

Ador Welding

HOLD

Slight improvement, more to come

Summary

Ador Welding (AWL) reported decent financial performance in Q2FY26, with slight ~4% growth YoY in revenue, on the back of improved realizations, but the volumes stayed put. The current margins are expected to be the baseline level and sustainable in the future. The ONGC Uran Flares project is expected to be completed this quarter and hence we expect no further surprises going ahead. FY27 should see the start of improved profitability reflecting only core business performance with minimal impact of the project business. Ador is gearing up to tap opportunities in the domestic capex upcycle from industries such as defense and ship-building. The management has also strengthened the top management team with key hires which bodes well from a long term strategic perspective. Owing to richer valuations, we change our rating on Ador Welding to HOLD with TP of Rs1,151 at 18x FY27 expected earnings.

Key Highlights and Investment Rationale

- **Flat Q2FY26; Targeting Healthy Growth from hereon:** The products segment showed ~14% QoQ growth owing to better product mix and more disciplined pricing. We expect a steady recovery from here on with the demand situation improving in key areas such as Nuclear, Defense and Ship-building. Foray into the US market has been dampened due to the tariff situation, but the company is positive on Brazil and is looking to enter new markets.
- **Drivers aplenty for growth in FY26 and FY27:** Although the demand has been flat this quarter, Ador is expected to do better owing to the infrastructure led demand trend; and newer, margin accretive product offerings. Demand recovery in key industries, top-level hires and strengthening of product portfolio augur strongly for growth prospects.

TP	Rs1,151
CMP	Rs1,192
Potential upside/downside	-3%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	21.1	10.3	(13.6)
Rel to Sensex	(20.1)	(10.3)	(14.6)

V/s Consensus		
EPS (Rs)	FY26E	FY27E
IDBI Capital	39	64
Consensus	--	--
% difference	--	--

Key Stock Data	
Bloomberg/Reuters	AWL IN/ADOR.BO
Sector	Capital Goods
Shares o/s (mn)	17
Market cap. (Rs mn)	20,740
3-m daily avg. trd. value (Rs mn)	--
52-week high / low	Rs1,408 / 777
Sensex / Nifty	82,605 / 25,324

Shareholding Pattern (%)	
Promoters	53.7
FII	0.1
DII	6.5
Public	39.7

Financial snapshot

(Rs Mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	7,768	10,736	11,227	11,585	12,516
Change yoy, %	17	38	5	3	8
EBITDA	872	1,176	1,019	1,140	1,790
Change yoy, %	49	35	(13)	12	57
EBITDA Margin(%)	11.2	11.0	9.1	9.8	14.3
Adj.PAT	599	865	679	677	1,114
EPS (Rs)	44	64	39	39	64
Change yoy, %	56.8	44.4	(38.6)	(0.3)	64.4
P/E(x)	23.5	16.3	26.5	26.6	16.2
Dividend Yield (%)	1.2	1.0	4.9	5.1	5.4
EV/EBITDA (x)	16.3	11.9	17.0	15.6	10.0
RoE (%)	19.8	21.7	13.9	13.7	22.7
RoCE (%)	24.6	24.2	16.7	19.6	33.0

Source: IDBI Capital Research, Company

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Exhibit 1: Quarterly Snapshot (Consolidated)

Consolidated (Rs Mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ(%)
Net Sales	2,811	2,692	4.4	2,518	11.6
Expenditure	-2,463	-2,491	(1.1)	2,562	(196.1)
<i>as % of sales</i>	<i>-87.6</i>	<i>-92.5</i>		<i>101.7</i>	
Consumption of RM	-1,727	-1,756	(1.6)	1,538	(212.3)
<i>as % of sales</i>	<i>-61.4</i>	<i>-65.2</i>		<i>61.1</i>	
Employee Cost	-290	-291	(0.5)	293	(199.1)
<i>as % of sales</i>	<i>-10.3</i>	<i>-10.8</i>		<i>11.6</i>	
Other expenditure	-447	-444	0.5	732	(161.0)
<i>as % of sales</i>	<i>-15.9</i>	<i>-16.5</i>		<i>29.1</i>	
EBITDA	348	201	72.7	-44	(889.8)
Depreciation	-48	-45	6.0	48	(200.2)
EBIT	300	156	91.9	-92	(427.3)
Other Income	43	51	(15.3)	50	(12.9)
Interest	-6	-14	(54.0)	8	(175.0)
PBT	337	93	260.5	-50	(768.1)
Total Tax	-87	-26	228.0	11	(894.5)
Adjusted PAT	250	139	80.2	-39	(733.2)
Extra ordinary items	0	-100	NA	0	NA
Reported PAT	250	67	273.3	-39	(733.2)
Adjusted EPS	14.4	10.2	40.8	-2.3	(733.2)
Margins (%)			YoY (bps)		QoQ (bps)
EBIDTA	12.4	7.5	489	(1.7)	1,411
EBIT	10.7	5.8	486	(3.6)	1,430
EBT	12.0	3.5	851	(2.0)	1,398
PAT	8.9	5.2	374	(1.6)	1,047
Effective Tax rate	(25.7)	(28.3)	255	(21.6)	(409)

