



**“Ador Welding Limited
Q2 FY2020 Earnings Conference Call”**

November 14, 2019



ANALYST:

**MONAMI MANNA - ARIHANT CAPITAL MARKETS
LIMITED**



MANAGEMENT:

**MR. GIRISH PATKAR – CHIEF FINANCIAL OFFICER -
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- Moderator:** Ladies and gentlemen, good day, and welcome to the Ador Welding Limited Q2 FY2020 Earnings Conference Call, hosted by Arihant Capital Markets Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Monami Manna from Arihant Capital Markets Limited. Thank you, and over to you, Madam!
- Monami Manna:** Hi good morning everybody on behalf of Arihant Capital Markets, we welcome all of you all to the Q2 FY2020 earning conference call of Ador Welding Limited. Today Ador Welding is being represented by Mr. Girish Patkar, CFO, Mr. Suryakant Sethia, AGM (Finance & Accounts), Mr. Swapnil Wagh, Business Strategy. First I will hand it over to Mr. Patkar for the opening comments on your results. Thank you and over to you Sir!
- Girish Patkar:** Good morning everybody on the call. On behalf of Ador Welding I just want to invite to you in this call and would like to assure you that the second quarter which you have seen is good. The first half has been good. Consumable sales demand looks to be good; however, with respect to equipment there is a slight slowdown and we do not expect to do the numbers we had originally budgeted, but we are trying to sort of readjust and recalibrate the entire business process since that we try and meet as much as we can, but there is stress in the equipment section.
- As far as our third business segment, which is PEB is concerned, it has not had the first and second quarter have not been good basically because of the AS-116 accounting standard, which will now get normalized going forward in the balance months and we also have a reasonably good order book, which is around Rs.50-odd Crores, which we plan to complete during the year so PEB should be by the end of the year again we have been hopefully reducing the losses which PEB is in the loss currently.
- I think as an opening remarks business looks okay though not very, very, we are not gung-ho on the equipment part of the business.
- Monami Manna:** Thank you for your comments. I will now open the floor to the question and answer session.
- Moderator:** Thank you very much Madam. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** I just one question from my end, can you elaborate on the comment you made on the equipment side being little soft so which industry segments are looking weak, any large industry which is using a mix slowdown happening there, which was resulted in the lesser seems to have the equipment?
- Girish Patkar:** No generally it is secular and I see more of a problem because of liquidity rather than demand I mean this is what my field force tells me that you can sell but anyhow we will have to build up on



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the debtors now this is the call one has to take as to how much should be sell and inflate the pipeline and put pressure on the receivables.

Dhaval Shah: Got it. Sir automobile would be contributing? How much so the OEM?

Girish Patkar: Auto will entire business is around 10% which includes consumables as well as machines so far 10%. We have taken a hit on the consumables but it is marginal.

Dhaval Shah: Got it so large chunk would be your infra activity, the construction activity would be the large chunk of your sales, am I correct?

Girish Patkar: Yes.

Dhaval Shah: So they are you seeing the liquidity is creating the hurdle right?

Girish Patkar: General view of the street is that liquidity is a big problem. People are not cutting cheques.

Dhaval Shah: Sir any improvement, you are seeing say over the past three months or situation is still the same?

Girish Patkar: As a matter of that the first quarter was quite good. We did not have problems in the first quarter and second quarter, the first two months of the second quarter was all okay, but September month was really bad and October was still not turning around so September, October has not been good and therefore we are recalibrating and reviewing the entire projection, now we do not know whether the third and fourth quarter how they turnaround but liquidity unless and this is my view is that they should sort out this IL&FS and some of this NBFC issues as soon as possible.

Dhaval Shah: Sir unorganized market is a very big component of your industry so what is your sense, what has changed after GST implementation, demonetisation?

Girish Patkar: Now with the GST, there is really to scope of remaining unorganized so they are trying to organize themselves. The moment you are organized themselves in some of the segments they are competing with me. Of course, I mean I should accept that the overheads will continue to slower than mine, but that is marginal.

