The main purpose behind this expansion is to enable AWL to enter into high growth & niche areas of welding application which includes nuclear power, super critical boilers & some special steel applications. This would not only help in widening its product profile but would enable the company to improvise on its margins backed by low competition in these niche segments.

Volume growth pegged at 25% for the current fiscal

The current capacity utilization in the welding consumables segment stands at 46%. With the pick up in the capex cycle across all its user industries viz Steel industry, petro chemicals, fertilizer plants, hydro electric and thermal power plants, nuclear power plants, ship building and heavy machinery, steel, ship-building, defense, power, automobile, general fabrication and engineering industries, we believe that AWL is all set to witness a decent volume growth over the next two years.

It may be noted that in FY10, AWL clocked a volume growth of ~42% from 18,655 TPA in FY09 to ~24,000 TPA in FY10. Considering a further uptick in the demand for electrodes, we expect a volume growth of 25% (on conservative basis) over the next two years.

Valuation & Recommendation

Ador Welding Limited, one of the leading players in the welding consumables & equipment space is all set to benefit from pick up in the investment cycle in the core infrastructure space resulting in strong demand outlay for its welding products. With the volume growth of 25% forecasted for next two years, AWL is expected to exhibit a revenue & PAT CAGR of 24% & 26% from FY10 to FY12 respectively. **We maintain a BUY on the stock at CMP with a price target of Rs 298, an upside of 44% for 15-18 months horizon.**

Result Update

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(Rs. In Cr.)

Ador Welding Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	57.9	48.6	19.1	57.9	83.4	-30.6	260.7	223.8	16.5
Other operational Income	0.4	0.3	13.0	0.4	0.2	60.9	0.8	1.2	-33.8
Total Oper. Income(TOI)	58.3	48.9	19.1	58.3	83.6	-30.3	261.5	225.0	16.2
Raw Materials Cons.-	36.6	28.3	29.4	36.6	45.7	-19.8	143.7	125.0	15.0
% to TOI	62.9%	57.9%	-	62.9%	54.6%	-	55.0%	55.5%	-
Stock adj. (-)Inc / (+)Dec-	-3.7	-2.7	33.4	-3.7	2.3	PL	2.6	-1.3	LP
% to TOI	-6.3%	-5.6%	-	-6.3%	2.8%	-	1.0%	-0.6%	-
Net Raw Mat adj. for stock	33.0	25.6	29.0	33.0	48.0	-31.3	146.3	123.7	18.3
% to TOI	56.6%	52.2%	-	56.6%	57.4%	-	55.9%	55.0%	-
Other expenses	9.7	9.9	-1.8	9.7	13.2	-26.6	44.0	39.8	10.6
% to TOI	16.7%	20.2%	-	16.7%	15.8%	-	16.8%	17.7%	-
Contribution Net_Sales	15.6	13.5	15.5	15.6	22.4	-30.5	71.3	61.6	15.8
Personnel	6.6	6.1	8.9	6.6	7.0	-4.7	25.3	25.1	0.7
% to TOI	11.4%	12.5%	-	11.4%	8.3%	-	9.7%	11.2%	-
Total expenditure	49.3	41.6	18.7	49.3	68.2	-27.7	215.6	188.6	14.3
Operating Profit	8.9	7.4	21.0	8.9	15.4	-42.2	46.0	36.4	26.2
% to TOI	*15.3%*	*15.1%*	*-*	*15.3%*	*18.5%*	*-*	*17.6%*	*16.2%*	*-*
Non-Operating Income	0.3	0.3	18.4	0.3	2.9	-90.1	3.9	1.1	239.4
Interest	0.1	0.2	-16.6	0.1	0.2	-20.0	0.6	2.0	-71.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	9.1	7.5	21.6	9.1	18.2	-50.1	49.3	35.6	38.4
Depreciation	2.9	3.0	-3.6	2.9	3.7	-21.5	13.1	13.3	-1.3
PBT before Extra-ord	6.2	4.5	38.8	6.2	14.5	-57.4	36.1	22.3	62.1
% to TOI	10.6%	9.1%	-	10.6%	17.4%	-	13.8%	9.9%	-
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	6.2	4.5	38.8	6.2	14.5	-57.4	36.1	22.3	62.1
Tax Rate	27.3%	30.2%	-	27.3%	25.6%	-	29.2%	45.5%	-
Prov. for Tax	1.7	1.3	25.5	1.7	3.7	-54.8	10.6	10.1	4.0
% to TOI	2.9%	2.7%	-	2.9%	4.5%	-	4.0%	4.5%	-
Profit after Tax	4.5	3.1	44.6	4.5	10.8	-58.4	25.6	12.2	110.5
% to TOI	*7.7%*	*6.4%*	*-*	*7.7%*	*12.9%*	*-*	*9.8%*	*5.4%*	*-*
Face Value	10.0	10.0	0.0	10.0	10.0		10.0	10.0	0.0
Equity Share capital	13.6	13.6	0.0	13.6	13.6	0.0	13.6	13.6	0.0
EPS (Rs.)	3.3	2.3	44.6	3.3	7.9	-58.4	18.8	8.9	110.5
CEPS (Rs.)	5.5	4.5	20.8	5.5	10.7	-48.9	28.5	18.7	52.2

Source: ACE Equity

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Source: ACE Equity

Ventura Securities Limited

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