Ador Welding — BUY

Plenty of potential, Time to Perform

TP	Rs1,250
CMP	Rs894
Potential upside/downside	40%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	2.6	(2.1)	(31.1)
Rel to Sensex	(7.0)	(10.3)	(44.6)

Key Stock Data

Bloomberg/Reuters	AWL IN/ADOR.BO
Sector	Capital Goods
Shares o/s (mn)	17
Market cap. (Rs mn)	15,566
3-m daily avg. trd. value (Rs mn)	--
52-week high / low	Rs1,488 / 777
Sensex / Nifty	82,430 / 24,925

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	54	66
Consensus	--	--
% difference	--	--

Shareholding Pattern (%)

Promoters	53.7
FII	0.0
DII	6.4
Public	39.9

Summary

Ador Welding (AWL) reported financial performance in tune with expectations in Q4FY25.Margin improvement to the tune of 200 bps sequentially in the primary Products segment to 14.3% paved the way for improved profitability. Management stated that 75-80% of the execution and billing on the ONGC project has been completed which should lead to reduction of operating losses going ahead which is a significant positive. Valuations at 14xFY27 expected earnings are attractive and we believe the company is gearing up to tap the opportunities in the domestic capex upcycle. The management has also strengthened the top management team with key hires which bodes well from a long term strategic perspective. We maintain our BUY rating on Ador Welding with revised TP of Rs1,250 at 19x FY27 expected earnings.

Key Highlights and Investment Rationale

- **Tepid FY25; Plenty of Room to grow from hereon:** The company witnessed a tepid year with weak steel prices and demand squeeze especially towards the middle of FY25. However, we expect a steady recovery from here on with the demand situation improving in key areas such as Nuclear, Thermal, Defense and General Engineering. Exports also grew by more than 25% in FY25 with absolute value pegged at~ Rs 1.5bn. Volumes on the domestic front were flat during the year. We expect capex momentum to gather pace in FY26 and FY27 with the intensity of geopolitical and tariffs risks receding from hereon.

- **Transient weakness in capex cycle, exports a bright spot:** Although some weakness is being seen in the infrastructure led demand, we believe this would be transient in nature. Rising steel prices, demand recovery, key hires and strengthening of product portfolio augur strongly for growth prospects. Foray into US and Australian markets are also key positives.

Financial snapshot (Rs Mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	7,768	10,736	11,227	12,148	13,804
Change yoy, %	*17*	*38*	*5*	*8*	*14*
EBITDA	872	1,176	1,019	1,507	1,847
Change yoy, %	*49*	*35*	*(13)*	*48*	*23*
EBITDA Margin(%)	*11.2*	*11.0*	*9.1*	*12.4*	*13.4*
Adj.PAT	599	865	679	948	1,155
EPS (Rs)	44	64	39	54	66
Change yoy, %	*56.8*	*44.4*	*(38.6)*	*39.5*	*21.9*
P/E(x)	20.3	14.1	22.9	16.4	13.5
Dividend Yield (%)	1.4	1.2	5.7	5.9	6.2
EV/EBITDA (x)	14.0	10.3	14.6	10.1	8.3
RoE (%)	19.8	21.7	13.9	18.6	22.3
RoCE (%)	24.6	24.2	16.7	26.5	32.1

Source: IDBI Capital Research, Company

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Exhibit 1: Quarterly Snapshot (Consolidated)

Consolidated (Rs Mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ(%)
Net Sales	**3,100**	**2,973**	***4.3***	**2,740**	***13.2***
Expenditure	**-2,790**	**-2,651**	***5.2***	**2,507**	***(211.3)***
as % of sales	*-90.0*	*-89.1*		*91.5*	
Consumption of RM	-2,040	-1,923	*6.0*	1,761	*(215.8)*
as % of sales	*-65.8*	*-64.7*		*64.3*	
Employee Cost	-255	-255	*(0.1)*	284	*(189.7)*
as % of sales	*-8.2*	*-8.6*		*10.4*	
Other expenditure	-495	-472	*4.9*	461	*(207.3)*
as % of sales	*-16.0*	*-15.9*		*16.8*	
EBITDA	**311**	**323**	***(3.8)***	**233**	***33.5***
Depreciation	-48	-41	*17.3*	46	*(202.6)*
EBIT	**263**	**282**	***(6.8)***	**186**	***41.2***
Other Income	51	66	*(23.9)*	37	*35.8*
Interest	-9	-13	*(34.6)*	11	*(181.3)*
PBT	291	335	*(13.2)*	213	*36.7*
Total Tax	-110	-82	*34.8*	-59	*87.6*
Adjusted PAT	**181**	**254**	***(28.7)***	**154**	***17.4***
Extra ordinary items	-14	0	*NA*	0	*NA*
Reported PAT	**181**	**254**	***(28.7)***	**154**	***17.4***
Adjusted EPS	**10.4**	**18.7**	***(44.3)***	**8.9**	***17.4***
Margins (%)			***YoY (bps)***		***QoQ (bps)***
EBIDTA	10.0	10.9	*(84)*	8.5	*153*
EBIT	8.5	9.5	*(101)*	6.8	*168*
EBT	9.4	11.3	*(189)*	7.8	*162*
PAT	5.8	8.5	*(270)*	5.6	*21*
Effective Tax rate	(37.8)	(24.4)	*(1,348)*	(27.6)	*(1,025)*