Dhaval Shah: But any players we are vacating in the unorganized space?

Girish Patkar: No players are vacating. May be 10 Crores player may have vacated that is different thing, but the people we talk to at least 7 or 8 big players, none of them are vacating or want to vacate and even though smaller players in the range of Rs.20 Crores and Rs.30 Crores revenue like family owned kind of proprietary private limited is stuff like that who do only a particular product, but they have a brand and the sell in the local geographies continue. They do not want to sell, they want to continue. It is lot of small family business continues.



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Dhaval Shah: Got it Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Kirti Jain from Sundaram MF. Please go ahead.

Kirti Jain: Good morning Sir. Sir first is on the consumable side Sir, how would you describe the volume growth vis-à-vis mix/the price growth Sir in the current quarter? How has been different volume?

Girish Patkar: So volume has grown. Realization price has dropped.

Kirti Jain: Okay so how much Sir, how can you quantify if possible?

Girish Patkar: So at about 7%, 8% it has dropped price off, from 84 we are looking at some 70-odd, 78-79, prices drop because of the steel price drop.

Kirti Jain: Okay so we have grown the revenues by 5% does that imply that our volume growth should have been around 14%, 15%?

Girish Patkar: Our volume growth against budget which was approximately 100, we have maintained volume growth on consumables as against our budget on volumes.

Kirti Jain: Okay Sir with regard to consumable volume in H2, how we see that trend Sir?

Girish Patkar: Consumable volumes you can easily maintain steadily at around Rs.100 Crores per quarter. Revenue we can easily do that. Now the only question is to maintain that we will have to build up receivables and that is a call which management has to take and once we take that call internally that is the balancing act, you build receivables to have cash flow issues and interest cost and so on and so but somebody takes that call then we should reach our number.

Kirti Jain: Correct Sir, but from the March levels already our receivables have gone up now Sir?

Girish Patkar: Yes we have gone up by nine days.

Kirti Jain: From December-March further expect we calibrate to increase receivables or how we see Sir or we will maintain?

Girish Patkar: That call has not been taken as yet. We just had board meeting. We have discussed with the board. We have explained everything and now this is the management call. We have to see whereas waiting for a month to see how this month goes and then we will take a call. It has to be balanced. We cannot just spun the channel unnecessarily so even at the cost of losing some because there is no market share loss per se in a big way so if we are losing okay let me put it differently if we see that there are a specific market and we will lose that market share, if we do not sell and we will take a call, but by and large we will not take a decision you just go ahead and sell to whoever you want and at whatever price so we will decide. If I want to Kirti Jain is the good credit okay will I



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lose a customer, if I do not sell it to him now and wait a money after 90 days or not so an individual decision will be taken with respect to large buyers. So not with small guys and we are looking at large buyers who go about Rs.10 Crores per year and we have got about 13, 14 of them by and large dealers then we have a large customer like L&T whatever 40, 50 projects going on so those kind of individual decisions and micro decisions, we will take.

Kirti Jain: So but broadly receivables at least will not come down and the base will not come down that is what are the sense right Sir?

Girish Patkar: I think difficult as we speak that to come down to 60, which is our comfort zone. Rs.10 Crores to Rs.12 Crores, which has to come down.

Kirti Jain: On the consumable margins we have been clogging a very healthy margins Sir so how do you see the trend now that steel prices have normalized and started to see a mild increase, small increase as how you see the consumable profitability?

Girish Patkar: I think margins will maintain. We will maintain in between 16% and 17% EBITDA level.

Kirti Jain: For the consumable space?

Girish Patkar: Consumable. There is no problem.

Kirti Jain: Sir coming to the next segment Sir in H1 we have clocked a loss come up in a combination of equipment and project engineering of Rs.10.8 Crores, how you see the full year trend for the segments Sir?

