

Stable results, improving working capital cycle and reduced debt burden helped AWL to report positive free cash flow, Maintain Buy with revised TP of Rs 384

Current	Previous
CMP: Rs 305	
Rating: Buy	Rating: Buy
Target: Rs 384	Target: Rs 418

(NR-Not Rated)

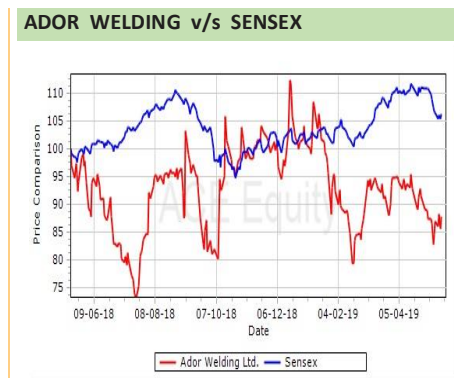
Stock Info	
INDEX	
BSE	517041
NSE	ADORWELD
Bloomberg	AWL IN
Reuters	ADOR.BO
Sector	Industrial Goods
Face Value (Rs)	10
Equity Capital (Rs Mn)	136
Market Cap (Rs Mn)	4,597
52w H/L (Rs)	445/266
Avg Weekly Vol (BSE+NSE)	38,000

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ADOR WELDING	3.7	-13.5	-13.1
SENSEX	2.5	6.6	6.3

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Ador Welding (AWL) came out with stable set of results in Q4FY19, ahead of our estimates. Consolidated revenue for the quarter grew 3.3% YoY and 11.8% QoQ to Rs 1500 mn against our estimate of Rs 1330 mn. EBITDA for Q4FY19 came at Rs 137 mn (estimate Rs 120 mn) a growth of 14.6% QoQ and decline of 17.9% YoY. EBITDA margin expanded 22bps QoQ to 9.1%, though fell 235bps YoY. The YoY decline in margin was due to higher raw material (+9.7% YoY) and staff costs (+20.5% YoY). PAT for the quarter stood at Rs 74 mn which was ahead of our estimate of Rs 40 mn, a growth of 33.9% QoQ and decline of 21.3% YoY. The YoY fall in PAT was mainly due to higher interest costs (+56% YoY), which as per management will be peaking out in FY19 and will come down going forward. We remain positive on Ador Welding from longer term perspective, and maintain our Buy rating on the stock with a revised target price of Rs 384.

Q4FY19 & FY19 Highlights

- For Q4FY19 revenue grew 3.3% YoY to Rs 1500mn against Rs 1452mn in Q4FY18, while for the full year FY19 revenue saw 11.9% YoY growth. The quarter saw consumable segment revenue growing by 11.1% YoY, however the growth was offset by the dismal performance of the Equipment & Project segment which declined by 15.4% YoY. The consumable segment contributed 76% of the revenues while equipment and project division contributed the rest.
- EBITDA margin for the quarter contracted by 235bps YoY to 9.1% due to loss in the Equipment & Project segment (Rs 74mn loss in Q4FY19 v/s Rs 35mn profit in Q4FY18). This was despite higher margin for the consumable segment during Q4FY19 (428bps YoY expansion to 19.2%). For FY19 EBITDA margin expanded by 99bps YoY to 8.4% from 7.4%.
- Finance cost increased by 56% YoY to Rs 28mn in Q4FY19 while for FY19 finance cost stood at Rs 91mn, an increase of 70.8% YoY. 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 year of negative FCF (in FY17 & FY18). The company has also increased its dividend per share (DPS) from Rs 5/share to Rs 6.5/share this year due to improved profitability.

Valuations

At CMP of Rs 305, AWL is trading at FY20E and FY21E, P/E multiples of 12.9x and 9.5x respectively. After factoring in Q4FY19 results we have revised our estimates upwards, however we have reduced our target P/E to 12x from 18x earlier to factor in the overall macro slowdown and uncertainty on new government which will be slow in decision making in its initial months. At 12x FY21E earnings AWL' fair value comes at Rs 384 per share. We maintain our Buy rating on the stock, with a revised target price of Rs 384, giving an upside of 25.9%.

