

Company Update

Ador Welding Ltd

Bloomberg Code: AWL IN

India Research - Stock Broking

HOLD

Steady Growth, Improving Margins but Rich Valuations

Mixed results, margins under pressure: We assess Q3FY18 results as disappointing due to its meager YoY growth and margin contraction. YoY revenue growth of 1.1% is negated by higher finance costs & an EBITDA contraction of 86 bps to 6.5% and the EPS de-grew by 10.6%. While AWL's focus on cost reduction, product innovation, improving productivity and improving business process gives a positive outlook, higher valuations along with increased finance costs & bleak wind energy outlook remains a challenge. While the management is confident of maintaining the EBITDA margins at 11-12%, we are skeptical and expect the EBITDA margin hovering around 8.5%-9.0% along with a net profit margin of 5.0%-5.5% by FY20E. In view of the mixed future outlook we retain our **"HOLD"** rating with a target price of Rs. 450 with an upside potential of 9%.

Altering product mix favoring project engineering and a healthy order book: AWL's focus on expanding the project engineering segment has panned well so far for the company. In view of the growing optimism in manufacturing segment particularly in segments like defence, power and automotive sectors and the current outstanding order book, we are anticipating a decent growth in near future. We expect the profitability margins to improve mainly on account of improved revenue from project engineering segment which is a high margin business and an increased contribution from exports. Government's increased spending targets in fields like defence, infrastructure, transportation & power sectors in recent budget is expected to do well for AWL revenue. AWL has exposure to wind energy and has introduced new products to cater to it, however, we are not very positive about the segment's near future outlook.

Valuation and Risks

Over the years AWL has been serving diversified segments and we believe the earnings to expand along with improved margins going ahead. However, the rich valuations coupled with higher finance costs & weak wind energy outlook is expected to be a barrier. While revising the FY18E & FY19E, we have introduced FY20E financials. While lowering the FY19E EPS by 15.4%, we assign a **"HOLD"** rating for AWL and value the stock at 21.5x which is a 5 year average forward PE to its FY20E EPS of Rs. 20.9 and recommend a target price of Rs. 450 with an upside potential of 9%. Delay in economic recovery and increase in competition in domestic market may pose threat to the call.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	4083	4415	4658	5077	5483
EBITDA	409	310	299	408	492
EBITDA Margin (%)	10.0	7.0	6.4	8.0	9.0
Adj. Net Profit	243	184	158	216	285
EPS (Rs.)	17.9	13.6	11.7	15.9	20.9
RoE (%)	11.2	7.8	6.5	8.4	10.3
PE (x)	16.0	22.8	35.3	25.9	19.7

Source: Company, Karvy Research, *Represents multiples for FY16 & FY17 are based on historic market price

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Recommendation (Rs.)

CMP (as on Mar 06, 2018)	412
Target Price	450
Previous Target Price	356
Upside (%)	9

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	5600 / 86
52-wk High/Low (Rs.)	659 / 284
3M Avg. daily volume (no.)	67759
Beta (x)	1.1
Sensex/Nifty	33317 / 10249
O/S Shares(mn)	13.6
Face Value (Rs.)	10.0

Shareholding Pattern (%)

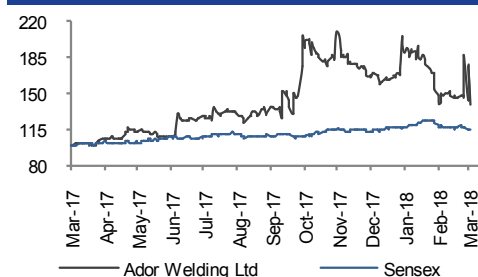
Promoters	56.7
FIs	0.0
DIs	16.6
Others	26.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(0)	(16)	3	39
Relative to Sensex	2	(18)	(2)	21

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↓ (2.8)	↓ (2.8)
EBITDA (%)	↓ (21.9)	↓ (11.7)
PAT (%)	↓ (21.3)	↓ (15.4)