Source: Company, IDBI Capital

Exhibit 2: Quarterly Snapshot (Consolidated)

Segment Revenue (Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ%
Products	2,709	2,117	27.9	2,368	14.4
Services	92	194	(52.5)	137	(32.9)
Less: Intersegment	-1	-99	(99.2)	0	-
Total	2,800	2,678	4.6	2,505	11.8
Margins (%)	YoY (bps)			QoQ (bps)	
Products	16.2	10.2	597	14.5	167
Services	(28.3)	(18.2)	(1,014)	(248.6)	22,028

Source: Company, IDBI Capital

Conference call highlights:**Demand:**

- Ador registered a growth in QoQ sales owing to more disciplined pricing and improved product mix. This reflected in the improved working capital days by 10 days. The product mix is also shifting towards higher margin products.
- The growth came mostly on the back of improved realizations, while the sales volume stayed put. The flat volume growth has been in-line with expectations. Future predictions on the top-line have not been made.
- The same factors are expected to drive growth in the future as well, and the margins are also expected to improve slightly. The current margins seem sustainable going ahead.
- Ador has introduced new products: data mapping product for higher efficiency and lower loss, and electric battery welder which was launched 2 years ago. The demand traction has been slow in these. The company has also moved towards offering complete CNC solutions, and providing robots and co-bots as well. While this segment is in a very nascent stage, it has started to show some color.
- The ONGC flares project is on-track to get completed in this quarter. As has been mentioned in the past, Ador will focus its energy in the smaller project size space and not bid for larger projects.

- Ador has also started catering to products from promising industries such as ship-building and defense. Nuclear is another segment which has long-run potential to get bigger. Ship-building revenue is small, but activity is visible and good growth is expected from this segment in the future.
- The company had been investing in the US market, but the tariffs have derailed the plans. Middle East has also been slower due to project freeze and delays. UAE, Oman, India seem to be much better. South America, Russia and Indonesia will be in focus in coming quarters. Europe is not really a focus. 82% of sales came from domestic market.

Future Outlook:

- Orders have been coming in from the welding equipment front, which might potentially lead to improved H2, but the management refrained from providing much clarity
- The management does not expect any more provisions in the future. Additionally, the management has been upfront and aggressive in taking provisional losses in the past.
- There is a pending litigation in the High Court, which poses a provision liability, but the management is hopeful that the case will go in their favor and hence do not see it as a potential loss as of now.
- No guidance provided on top-line, but the margins should stay put commensurately.

Others:

- Ador has niche capabilities which gives it an edge over global peers in certain segments.
- Ador Fontech merger has been going according to plan with synergies showing up along expected lines.

Financial Summary

Profit & Loss Account

(Rs Mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	6,615	7,768	10,736	11,227	11,585	12,516
<i>Change (yoy, %)</i>	48	17	38	5	3	8
Operating expenses	(6,031)	(6,896)	(9,560)	(10,208)	(10,445)	(10,726)
EBITDA	584	872	1,176	1,019	1,140	1,790
<i>Change (yoy, %)</i>	190	49	35	(13)	12	57
<i>Margin (%)</i>	8.8	11.2	11.0	9.1	9.8	14.3
Depreciation	(109)	(116)	(158)	(182)	(185)	(200)
EBIT	475	756	1,018	837	955	1,590
Interest paid	(37)	(24)	(41)	(45)	(49)	(49)
Other income	55	67	194	188	62	50
Pre-tax profit	582	791	1,171	866	968	1,591
Tax	(131)	(198)	(307)	(265)	(290)	(477)
<i>Effective tax rate (%)</i>	22.4	25.1	26.2	30.6	30.0	30.0
Minority Interest	-	-	-	-	-	-
Net profit	431	595	865	635	677	1,114
Exceptional items	90	(8)	-	(114)	-	-
Adjusted net profit	382	599	865	679	677	1,114
<i>Change (yoy, %)</i>	-	57	44	(21)	(0)	64
EPS	28.1	44.0	63.6	39.0	38.9	64.0
Dividend per sh	-	12.5	10.7	50.5	53.1	55.7
<i>Dividend Payout %</i>	-	28.4	17	129	136	87