Source: Company, IDBI Capital

Exhibit 2: Quarterly Snapshot (Consolidated)

Segment Revenue (Rs mn)	Q4FY25	Q4FY24	*YoY (%)*	Q3FY25	*QoQ%*
Products	2,465	2,358	*4.5*	2,339	*5.4*
Services	281	12	*2,233.3*	139	*102.4*
M&R Division	342	540	*(36.7)*	276	*24.0*
Less: Intersegment	-8	-12	*(33.1)*	-24	*(67.1)*
Total	3,080	2,898	*6.3*	2,729	*12.8*
Margins (%)			***YoY (bps)***		***QoQ (bps)***
Products	14.3	13.9	*48*	12.3	*201*
Services	(18.8)	(179.1)	*16,027*	(20.9)	*203*
M&R Division	18.6	17.1	*147*	15.6	*298*

Source: Company, IDBI Capital

Exhibit 3: Change in estimates

	FY26E			FY27E		
	Old	New	*(%) Chg*	Old	New	*(%) Chg*
Revenue (Rs mn)	12,140	12,148	*0%*	13,072	13,804	*6%*
EBITDA (Rs mn)	1,339	1,507	*13%*	1,473	1,847	*25%*
EBITDA margin (%)	*11.0%*	*12.4%*	*-140*	*11.3%*	*13.4%*	*-211*
Net profit (Rs mn)	942	948	*1%*	1,081	1,155	*7%*
EPS (Rs)	69	54.5	*-21%*	80	66.4	*-17%*

Source: Company; IDBI Capital Research, EPS decline is due to increase in share capital

Conference call highlights

- **Demand Outlook:**
  - The International business grew by 25% the past year. Ador has forayed into Australia and US markets. Saudi, Oman, Dubai and other MENA markets have and are expected to provide predictable growth. The markets in the US and Australia should provide a higher growth.
  - The domestic market has been flat mostly in the last year for welding equipment. The overall growth in the company revenue has been around 5%. While there has been some growth in the volumes, the revenue growth has been muted due to the fall in steel prices.
  - The steel prices are expected to be favourable in the coming months.
  - On the ONGC mega-project front, the management is hopeful to reach the breakeven level in the large project by the next year H1FY26. Around 75% of the project has been completed.
  - The management has also guided that they will not take such large projects going ahead, and will focus on taking the medium-small size projects as they are more suited to the management's capabilities and also have higher margins. This is a part of the strategic outlook by the management. The scope of such jobs is smaller along with being less tech-intensive.
  - As a part of the business strategy going ahead, the management wants to focus on project execution, cost optimisation and to only take up orders which offer higher margins.
  - Even though the market for welding has been very tough due to both up and down-stream pressures from customers and raw material pricing, the company has not reduced market share.
- **Capex Plans:**
  - The management has planned a capex of up to Rs400Mn in the next year, which is along the same lines as the previous year.
  - Not going to invest in 3-D printing business. Do not see it as a long-term sustainable investment.

- **Future Guidance:**
  - The management expects a 20-25% growth in the next year from the exports market. The key growth drivers will be the US market.
  - Ador welding has received approvals for nuclear, thermal and defence welding products. The focus will be on high-end welding consumables, flux cored wires and stainless steel products.
  - Ador wants to 2x their revenue in the next 4 years.
  - The pricing is expected to stay more or less stable going forward, hence most of the growth will be volume driven.
  - The company’s vision is to expand the volumes by bring in new customers and keeping a steady stream of new products.
  - To this end, Ador has launched more hi-tech products, mainly for the exports market. These are higher margin products, compared to the product on offer earlier. Owing to this, these products are expected to result in higher growth in the coming quarters.

