	3,538	4,197
Current liabilities	897	891	871	950	941
Provisions	98	44	64	64	64
Net current assets	1,374	1,992	1,902	2,524	3,192
Total Assets	2,783	3,348	3,354	3,825	4,193

Source: Company, Arian Research

Cash Flow Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	269	281	355	445	626
Depreciation	114	102	97	102	100
Interest & others	-81	-43	-13	-38	-72
Cash flow before WC changes	301	340	439	509	654
(Inc)/dec in working capital	-402	-736	66	-209	-483
Operating CF after WC changes	-101	-396	505	300	171
Less: Taxes	-90	-97	-110	-116	-163
Operating cash flow	-191	-493	395	185	8
(Inc)/dec in F.A + CWIP	-76	-31	-176	50	200
(Pur)/sale of investment	28	82	-13	0	0
Cash flow from investing	-48	52	-189	50	200
Free cash flow (FCF)	-241	-474	232	235	208
Loan raised/(repaid)	330	457	-163	-50	-200
Equity raised	0	0	0	0	0
Interest & others	66	25	170	558	640
Dividend	-82	-82	-106	-106	-106
Cash flow from financing activities	313	400	-100	402	333
Net inc /(dec) in cash	74	-41	107	637	542
Opening balance of cash	141	215	175	281	918
Closing balance of cash	215	175	281	918	1,460

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	24.2	34.0
CEPS	21.5	21.0	25.2	31.7	41.4
BVPS	172.7	180.2	192.2	230.6	272.3
DPS	5.0	5.0	6.5	6.5	6.5
Payout (%)	38.1%	36.9%	36.0%	26.9%	19.1%
Valuation (x)					
P/E	24.5	23.8	17.8	13.3	9.5
P/CEPS	15.0	15.3	12.8	10.2	7.8
P/BV	1.9	1.8	1.7	1.4	1.2
EV/EBITDA	15.0	14.8	10.8	8.0	5.1
Dividend Yield (%)	1.6%	1.6%	2.0%	2.0%	2.0%
Return Ratio (%)					
EBIDTA Margin	6.8%	7.4%	8.6%	8.8%	9.5%
PAT Margin	4.0%	4.0%	4.8%	5.7%	6.7%
ROE	7.6%	7.5%	9.4%	10.5%	12.5%
ROCE	6.7%	7.1%	10.2%	10.6%	13.2%
Leverage Ratio (%)					
Total D/E	0.2	0.3	0.2	0.2	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	1.5	1.6
Inventory Days	56	60	52	50	50
Receivable Days	63	73	60	60	50
Payable days	82	74	66	60	50

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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% to -12%
SELL	<-12%

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