Girish Patkar: Equipment is not a problem. The problem is basically with the Project Equipment division. Now the problem is in the first two quarters, we recognized a very little of revenue only Rs.16 Crores, but we have an order book now which is around Rs.50-odd Crores, which we will execute you can say 90% of that in the balance six months. Now the reason we could not recognize revenues because of the new accounting standard, which says that you cannot recognize the revenue till it is become receivable so it is not against the cost which you incur, but only when the bill etc., of each projects are passed and then it cash becomes visible and therefore can be realized. That was the problem, but it will get sorted out in the next two months so we have certain fixed cost on PEB so if you do not have so much revenue will take beating. On PEB which has been your question forever Kirti.

Kirti Jain: We are getting hit in the last two years, there is a startup cost and we have got hit?

Girish Patkar: To give you a comfort now we are into full of what you call PEB projects where we are very good. We have sort of mastered that particular activity margins are also good and we are now focusing more on that and reasonably each project is a reasonable size of Rs.20-odd Crores. It has good margins and we are now going to be focusing more on those kinds of project.



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- Kirti Jain:** PEB should we expect Rs.40 Crores of business in H2 Sir from Rs.15 Crores to Rs.16 Crores in H1?
- Girish Patkar:** Yes we do about Rs.60-odd Crores annual for this year.
- Kirti Jain:** How much Sir 60?
- Girish Patkar:** Yes.
- Kirti Jain:** Rs.40 Crores to Rs.45 Crores kind of business we should expect in H2?
- Girish Patkar:** Yes definitely that will do certainly anything more than that will depend on new orders and the execution period for that order?
- Kirti Jain:** Sir at that levels in H1 we have done a loss of Rs.10.8 Crores for Equipment and Project Engineering segment so at that level will be breakeven Sir in the PEB segment for H2 level?
- Girish Patkar:** No. We may still have a small loss.
- Kirti Jain:** For the Equipment and PEB segment?
- Girish Patkar:** Not Equipment again I am saying equipment makes profit, PEB makes a loss put together it has seen as a loss.
- Kirti Jain:** Can you quantify possible how much is the Equipment profit and PEB loss in 10.8 if you have to break?
- Suryakant Sethia:** Equipment is positive by Rs.2 Crores for H1.
- Kirti Jain:** Equipment is positive Rs.2 Crores for H1?
- Suryakant Sethia:** Yes.
- Girish Patkar:** That is PBT level right?
- Suryakant Sethia:** Yes.
- Kirti Jain:** Sir I will take the data from Suryakant offline Sir. Sir this last question what is the plan with regard to PEB business, how you see for FY2021 for PEB business Sir?
- Girish Patkar:** FY2021 we are looking at revenue of around Rs.100 Crores. We have got three good orders of 20:20 each and then normal should be around 40 so 100 is what we are looking at and the projects now we are planning to do. We will ensure that there is no pressure on working capital and profitability reasonable.



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- Kirti Jain:** Sir first you told the order book Rs.50 Crores now you are telling Rs.60 Crores more order for next year?
- Girish Patkar:** No that is for the next year. This year order book is Rs.50 Crores, which we will execute around Rs.45 Crores, Rs.47 Crores and bill as well and next year we are looking at two to three orders, which are certain we will get so if our order book is around 100 next year, we will try to know it depends on what kind of order, is also depends on order mix so there are some other we required one year to execute. There are many of the orders are short duration orders, short duration in the sense three months, six months, mid players so on and so forth. Those orders can be executed and money can be rolled over faster. One year 80% to 90% of the order is executed.
- Kirti Jain:** Correct Sir. Thanks Sir that is it from my side Sir.
- Moderator:** Thank you. The next question is from the line of Amit Anwani from ICICI Direct. Please go ahead.
- Amit Anwani:** Sir I have couple of questions from PEB business. You said there is an opportunity with a set of two to three days orders of Rs.25 Crores each so could you mention Sir in which field about the customers or the nature of this?
- Girish Patkar:** Customers are HPCL, BPCL and IOCL.
- Amit Anwani:** Okay and Sir what sort of margins we are looking for this?
- Girish Patkar:** I cannot share the margin with you. I can share reasonably good margin.
- Amit Anwani:** Okay and Sir for the equipment, could you share the margin normally what sort of average margins equipment had mentioned?
- Girish Patkar:** At the gross margins level is around 30% for equipment.
- Amit Anwani:** Okay and Sir sort of overall outlook if you might be having for FY2021 in terms of consumables?
- Girish Patkar:** FY2021 we are revising it because FY2020 we might just be touching the budgets or we might be a little lower than our budget so internally we are revising our budget, which we will do in the next whatever couple of days or few weeks and then we will be ready and now I do not want to talk about 2021 budges because they might be revised in a week's time, we got 10 days time.
- Amit Anwani:** Okay and Sir what sort of volumes we are looking for FY2021 for at least 12-18 months, are we saying optimistic scenario for consumables?
- Girish Patkar:** For FY2021 I cannot give you the volumes like I said and we were working on the budget.
- Amit Anwani:** And for this year Sir remaining half-year?