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	22.5
FY19	5,133	439	245	18.0	8.6	9.4	16.9
FY20E	5,843	555	321	23.6	9.5	10.5	12.9
FY21E	6,941	708	435	32.0	10.2	12.5	9.5

Source: Company, Arihant Research

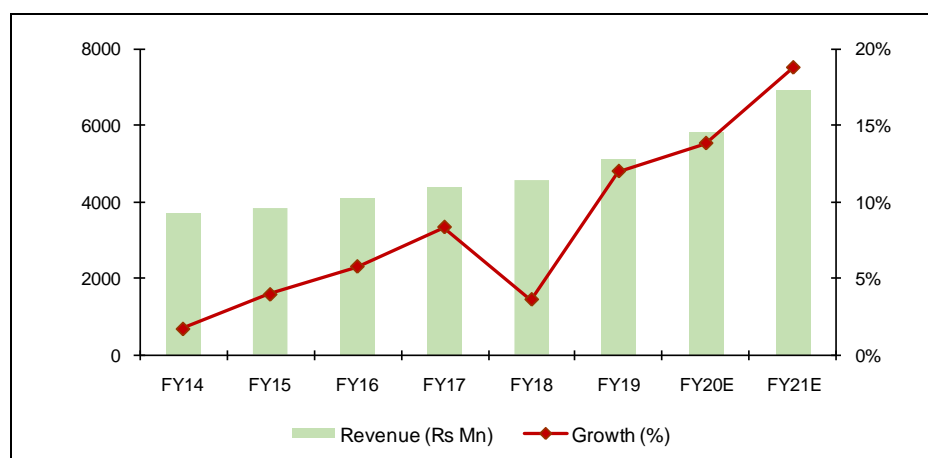
Q4FY19 and FY19 Financial Performance

Rs Mn (consolidated)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
Net Revenue	1,500	1,342	1,452	11.8%	3.3%	5,122	4,577	11.9%
Raw Material Cost	1,111	936	1,013	18.7%	9.7%	3,623	3,272	10.7%
Employee cost	110	100	91	10.0%	20.5%	415	383	8.4%
Other Expenses	142	186	181	-23.6%	-21.4%	653	583	12.0%
EBITDA	137	119	167	14.6%	-17.9%	430	339	26.8%
EBITDA margin %	9.1%	8.9%	11.5%	+22bps	-235bps	8.4%	7.4%	+99bps
Other Income	19	13	21	48.8%	-8.6%	104	97	7.3%
Depreciation	25	23	24	9.0%	7.6%	96	101	-4.8%
EBIT	131	109	164	19.8%	-20.4%	438	336	30.6%
Finance cost	28	23	18	21.4%	56.0%	91	53	70.8%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	102	86	146	19.4%	-29.9%	348	283	23.1%
Tax Expense	28	30	51	-7.3%	-45.8%	109	97	12.8%
Effective tax rate %	27.2%	35.1%	35.2%	-798bps	-798bps	31.4%	34.3%	-287bps
PAT	74	56	94	33.9%	-21.3%	239	186	28.5%
PAT margin %	5.0%	4.1%	6.5%	+82bps	-155bps	4.7%	4.1%	+60bps
EPS (Rs)	5.5	4.1	6.9	33.9%	-21.3%	17.5	13.6	28.5%

Source: Company, Arianth Research

■ **Revenue to witness 16.3% CAGR over FY19-21E**

With demand revival and expected robust growth in consumable segment, we expect AWL's revenue to grow from Rs 5133mn in FY19 to Rs 6941mn in FY21E, thereby registering a CAGR of 16.3% over FY19-21E.



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 245mn in FY19 to Rs 435mn in FY21E, thereby registering a CAGR of 33.2% over FY19-21E.

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
Change (%)	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
Rate (%)	33.6%	34.5%	30.9%	33.0%	33.0%
PAT	179	184	245	321	435
Change (%)	-20.3%	3.1%	33.3%	30.6%	35.8%

Source: Company, Arihant 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, Arihant 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	23.2	22.5	16.9	12.9	9.5
P/CEPS	14.2	14.5	12.1	9.8	7.7
P/BV	1.8	1.7	1.6	1.4	1.2
EV/EBITDA	14.2	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

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

Research**Analyst****Registration
No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880