SECTOR REPORT

Capital Goods

Unleashing the Capex Juggernaut

Summary

India stands at a cusp of transformation, aiming to grow into a $10tn economy over the next decade. By adding $1tn every 1.5 years going forward, India is forecasted to emerge as the third-largest global economy over the next six years. This incremental growth will primarily be powered by the manufacturing sector, which will contribute 32% to the incremental GVA. The GoI has been taking concrete steps to rev up the domestic manufacturing engine through schemes such as Gati Shakti, the National Infrastructure Pipeline and PLI benefits. Given manufacturing activity has a tremendous multiplier effect on the economy with the ability to create maximum jobs in a populous country like India, the government is aggressively pursuing its "Make in India" initiative through policy boosters and thus capitalise on this sector's inherent advantage, which is its large domestic market. We initiate on 4 companies in the sector which are primed to benefit from this multi-year capex cycle.

Key Highlights

- **Cummins, BUY +18% upside:** Robust demand momentum, rich MNC parentage, superior technological prowess and extensive distribution are growth drivers.
- **Kirloskar Oil Engines, BUY +21% upside:** Strong demand momentum,in-house grown R&D strength and solid market share in mid-range gensets are drivers for our positive view.
- **Voltamp Transformers, BUY +23% upside:** Solid demand momentum, excellent customer portfolio, superior product performance and pristine financial discipline are drivers for our sanguine view.
- **Ador Welding, BUY +25% upside:** Strong Demand momentum, Healthy potential for exports, merger benefits and a robust capex cycle are growth drivers.

Capital Goods: Valuation and Rating

Companies	Rating	CMP (Rs)	TP (Rs)	Mkt Cap (Rs bn)	*Upside (%)*	P/E (x) FY26E	P/E (x) FY27E
Specialty Chemicals companies							
Cummins India	**BUY**	3,726	4,401	1,033	*18*	43.9	36.9
Kirloskar Oil Eng.	**BUY**	1,233	1,491	179	*21*	25.8	20.4
Voltamp Transf.	**BUY**	13,522	16,681	137	*23*	35.1	30.1
Ador Welding	**BUY**	1,301	1,621	18	*25*	19.9	15.9

Source: IDBI Capital, Company

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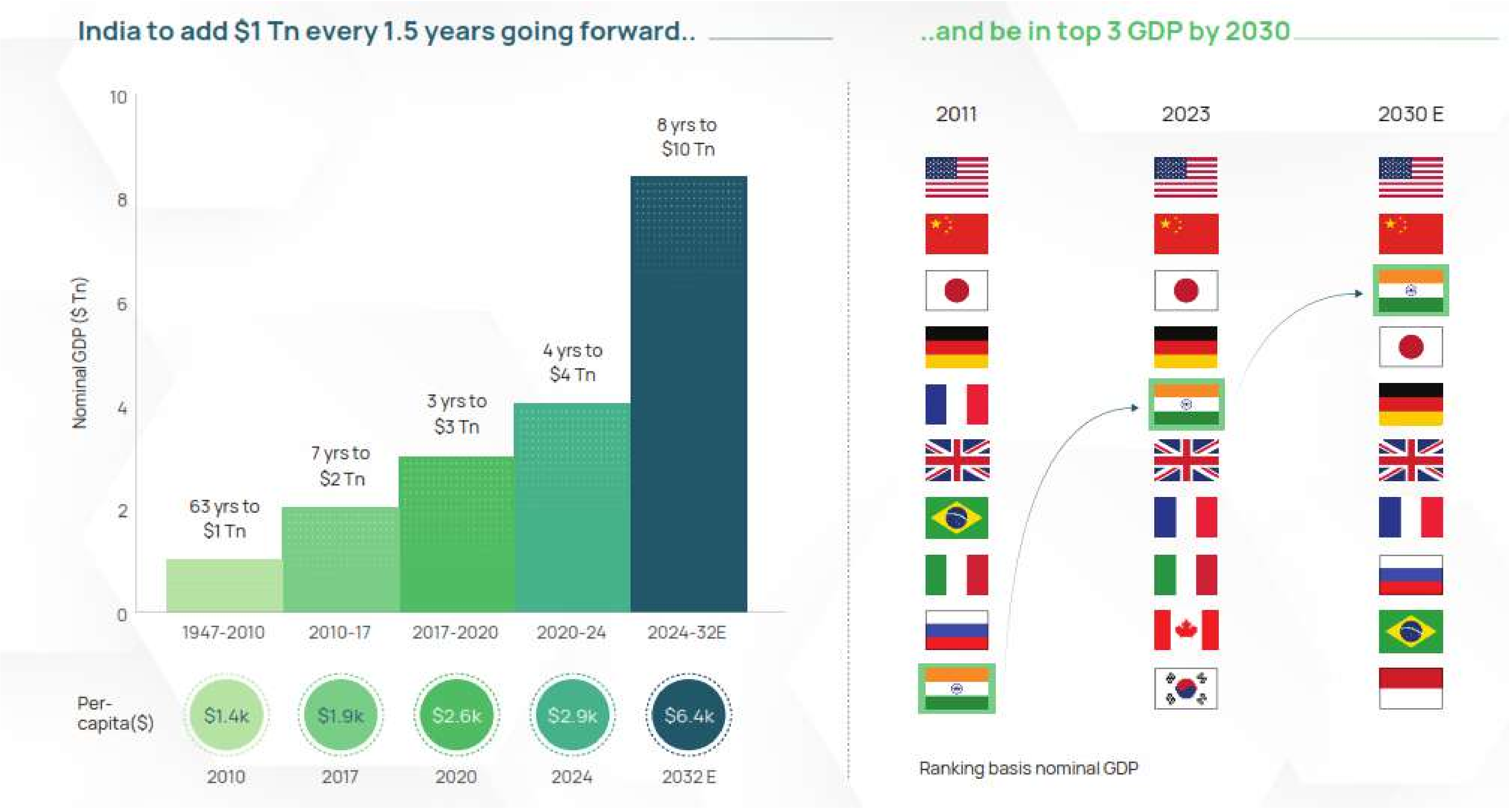
Our Take on The Manufacturing Wave