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- Girish Patkar:** So this year as we have got numbers which is Rs.20000 this time H1 and we are projecting around Rs.25000 for the next half year.
- Amit Anwani:** Machine?
- Girish Patkar:** Machines we can do as many.
- Amit Anwani:** Sir you said there is a cash flows issue you can ramp up the consumable but again it is a trade of between increasing the receivables is not doing the same so any outlook on the working capital is it going to increase or normalize?
- Girish Patkar:** Like I explained to you it will depend on what kind of orders and what is the credit risk I am willing to take on a particular customer.
- Amit Anwani:** Majority on the working capital might be going on the project side right?
- Girish Patkar:** No. What is your question? I just missed. I was talking out consumables and equipment. As far as project is concerned there is no problem. The problem is because project is not something which I can push in the pipeline. No I have to receive the project and to accept the project, I should be L1 in the bid etc., so I am not talking of those. I am talking of consumable business and equipment business. I can increase my revenue and try and meet my targets if I did more credit okay if I give more credit, the problem is whether I will get my money back even after 120 days because if somebody is highly geared financially then I will have a problem so what I will do as a strategy is we have 80% sales through our dealers then around 20% of the sales happens directly to the customers so if a customer is like L&T I have no problem is to stretch my debtors a bit. But if I am going overboard with one of my dealers then I have to be very careful because the dealer might be then we having a problem on liquidity and I will face the problem like one we face very recently. We already provided for it but we were a very big dealer who is having financial trouble so this is the call we will take every time, there is a large order.
- Amit Anwani:** Okay and Sir this new orders in PEB, are we now becoming very selective?
- Girish Patkar:** We are very, very selective. Our benchmarks in terms of gross margins also increased.
- Amit Anwani:** What sort of gross margin?
- Girish Patkar:** There are some businesses, we are very comfortable with. There is some business which we are not very comfortable like pliers we know how much money we make on pliers, what you call agitators now we have done before. What is our expertise and how much a particular whatever quantity of steel can be consumed and power, electricity etc., to make a particular (inaudible) 28.24 and we know but there are some EPC projects, which when we do for the first time, our estimation can go wrong so what we have done is wherever there is a project we are going for the first time we are very cautious with respect to the margins, contingencies etc.



