

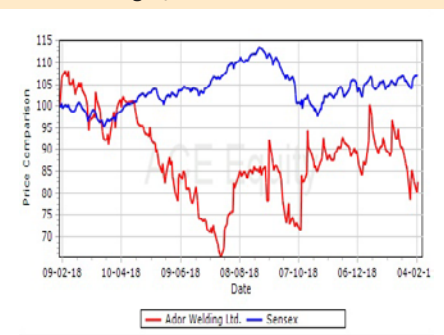
Current	Previous
CMP : Rs 338	
Rating : BUY	Rating : BUY
Target : Rs 418	Target : Rs 517

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
Mkt Cap (Rs mn)	4,597
52w H/L (Rs)	465 /266
Avg Monthly Vol (BSE+NSE)	96,270

SHAREHOLDING PATTERN		%
<i>(As on December, 2018)</i>		
Promoters		56.7
Public & Others		43.3

STOCK PERFORMANCE(%)	3m	6m	12m
Ador Welding	-5.9	1.6	-21.9
SENSEX	4.8	-2.5	5.3

Ador Welding v/s SENSEX



Source: ACE Equity, Arihant Research

Ador Welding reported stable Q3FY19 results, ahead of our expectations. Revenue saw 29.3% YoY growth to Rs 1342mn (est: Rs 1318mn), while EBITDA grew 77% YoY to Rs 119mn (est: Rs 120mn) with 239bps YoY expansion in EBITDA margins. PAT for the quarter grew 50% YoY to Rs 56mn (est: Rs 62mn). Maintain BUY with revised target price of Rs 418.

Q3FY19 and 9MFY19 Highlights

- For 9MFY19 revenue saw 15.9% YoY growth at Rs 3621mn against Rs 3125mn in 9MFY18, while for the quarter revenue saw 29.3% YoY growth. The strong growth for the quarter was due to robust growth of 35.2% YoY in consumable division as well as decent growth of 13.2% YoY in equipment & project division. The consumable segment contributed 76.6% of the revenues while equipment and project division contributed the rest.
- EBITDA margin for the quarter expanded by 239bps YoY to 8.9% due to higher margin for the consumable segment (23bps YoY expansion at 14.8%), as well as improved margin of the equipment & project segment (325bps YoY expansion). For 9MFY19 EBITDA margin expanded by 258bps to 8.1% from 5.5% in 9MFY18.
- Finance cost increased by 69.6% YoY to Rs 23mn in Q3FY19 while for 9MFY19 finance cost stood at Rs 62mn, an increase of 78.4% YoY. As we know the debt of AWL will peak out in FY19 as the company is now in finishing stage of its large Kuwait order in its Equipment & Project division, due to which the working capital cycle of the company got stretched and it had to resort to short term debt to meet its working capital obligation.
- PAT for the quarter stood at Rs 56mn, an increase of 50% YoY, while for 9MFY19 PAT grew by 80% YoY to Rs 164mn against Rs 91mn in 9MFY18.

Future Outlook

With gradual increase expected in capacity utilisation from 57.1% in FY18 to 75% in FY21E, we expect revenue growth of AWL to bounce-back strongly to 12.8% YoY in FY21E from 3.6% in FY18. With 10.7% CAGR revenue growth over FY18-21E and improving EBITDA margin from 7.4% in FY18 to 8.3% in FY21E, we expect AWL's PAT to grow from Rs 184mn in FY18 to Rs 316mn in FY21E, thereby registering a CAGR of 19.7% over FY18-21E.

Valuations

At CMP of Rs 338, AWL is trading at FY19E and FY20E, P/E multiples of 22x, 17.5x and 14.6x respectively. After factoring in Q3FY19 results we have revised our FY19E and FY20E estimates downwards (except revenue) and introduced FY21E estimates. We have rolled over our target P/E multiple to FY21E and now value the stock at a P/E of 18x FY21E, against earlier 25x FY20E, which yields a target price of Rs 418 per share. We maintain our BUY rating on the stock.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)	EV/EBITDA (x)
FY17	4424	301	179	13.1	6.8	7.6	25.8	15.7
FY18	4583	340	184	13.5	7.4	7.5	25.0	15.4
FY19E	4952	409	209	15.3	8.3	7.2	22.0	11.7
FY20E	5510	445	262	19.3	8.1	8.1	17.5	10.5
FY21E	6215	513	316	23.2	8.3	8.7	14.6	8.9