We are cognizant of the fact that valuations in the capital goods sector are rich. However, we believe that there is a long growth runway available for quality companies in the sector, which stand to benefit immensely from a multi-year capex cycle. Strong and sustainable earnings growth will lead to sustained premium valuations for quality companies.

The key drivers that are propelling the manufacturing wave are as follows:

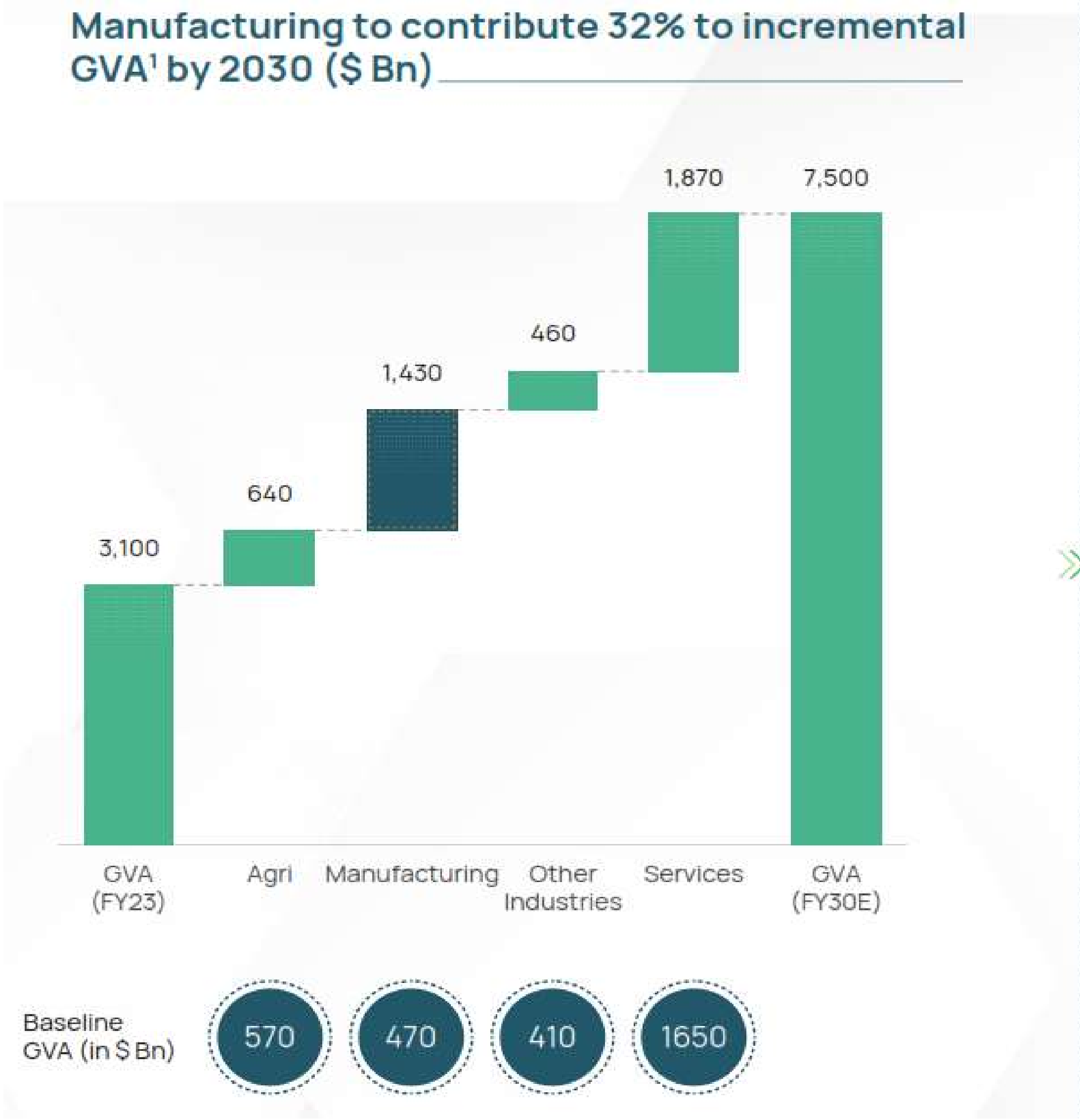
- Large domestic demand on the back of rising disposable income
- Global realignment of supply chains
- Government launched PLI schemes to boost domestic manufacturing
- High export potential, turning India slowly into the factory of the world
- Supportive financial ecosystem with rising public and private capex
- Demographic dividend and reverse migration of high-quality talent to India