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- Amit Anwani:** Sir about this consumable side so if could brief which particular sectors or industries you are getting good tractions and consumable volumes?
- Girish Patkar:** Consumable volumes across, other than automobiles have been reasonably good in the first half year.
- Amit Anwani:** Which would be the best sector for you?
- Girish Patkar:** Heavy Engineering and Oil and Gas, Railway is doing well.
- Amit Anwani:** Sir one last question if you could share the breakup of EBITDA for Equipments and Projects separately for H1?
- Girish Patkar:** Consumables is already there in my accounts at EBITDA level. At PBT level the other segment is PEB and Equipment, in Equipment PBT level there is Rs.2 Crores profit in Equipment and maybe there is Rs.10.5 Crores and Rs.11 Crores loss in PEB.
- Amit Anwani:** Fair enough Sir. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Monami Manna from Arihant Capital. Please go ahead.
- Monami Manna:** I have couple of questions. Sir as I was interacting earlier with you, your loans fund like total debt I mean FY2019 it was around Rs.65 Crores so whatever I got from the earlier interaction that you were on the pass to reduce it to at least Rs.30 Crores I mean going forward?
- Girish Patkar:** That process is on, but this quarter what has happened and this quarter or maybe the first half, there has been a lot of outflows with respect to dividend tax we increased, the dividend tax, we had about Rs.10 Crores of capex and my debtors also went up by about Rs.10 Crores and Rs.11 Crores so all that put pressure on my bank funding, which has increased a bit.
- Monami Manna:** By what time we can see?
- Girish Patkar:** End of the year.
- Monami Manna:** By FY2020 end?
- Girish Patkar:** End of the year will be around Rs.60-odd Crores. About Rs.20 Crores will drop definitely.
- Monami Manna:** Okay so and by FY2020 I mean because earlier your aim was to become debt free once again?
- Girish Patkar:** So that aim continues.



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Monami Manna: Sir I mean till what time we can see that happening if you can give me timeframe?

Girish Patkar: FY2021 will become debt free.

Monami Manna: Okay so from Rs.60-odd Crores it will come down to I mean almost debt free by FY2021, are you confident of that?

Girish Patkar: Yes.

Monami Manna: Slow down in the market and receivables problem?

Girish Patkar: When I am seeing debt, there will be some amount of debt basic which will be required Rs.15 Crores, Rs.20 Crores but we want to be debt free that is the ultimate objective.

Monami Manna: Okay Sir by FY2020 end we can expect I mean around Rs.20 Crores reduction?

Girish Patkar: Definitely we will go down by Rs.20 Crores.

Monami Manna: And by FY2021 I mean what is the targeting debt free?

Girish Patkar: Another Rs.25 Crores, Rs.30 Crores definitely.

Monami Manna: Sir about that I mean Gulf project I mean any receivables still stuck? I mean how much?

Girish Patkar: Every quarter we are expecting around Rs.13 Crores, Rs.14 Crores now the project is over. Now we started getting cash flow so all that testing, approvals, process, subsystems, system testing, see this is the gas project so they have to take or what you call for one month, they have to take the data of the entire systems so every subsystem takes time with respect to testing, but around Rs.13 Crores every quarter is the amount we are getting and that is what premium.

Monami Manna: By what time even we get this money?

Girish Patkar: By March 2021 it will get over.

Monami Manna: March 2021 and Sir in FY2019 your working capital days had come down drastically, but since now again you are facing some receivable problem and all?

Girish Patkar: Working capital is factor of many things. It is a problem of debtor and my inventory also has gone up so what happens we have a plan on purchase and sales right? Now when that sales plan gets disturbed or gets what you call distorted when sales happens only in a particular month and does not happen across the month then there is a pressure on working capital. Secondly, what is happening is the industry was not paying creditors on time but we were saying all the guys on time, now we have decided that we will also stretch creditors.



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- Monami Manna:** Okay so how do you pencil in any numbers going forward for our modeling like and then I know it can go on like this, but keeping in mind?
- Girish Patkar:** For this balance period you can continue the debtors at around at the current level 69 days.
- Monami Manna:** Total working capital days will be around and you will be able to maintain it and I am talking about the full year numbers now?
- Girish Patkar:** Yes full year numbers in the current days of 73-74 and how much 74 right and so in this level we should number of days working capital that is inventory debtors minus creditors we should be able to went in.
- Monami Manna:** Okay so FY2019 level we will be able to maintain that?
- Girish Patkar:** Current level.
- Monami Manna:** Okay and in FY2021 we can expect some improvement?
- Girish Patkar:** Yes definitely.
- Monami Manna:** Sir one last question I mean overall I am talking about blended EBITDA margin that has improved and you will have been able to I mean actually this quarter it has gone up and you have been able to maintain it over 8% that was your target to 8.25% maintaining so and it is a commendable thing but keeping in mind though I know it is pass through for you people you do not get directly impacted, but keeping in mind there is some trough happening between US and China and if the metal prices and other commodities prices shoots up again so I mean will you be able to maintain at this margin or I mean will it again go down below around 7%?
- Girish Patkar:** We should be able to maintain. See there are couple of things which will happen, if there is prices of commodity going up, people like us will be more comfortable than people who are unorganized, which is the good thing for us because it is pass through, but does not mean that pass through happens immediately, it takes up there is a lag of around 1.5 to 2 months so that is good for us so that is not the problem. Our problem is currently liquidity and sentiments for example everybody and my dealer etc., they are saying demand is there, but there is no money. For giving money there is no one. That is the problem.
- Monami Manna:** Sir one last thing I mean right now what is your utilization level I mean in the Consumable?
- Girish Patkar:** 60%-odd when I say 60%, it is just our number divided by the total capacity, but there are certain lines which are 100% in utilized, but there are certain lines will be 100% on an average around 60%, 62%, 63%.