Source: Karvy Research

Analyst Contact

Arvind Vinjamoori
 040 - 3321 6270
 arvind.vinjamoori@karvy.com

Exhibit 2: Q3FY18

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	9M FY18	9M FY17	YoY %
Turnover	1037	1217	(14.7)	1026	1.1	3125	2818	10.9
Expenditure	970	1115	(13.0)	951	2.0	2953	2617	12.8
EBITDA	67	101	(33.5)	76	(10.7)	173	201	(14.2)
Depreciation	26	26	(0.8)	28	(8.6)	77	85	(8.7)
Interest	14	12	13.1	3	392.9	35	6	532.7
Other Income	27	19	41.1	20	38.3	76	51	49.8
PBT	55	83	(33.2)	64	(14.3)	137	162	(15.6)
Tax	18	28	(34.3)	23	(20.9)	46	55	(17.5)
PAT	37	55	(32.6)	41	(10.6)	91	107	(14.5)
EBITDA Margin (%)	6.5	8.3	(183) bps	7.4	(86) bps	5.5	7.1	(162) bps
EBIT Margin (%)	4.0	6.2	(217) bps	4.6	(60) bps	3.1	4.1	(109) bps
Net Profit Margin (%)	3.6	4.5	(95) bps	4.0	(47) bps	2.9	3.8	(087) bps

Source: Company, Karvy Research

Exhibit 3: Margin Analysis

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ (bps)	Q3FY17	YoY (bps)	9MFY18	9MFY17	YoY (bps)
Material Expenses as % of Net Sales	63.5	68.0	(459)	63.8	(37)	69.4	64.7	470
Employee Expenses as % of Net Sales	9.4	8.0	137	9.6	(16)	9.3	10.1	(77)
Other Expenses as % of Net Sales	13.4	10.4	305	14.9	(150)	12.9	15.7	(281)
EBITDA Margin (%)	6.5	8.3	(183)	7.4	(86)	5.5	7.1	(162)
Tax Rate (%)	33.0	33.5	(56)	35.7	(274)	33.3	34.1	(80)
Net Profit Margin (%)	3.6	4.5	(95)	4.0	(47)	2.9	3.8	(87)

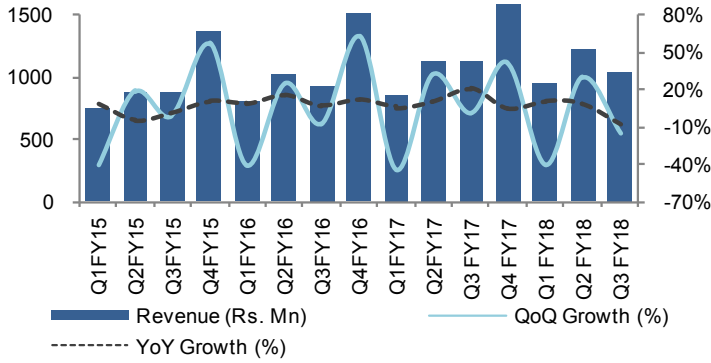
Source: Company, Karvy Research

Exhibit 4: Segmental Financials

YE Mar (Rs. Mn)	Q3FY18	Q2FY18	QoQ %	Q3FY17	YoY %	9MFY18	9MFY17	YoY %
Segment-wise revenues								
Consumables	760	793	(4.2)	746	1.8	2107	2195	(4.0)
Equipments & Project Engg	278	424	(34.5)	375	(26.1)	1088	902	20.6
Segment-wise EBIT								
Consumables	111	110	1.2	80	38.6	263	238	10.2
Equipments & Project Engg	(26)	3	NA	16	NA	(41)	5	NA
Segment-wise EBIT Margin (%)								
Consumables	14.6	13.8	77 bps	10.7	387 bps	12.5	10.9	160 bps
Equipments & Project Engg	(9.3)	0.6	(994) bps	4.3	(1359) bps	(3.8)	0.5	(430) bps