Source: Company, Arihant Research

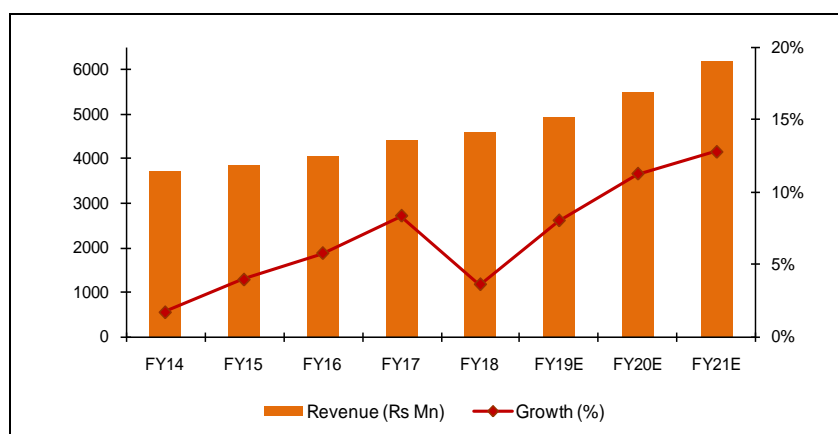
Q3FY19 and 9MFY19 Financial Performance

Rs Mn	Q3FY19	Q2FY19	Q3FY18	Q-o-Q	Y-o-Y	9MFY19	9MFY18	Y-o-Y
Net Revenue	1,342	1,253	1,037	7.0%	29.3%	3,621	3,125	15.9%
Raw Material Cost	936	889	733	5.3%	27.7%	2,512	2,259	11.2%
Employee cost	100	99	98	0.9%	2.5%	305	292	4.7%
Other Expenses	186	166	139	12.0%	33.6%	511	402	27.1%
EBITDA	119	99	67	20.6%	77.0%	293	173	69.9%
EBITDA margin %	8.9%	7.9%	6.5%	100 bps	239 bps	8.1%	5.5%	258 bps
Other Income	13	50	27	-74.1%	-52.4%	85	76	11.7%
Depreciation	23	23	26	0.0%	-8.6%	71	77	-8.5%
EBIT	109	125	69	-13.2%	57.8%	308	172	79.4%
Finance cost	23	22	14	4.5%	69.6%	62	35	78.4%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	86	103	55	-17.0%	54.9%	246	137	79.6%
Tax Expense	30	36	18	-15.7%	64.8%	82	46	78.7%
Effective tax rate %	35.1%	34.6%	33.0%	52 bps	212 bps	33.2%	33.3%	-16 bps
Reported Net Profit	56	67	37	-17.7%	50.0%	164	91	80.0%
Adj Net Profit	56	67	37	-17.7%	50.0%	164	91	80.0%
Adj Net margin %	4.1%	5.4%	3.6%	-124 bps	57 bps	4.5%	2.9%	162 bps
Reported EPS (Rs)	4.1	5.0	2.7	-17.7%	50.0%	12.1	6.7	80.0%
Adj EPS (Rs)	4.1	5.0	2.7	-17.7%	50.0%	12.1	6.7	80.0%

Source: Company, Arianth Research

■ Revenue to witness 10.7% CAGR over FY18-21E

With demand revival and expected robust growth in consumable segment, we expect AWL's revenue to grow from Rs 4583mn in FY18 to Rs 6215mn in FY21E, thereby registering a CAGR of 10.7% over FY18-21E.



Source: Company, Arianth Research

Future Outlook

With gradual increase expected in capacity utilisation from 57.1% in FY18 to 75% in FY21E, we expect revenue growth of AWL to bounce-back strongly to 12.8% YoY in FY21E from 3.6% in FY18. With 10.7% CAGR revenue growth over FY18-21E and improving EBITDA margin from 7.4% in FY18 to 8.3% in FY21E, we expect AWL's PAT to grow from Rs 184mn in FY18 to Rs 316mn in FY21E, thereby registering a CAGR of 19.7% over FY18-21E.