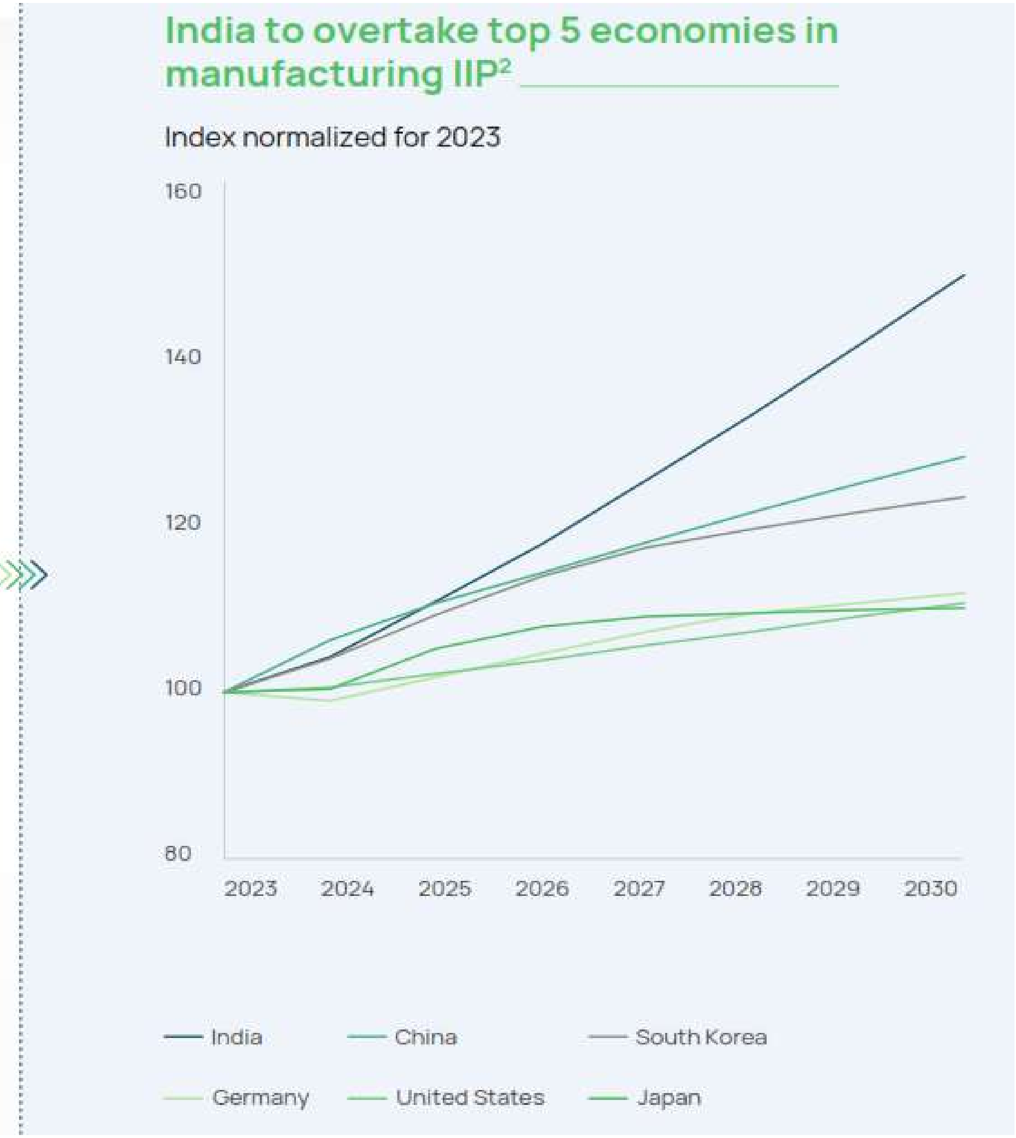
Exhibit 1: India continues to be global bright spot; poised to be $10 Tn+ economy over the next decade