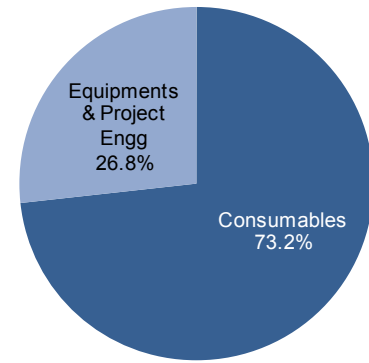
Source: Company, Karvy Research

Exhibit 5: Quarterly Revenue Growth



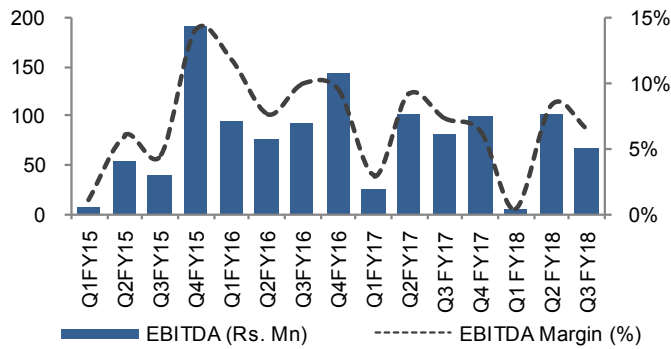
Source: Company, Karvy Research

Exhibit 6: Revenue Segmentation Q3FY18



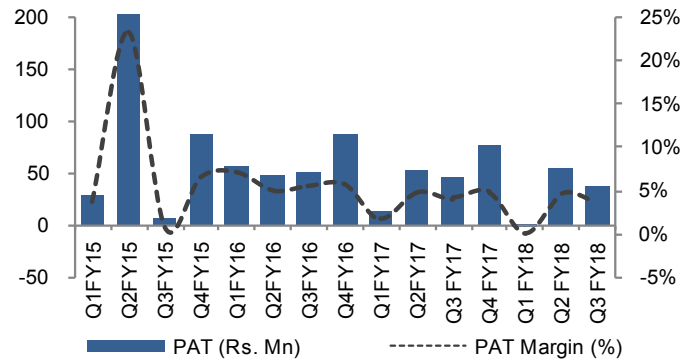
Source: Company, Karvy Research

Exhibit 7: Quarterly EBITDA



Source: Company, Karvy Research

Exhibit 8: Quarterly PAT



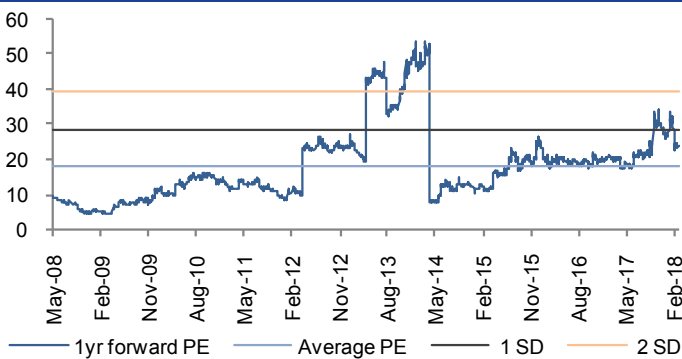
Source: Company, Karvy Research

Exhibit 9: Change in Earnings Estimates

YE Mar - Standalone (Rs. Mn)	FY18E			FY19E			FY20E
	Old	New	% Change	Old	New	% Change	Introducing
Net Sales	4790	4658	(2.8)	5221	5077	(2.8)	5483
EBITDA	383	299	(21.9)	462	408	(11.7)	492
EBITDA Margin (%)	8.0	6.4	(157) bps	8.9	8.0	(82) bps	9.0
Adj. PAT	201	158	(21.3)	255	216	(15.4)	285
EPS (Rs.)	14.8	11.7	(21.3)	18.8	15.9	(15.4)	20.9