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**	**12,148**	**13,804**
Change (yoy, %)	*48*	*17*	*38*	*5*	*8*	*14*
Operating expenses	(6,031)	(6,896)	(9,560)	(10,208)	(10,641)	(11,958)
EBITDA	**584**	**872**	**1,176**	**1,019**	**1,507**	**1,847**
Change (yoy, %)	*190*	*49*	*35*	*(13)*	*48*	*23*
Margin (%)	*8.8*	*11.2*	*11.0*	*9.1*	*12.4*	*13.4*
Depreciation	(109)	(116)	(158)	(182)	(182)	(207)
EBIT	**475**	**756**	**1,018**	**837**	**1,324**	**1,640**
Interest paid	(37)	(24)	(41)	(45)	(49)	(49)
Other income	55	67	194	188	79	60
Pre-tax profit	**582**	**791**	**1,171**	**866**	**1,354**	**1,650**
Tax	(131)	(198)	(307)	(265)	(406)	(495)
Effective tax rate (%)	*22.4*	*25.1*	*26.2*	*30.6*	*30.0*	*30.0*
Minority Interest	-	-	-	-	-	-
Net profit	**431**	**595**	**865**	**635**	**948**	**1,155**
Exceptional items	90	(8)	-	(114)	-	-
Adjusted net profit	**382**	**599**	**865**	**679**	**948**	**1,155**
Change (yoy, %)	*422*	*57*	*44*	*(21)*	*40*	*22*
EPS	28.1	44.0	63.6	39.0	54.5	66.4
Dividend per sh	-	12.5	10.7	50.5	53.1	55.7
Dividend Payout %	-	*28.4*	*17*	*129*	*97*	*84*

Balance Sheet (Rs Mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	**2,821**	**3,235**	**4,730**	**5,071**	**5,096**	**5,281**
Share capital	136	136	136	174	174	174
Reserves & surplus	2,685	3,099	4,594	4,897	4,922	5,107
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**	**1,960**	**2,144**
Current liabilities	989	996	1,454	1,636	1,739	1,922
Provisions	112	128	194	221	221	221
Total liabilities	**1,081**	**1,235**	**1,984**	**1,771**	**1,873**	**2,057**
Total equity & liabilities	3,901	4,470	6,714	6,842	6,969	7,338
Net fixed assets	1,125	1,098	1,585	1,786	1,954	2,047
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**	**4,478**	**4,755**
Inventories	900	1,162	1,452	1,267	1,371	1,558
Sundry Debtors	932	1,252	1,801	1,927	2,085	2,369
Cash and Bank	76	69	472	671	368	174
Loans and advances	550	534	785	654	654	654
Total assets	**3,902**	**4,470**	**6,714**	**6,842**	**6,969**	**7,338**

Cash Flow Statement

(Rs Mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	582	791	1,171	866	1,354	1,650
Depreciation	109	116	158	182	182	207
Tax paid	(143)	(179)	(338)	(236)	(406)	(495)
Chg in working capital	(218)	(652)	(354)	489	(160)	(287)
Other operating activities	(66)	60	(55)	70	49	49
Cash flow from operations (a)	**264**	**137**	**583**	**1,371**	**1,019**	**1,124**
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**	**(303)**	**(195)**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	207	238	348	291	293	303
Adj EPS (Rs)	*28.1*	*44.0*	*63.6*	*39.0*	*54.5*	*66.4*
Adj EPS growth (%)	*422*	*57*	*44*	*-39*	*40*	*22*
EBITDA margin (%)	*8.8*	*11.2*	*11.0*	*9.1*	*12.4*	*13.4*
Pre-tax margin (%)	*8.8*	*10.2*	*10.9*	*7.7*	*11.1*	*12.0*
Net Debt/Equity (x)	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*0.0*
ROCE (%)	*17*	*25*	*24*	*17*	*27*	*32*
ROE (%)	*15*	*20*	*22*	*13.9*	*18.6*	*22.3*
DuPont Analysis						
Asset turnover (x)	1.7	1.9	1.9	1.7	1.8	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*	*7.8*	*8.4*
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	46	47

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	31.8	20.3	14.1	22.9	16.4	13.5
Price/Book value (x)	4.3	3.8	2.6	3.1	3.1	2.9
EV/Net sales (x)	1.8	1.6	1.1	1.3	1.3	1.1
EV/EBITDA (x)	20.7	14.0	10.3	14.6	10.1	8.3
Dividend Yield (%)	*0.0*	*1.4*	*1.2*	*5.7*	*5.9*	*6.2*

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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