

Ador Welding Limited

About

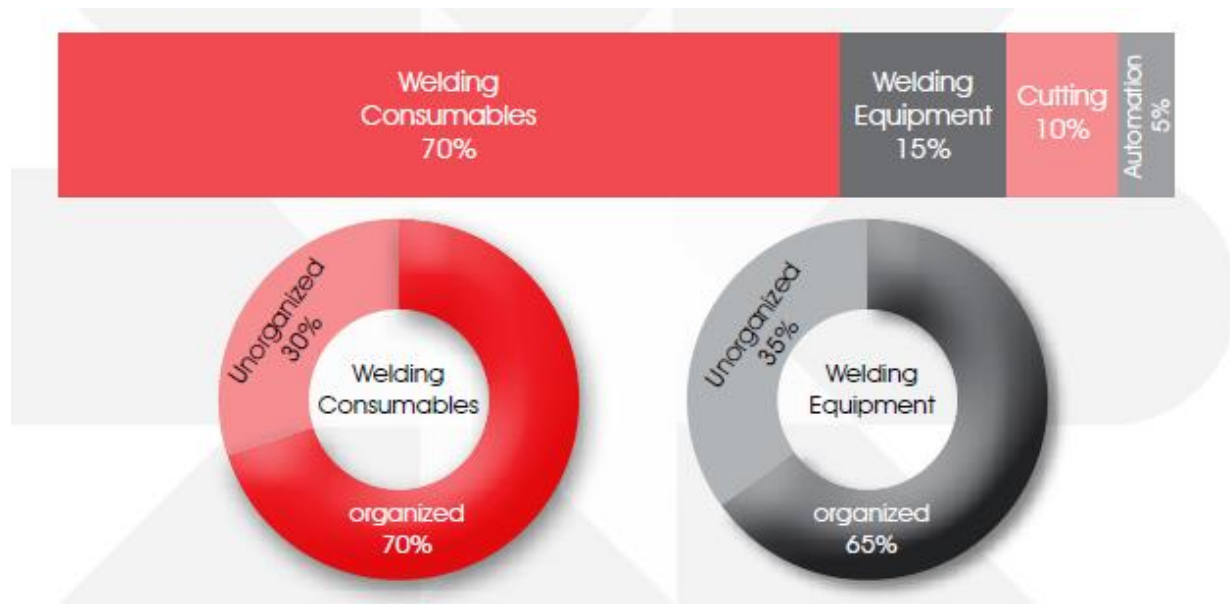
Ador Welding Limited (AWL) is India's second-largest player in the welding consumable and equipment market, behind Esab India. Esab India, a part of the global Esab Group owned by Colfax Corporation, is the largest player in the Indian market.

Established in 1951 as a joint venture between the Advani Group and Oerlikon, the Advani Group acquired the Oerlikon group's shareholding in 2002-03, becoming the majority shareholder.

Industry

The Indian welding industry, valued at Rs. 5,100 crores is poised for growth as the government aims to increase the share of manufacturing in the overall GDP to 28-29% by 2025 from 20.10% in 2022. Sectors like manufacturing, automotive, and infrastructure are expected to drive growth in the welding industry, with key markets being oil & gas, power, heavy engineering, shipbuilding, and automotive.

The industry is structured in the following way -



Company segments and recent performance

AWL operates in three main segments: welding consumables, welding equipment, and flares & project engineering business (PEB).

RC Capital Management (Investment Advisor)

Type of Registration: Non-Individual Reg. No. : INA000004088, Valid till : Perpetual
Address : B-101, Chinar Soc., Behind Subway, Kothrud, Pune-411038,
Contact +91 88060 58625 / enquiry@rccapitalmanagement.com

Consumables account for 75-80% of the company's total revenue and are sold through distributors and directly to large customers. The segment experienced a decline in operating margins (15-16%) post-COVID due to increased steel prices and the time taken by new management to understand changes in the business dynamics.

The welding equipment segment, contributing around 15% of sales, is expected to grow in the near to medium term, thanks to the expansion of the manufacturing sector and the uptick in the capex cycle.