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- Monami Manna:** Going forward I mean you need the overall boost the economy to reach around at least 60% level right?
- Girish Patkar:** Correct,
- Monami Manna:** Sir last thing on the tax front since you are full tax company and you have taken the benefit also so I mean going forward I mean what will be the ETR and I mean effective tax rate going forward?
- Girish Patkar:** We are going with new tax rate of 22%.
- Monami Manna:** Okay on effective tax rate blended it will be around 22% going forward?
- Girish Patkar:** Yes that happens, 22.6%, so base rate will be 22% and after all the surcharge etc., will be 25%.
- Monami Manna:** I mean for the blended if I take I mean your half-yearly numbers it has come down to 11.3% because of some debt write backs all these I mean from the full year it will be 25% or it will be lesser than that?
- Girish Patkar:** Full year will be 25%.
- Monami Manna:** Full year will be 25%? So in second half you were expecting I mean it will be much more than I mean 30% level, so it will not come to 25% because for half yearly you have done 11.35% that is effective tax rate I am talking about consolidated? Did you get my question Sir?
- Girish Patkar:** No. What is your question?
- Monami Manna:** PBT is Rs.16.8 Crores for half-year and your tax expense is Rs.1.9 Crores for half-year so that makes you effective tax rate as 11.3% as against 31.4% against last year so for the full year you have to do around 25% tax rate if it comes then obviously the second half year tax rate would be much higher?
- Suryakant Sethia:** Not like that. There is an impact of deferred tax also, if you see current tax it is only Rs.5 Crores, Rs.2 Crores net of the deferred tax so you will look only what is the current tax and as a percentage of PBT.
- Monami Manna:** Okay I got it.
- Suryakant Sethia:** My debt has it is Rs.5.3 Crores as against Rs.6.5 Crores so it is coming around 25%.
- Monami Manna:** Thank you that is all from my side.
- Moderator:** Thank you. We have a question from the line of Agastya Dave from CAO Capital. Please go ahead.



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- Agastya Dave:** Thank you for the opportunity. Sir I missed the capacity utilization number that you say or was it 65% or 70% or you are going to reach 65%, 70%?
- Girish Patkar:** Currently our capacity is around 72% to be very exact and we have done 45 divided by 72 is what we will achieve at the end of the year.
- Agastya Dave:** Okay great and I think that was volume number that you gave something, there is some Rs.28000 and Rs.25000 line was very bad, so I missed that also, was that the H1 volume?
- Girish Patkar:** That was H1. H1 is around 20% and H2 will be around 22%.
- Agastya Dave:** Great Sir. Thank you very much Sir.
- Moderator:** Thank you. Ladies and gentlemen this was the last question today. I now hand the conference over to Monami Manna for closing comments. Over to you!
- Monami Manna:** Thank you all the participants for coming together and attending the first ever conference call of Ador Welding and on behalf of Arihant Capital, I thank you the management team also to spare their valuable time to attend the conference call. Thank you and Karuna we can close now.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Arihant Capital Market Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.