Balance Sheet**(Rs Mn)**

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	2,821	3,235	4,730	5,071	4,825	4,969
Share capital	136	136	136	174	174	174
Reserves & surplus	2,685	3,099	4,594	4,897	4,651	4,795
Total Debt	7	159	431	11	11	11
Other liabilities	(27)	(46)	(94)	(97)	(97)	(97)
Curr Liab & prov	1,101	1,123	1,647	1,858	1,897	2,001
Current liabilities	989	996	1,454	1,636	1,676	1,779
Provisions	112	128	194	221	221	221
Total liabilities	1,081	1,235	1,984	1,771	1,811	1,914
Total equity & liabilities	3,902	4,470	6,714	6,842	6,636	6,883
Net fixed assets	1,125	1,098	1,585	1,786	1,951	2,050
Investments	272	307	500	422	422	422
Other non-curr assets	48	48	120	115	115	115
Current assets	2,457	3,017	4,510	4,519	4,148	4,296
Inventories	900	1,162	1,452	1,267	1,308	1,413
Sundry Debtors	932	1,252	1,801	1,927	1,988	2,148
Cash and Bank	76	69	472	671	198	81
Loans and advances	550	534	785	654	654	654
Total assets	3,902	4,470	6,714	6,842	6,636	6,883

Cash Flow Statement**(Rs Mn)**

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	582	791	1,171	866	968	1,591
Depreciation	109	116	158	182	185	200
Tax paid	(143)	(179)	(338)	(236)	(290)	(477)
Chg in working capital	(218)	(652)	(354)	489	(62)	(161)
Other operating activities	(66)	60	(55)	70	49	49
Cash flow from operations (a)	264	137	583	1,371	850	1,201
Capital expenditure	(173)	(148)	(433)	(413)	(350)	(300)
Chg in investments	100	12	4	110	-	-
Other investing activities	19	39	(7)	129	-	-
Cash flow from investing (b)	(55)	(97)	(436)	(174)	(350)	(300)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(273)	152	(9)	(12)	-	-
Dividend (incl. tax)	-	(170)	(145)	(879)	(923)	(969)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(41)	(28)	(39)	(44)	(49)	(49)
Cash flow from financing (c)	(314)	(47)	(193)	(935)	(972)	(1,018)
Net chg in cash (a+b+c)	(104)	(7)	(46)	262	(473)	(117)

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	207	238	348	291	277	286
Adj EPS (Rs)	28.1	44.0	63.6	39.0	38.9	64.0
Adj EPS growth (%)	422	57	44	-39	0	64
EBITDA margin (%)	8.8	11.2	11.0	9.1	9.8	14.3
Pre-tax margin (%)	8.8	10.2	10.9	7.7	8.4	12.7
Net Debt/Equity (x)	0.0	0.0	0.0	-0.1	0.0	0.0
ROCE (%)	17	25	24	17	20	33
ROE (%)	15	20	22	13.9	13.7	22.7

DuPont Analysis

Asset turnover (x)	1.7	1.9	1.9	1.7	1.7	1.9
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.4
Net margin (%)	5.8	7.7	8.1	6.1	5.8	8.9

Working Capital & Liquidity ratio

Inventory days	50	55	49	41	41	41
Receivable days	51	59	61	63	63	63
Payable days	47	39	32	45	45	47

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	36.9	23.5	16.3	26.5	26.6	16.2
Price/Book value (x)	5.0	4.4	3.0	3.6	3.7	3.6
EV/Net sales (x)	2.1	1.8	1.3	1.5	1.5	1.4
EV/EBITDA (x)	24.0	16.3	11.9	17.0	15.6	10.0
Dividend Yield (%)	0.0	1.2	1.0	4.9	5.1	5.4

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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