AWL manufactures its equipment in India, unlike other large players who import theirs. The segment's margins have been in the mid-single digits in recent years, primarily due to supply chain issues for imported raw materials. The management aspires to achieve mid-teen operating margins for this segment.

AWL's flares and project engineering business has been operational for decades. However, the company ventured into unrelated EPC work and bagged contracts in the Middle East, which it subcontracted to other companies. This led to losses in the segment between FY18 and FY22 and impacted on the company's overall profitability.

Management change

Ador Welding Limited (AWL) has experienced a change in management with Aditya Malakani from the promoter family replacing SM Bhatt as the company's MD in September 2020. This was primarily due to the project engineering business incurring losses and impacting operations.

The new management has implemented several measures to turn around the project engineering business and improve the welding business, including:

- Write-offs and refocusing on core business in the project engineering segment, leading to a break-even in FY22 and turning profitable in 9MFY23
- Improvement in the order book in the project engineering segment with focus on margins
- Strengthening of the welding business by enhancing brand, improving IT systems, distribution, reducing logistics costs, and selling non-core assets.
- Focusing on exports for welding consumables, which started showing improvement in 9MFY23. Exports are now growing at 50%+ per annum and expected to show a similar performance in the future. Management is concentrating on the middle eastern markets for exports.

Other changes

In May 2022, AWL announced a merger with Ador Fontech Limited (AFL), primarily engaged in repair and reclamation welding. The merger is expected to create synergies, and both companies share the Advani family as promoters.

The two companies have considerable overlap in business and should benefit from cost and manufacturing synergies, distribution, and strong brands

The merged entity will have a revenue to 1100 Crs which will be comparable to the industry leader Esab India

RC Capital Management (Investment Advisor)

Type of Registration: Non-Individual Reg. No. : INA000004088, Valid till : Perpetual
Address : B-101, Chinar Soc., Behind Subway, Kothrud, Pune-411038,
Contact +91 88060 58625 / enquiry@rccapitalmanagement.com

Near term performance

FY24 could see growth in consumable and equipment segments, while the flare division will execute the ONGC project, leading to healthy overall growth. If margins are sustained at Q3FY23 levels, this can lead to robust growth in the bottom line during FY24.

Ador's management is focused on improving margins and cash flows, with plans to maintain a healthy dividend payout.

Key Risks

Flares and project engineering business have higher uncertainty than the consumables/equipment business. A slowdown in the capex cycle, could impact overall growth for Ador.

Finally sudden fluctuation in steel prices could impact margins in the short term, though the company has the capability of passing these cost changes to the customers with a lag.

Conclusion

AWL is seeing improvements under new management with a focus on core business areas and the merger with Ador Fontech Limited. The company's future growth depends on both topline growth and margin improvements. However, risks remain in the project engineering business, capex cycle headwinds, and margin expectations.

In summary, Ador Welding Limited is a significant player in India's growing welding industry, with a focus on consumables, equipment, and flares & project engineering business. The company is well-positioned to benefit from the government's push to increase manufacturing and the resulting growth in various sectors

Disclosures –

- This report is published by RC Capital Management – SEBI Registered Investment Advisor (INA000004088).
- This report is for educational purposes only and should not be construed as an Investment Advice.
- RC Capital Management has not recommended this stock to any of our clients at the time of publishing this report (28th April 2023).
- RC Capital Management does not hold any position in this company at the time of publishing this report (24th April 2023). Its partners may be holding a tracking position in this company.
- Neither RC Capital Management nor its partners have received any compensation from Ador Welding Limited for the preparation of this report.
- There is no conflict of interest for RC Capital Management / it's partners due to publishing this report.

RC Capital Management (Investment Advisor)

Type of Registration: Non-Individual Reg. No. : INA000004088, Valid till : Perpetual
Address : B-101, Chinar Soc., Behind Subway, Kothrud, Pune-411038,
Contact +91 88060 58625 / enquiry@rccapitalmanagement.com