Source: Company; IDBI Capital Research

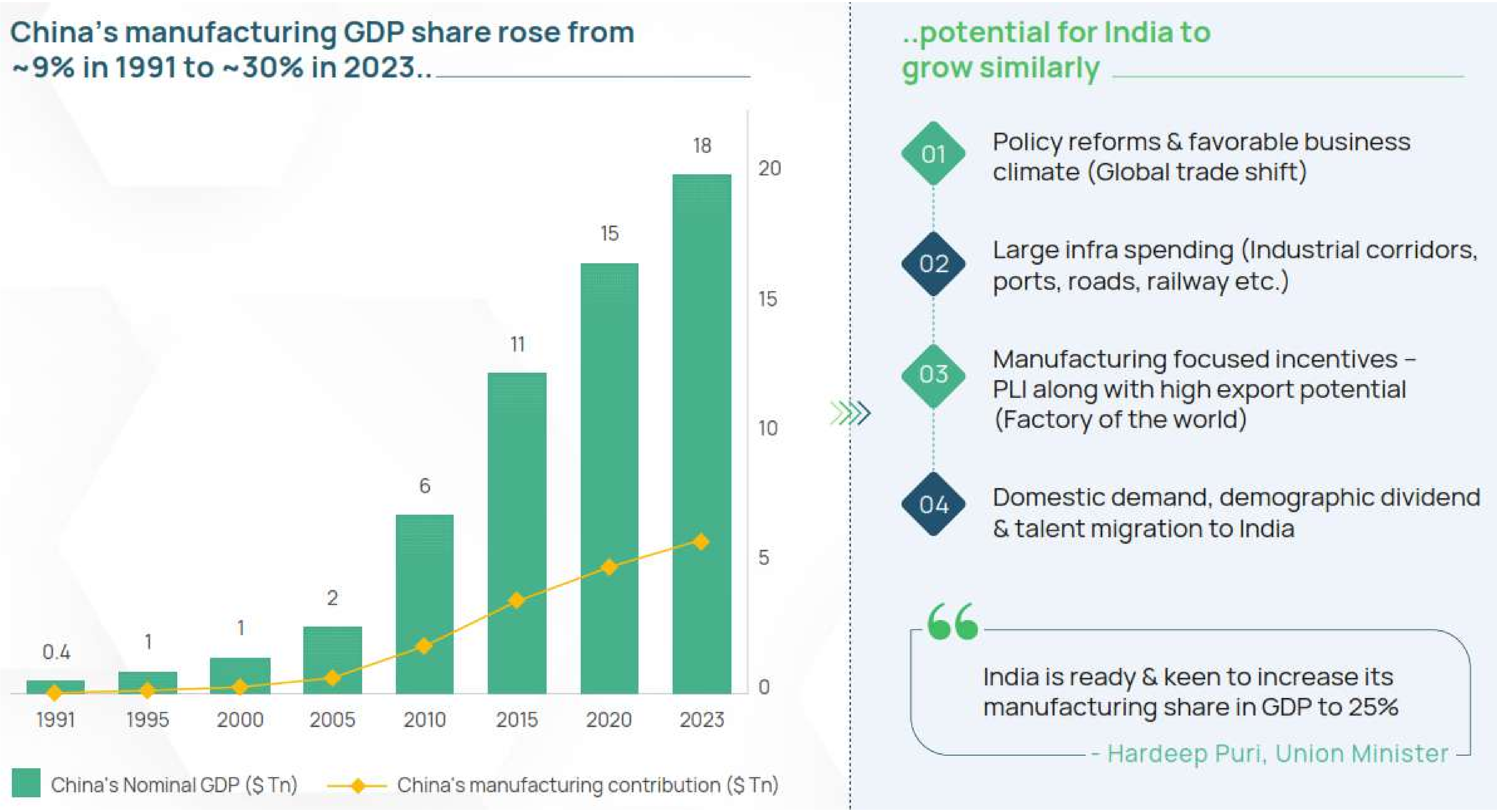
Exhibit 2: ..on the back of massive growth in manufacturing