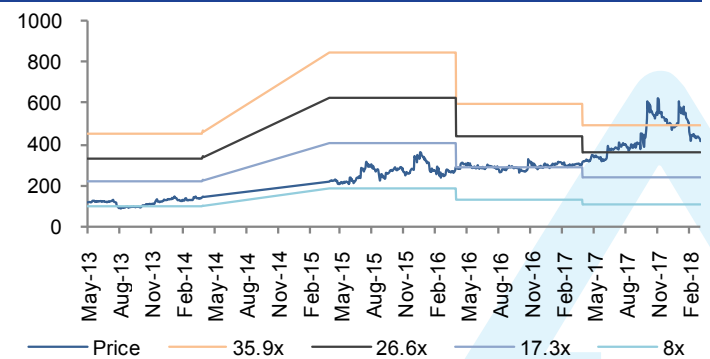
Source: Karvy Research

Exhibit 10: 10yr forward PE Band



Source: BSE, Karvy Research

Exhibit 11: 5yr PE Band



Source: Bloomberg, Karvy Research

Financials

Exhibit 12: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	4083	4415	4658	5077	5483
Growth (%)	(4.3)	8.1	5.5	9.0	8.0
Operating Expenses	3674	4105	4359	4669	4992
EBITDA	409	310	299	408	492
Growth (%)	50.9	(24.3)	(3.5)	36.6	20.4
Depreciation & Amortization	118	114	112	119	125
EBIT	291	196	187	290	367
Other Income	53	93	93	66	82
Interest	9	10	50	47	42
PBT	335	279	230	308	407
Tax	119	94	71	93	122
Adjusted PAT	243	184	158	216	285
Growth (%)	559.6	(24.2)	(14.1)	36.3	31.9

Source: Company, Karvy Research

Exhibit 13: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
Cash & Equivalents	141	215	265	304	294
Sundry Debtors	1199	771	1164	1295	1426
Inventory	430	475	543	595	643
Loans & Advances	141	778	265	306	375
Investments	102	104	104	104	104
Gross Block	2375	2525	2675	2825	2975
Net Block	1001	1023	1060	1092	1117
CWIP	14	38	38	38	38
Miscellaneous	325	374	380	385	398
Total Assets	3352	3780	3822	4120	4397
Current Liabilities & Provisions	1093	1329	1295	1459	1533
Debt	2	2	2	2	2
Other Liabilities	89	97	97	97	97
Total Liabilities	1184	1428	1394	1558	1632
Shareholders Equity	136	136	136	136	136
Reserves & Surplus	2031	2216	2292	2426	2629
Total Networth	2167	2352	2428	2562	2765
Total Networth & Liabilities	3352	3780	3822	4120	4397

Source: Company, Karvy Research

Exhibit 14: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT	335	279	230	308	407
Depreciation	118	114	112	119	125
Tax Paid	(114)	(94)	(71)	(93)	(122)
Inc/dec in Net WC	(112)	(78)	11	(65)	(187)
Other Income	(7)	(93)	(93)	(66)	(82)
Other non cash items	(3)	0	0	0	0
Cash flow from operating activities	218	128	189	204	140
Inc/dec in capital expenditure	(148)	(81)	(150)	(150)	(150)
Inc/dec in investments	(50)	16	0	0	0
Others	160	93	93	66	82
Cash flow from investing activities	(38)	28	(57)	(84)	(68)
Dividend paid	(82)	(82)	(82)	(82)	(82)
Others	(3)	0	0	0	0
Cash flow from financing activities	(85)	(82)	(82)	(82)	(82)
Net change in cash	95	74	50	38	(9)

Source: Company, Karvy Research

Exhibit 15: Key Ratios

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin (%)	10.0	7.0	6.4	8.0	9.0
EBIT Margin (%)	7.1	4.4	4.0	5.7	6.7
Net Profit Margin (%)	6.0	4.2	3.4	4.3	5.2
Dividend Payout Ratio (%)	33.6	44.4	51.6	37.9	28.7
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.0)	(0.0)
RoE (%)	11.2	7.8	6.5	8.4	10.3
RoCE (%)	13.4	7.4	6.9	10.2	12.0

Source: Company, Karvy Research

Exhibit 16: Valuation Parameters

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
EPS (Rs.)	17.9	13.6	11.7	15.9	20.9
DPS (Rs.)	5.0	5.0	5.0	5.0	5.0
BVPS (Rs.)	159.4	172.9	178.6	188.4	203.4
PE (x)	16.0	22.8	35.3	25.9	19.7
P/BV (x)	1.8	1.8	2.3	2.2	2.0
EV/EBITDA (x)	9.2	13.8	18.8	13.7	11.4
EV/Sales (x)	0.9	1.0	1.2	1.1	1.0

Source: Company, Karvy Research, *Represents multiples for FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India
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