Income Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	4,424	4,583	4,952	5,510	6,215
<i>Change (%)</i>	8.3%	3.6%	8.0%	11.3%	12.8%
Raw materials	3,060	3,216	3,491	3,912	4,412
Stock Adjustments	-35	-13	0	0	0
Employee costs	394	385	416	468	528
Other expenses	612	587	636	685	761
Total Expenses	4,123	4,243	4,542	5,065	5,702
EBITDA	301	340	409	445	513
Other Income	92	96	114	83	93
Depreciation	114	102	92	96	100
Interest	11	53	110	28	21
PBT	269	281	321	403	485
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	269	281	321	403	485
Tax	90	97	112	141	170
<i>Rate (%)</i>	33.6%	34.5%	35.0%	35.0%	35.0%
PAT	179	184	209	262	316
<i>Change (%)</i>	-20.3%	3.1%	13.3%	25.7%	20.3%

Source: Company, Arianth Research

Balance Sheet (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19E	FY20E	FY21E
Sources of Funds					
Share Capital	136	136	136	136	136
Reserves & Surplus	2,213	2,314	2,762	3,102	3,491
Net Worth	2,349	2,450	2,898	3,238	3,627
Loan Funds					
Deferred Tax & other liabilities	78	85	84	84	84
Capital Employed	2,783	3,348	3,482	3,722	4,011
Application of Funds					
Gross Block	2,350	2,423	2,523	2,628	2,738
Less: Depreciation	1,420	1,481	1,573	1,669	1,769
Net Block	931	942	950	959	969
CWIP	132	101	101	101	101
Other non current assets	213	255	255	255	255
Deferred tax assets	26	35	35	35	35
Net fixed assets	1,303	1,332	1,340	1,349	1,359
Investments	107	24	24	24	24
Debtors	765	920	1,085	1,208	1,362
Inventories	478	538	574	643	725
Cash & bank balance	215	175	299	315	328
Loans & advances & other CA	911	1,293	1,085	1,208	1,362
Total current assets	2,370	2,927	3,043	3,373	3,777
Current liabilities	897	891	882	981	1,107
Provisions	98	44	44	44	44
Net current assets	1,374	1,992	2,118	2,348	2,627
Total Assets	2,783	3,348	3,482	3,722	4,011

Source: Company, Arianth Research

Cash Flow Statement (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT	269	281	321	403	485
Depreciation	114	102	92	96	100
Interest & others	-81	-43	-4	-55	-72
Cash flow before WC changes	301	340	409	445	513
(Inc)/dec in working capital	-402	-736	-117	-373	-477
Operating CF after WC changes	-101	-396	292	72	36
Less: Taxes	-90	-97	-112	-141	-170
Operating cash flow	-191	-493	180	-70	-134
(Inc)/dec in F.A + CWIP	-154	-92	-100	-105	-110
(Pur)/sale of investment	28	82	0	0	0
Cash flow from investing	-126	-10	-100	-105	-110
Free cash flow (FCF)	-319	-535	80	-175	-244
Loan raised/(repaid)	330	457	-313	-100	-100
Equity raised	0	0	0	0	0
Interest & others	144	87	451	394	461
Dividend	-82	-82	-94	-104	-104
Cash flow from financing activities	391	462	44	191	257
Net inc/(dec) in cash	74	-40	124	16	13
Opening balance of cash	141	215	175	299	315
Closing balance of cash	215	175	299	315	328

Source: Company, Arianth Research

Key Ratios (Consolidated)

Y/E March (Rs Mn)	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	13.1	13.5	15.3	19.3	23.2
CEPS	21.5	21.0	22.1	26.3	30.5
BVPS	172.7	180.2	213.1	238.1	266.7
DPS	6.0	6.0	6.9	7.6	7.6
Payout (%)	45.8%	44.4%	45.0%	39.6%	32.9%
Valuation (x)					
P/E	25.8	25.0	22.0	17.5	14.6
P/CEPS	15.7	16.1	15.3	12.8	11.1
P/BV	2.0	1.9	1.6	1.4	1.3
EV/EBITDA	15.7	15.4	11.7	10.5	8.9
Dividend Yield (%)	1.8%	1.8%	2.0%	2.3%	2.3%
Return ratio (%)					
EBIDTA Margin	6.8%	7.4%	8.3%	8.1%	8.3%
PAT Margin	4.0%	4.0%	4.2%	4.8%	5.1%
ROE	7.6%	7.5%	7.2%	8.1%	8.7%
ROCE	6.7%	7.1%	9.1%	9.4%	10.3%
Leverage Ratio (%)					
Total D/E	0.2	0.3	0.2	0.1	0.1
Net D/E	0.1	0.3	0.1	0.0	0.0
Turnover Ratios					
Asset Turnover (x)	1.6	1.4	1.4	1.5	1.5
Inventory Days	56	60	60	60	60
Receivable Days	63	73	80	80	80
Payable days	82	74	65	65	65

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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