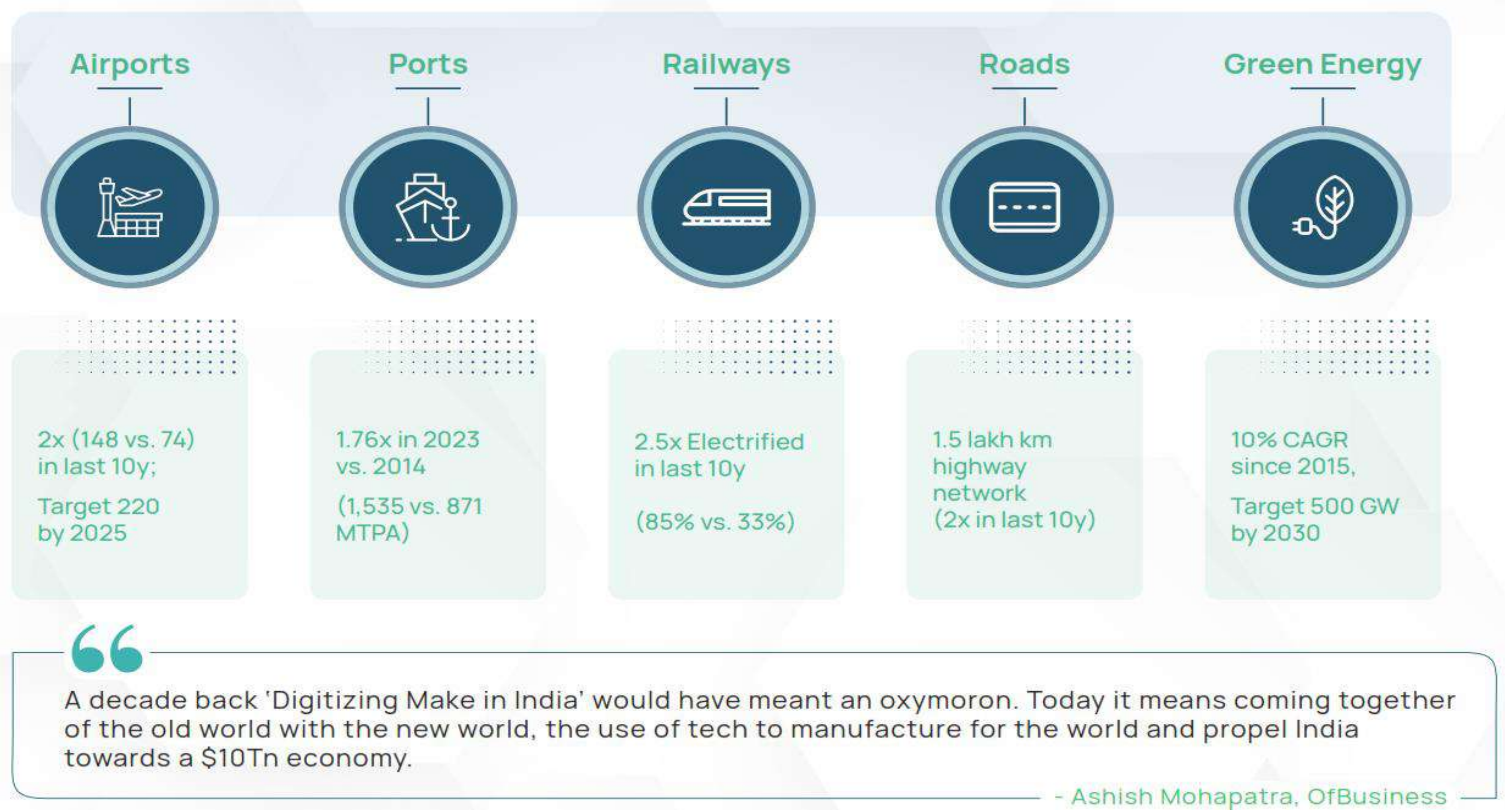
Source: Company; IDBI Capital Research

Exhibit 3: India's growth story to emulate China's manufacturing success of the early 2000s..



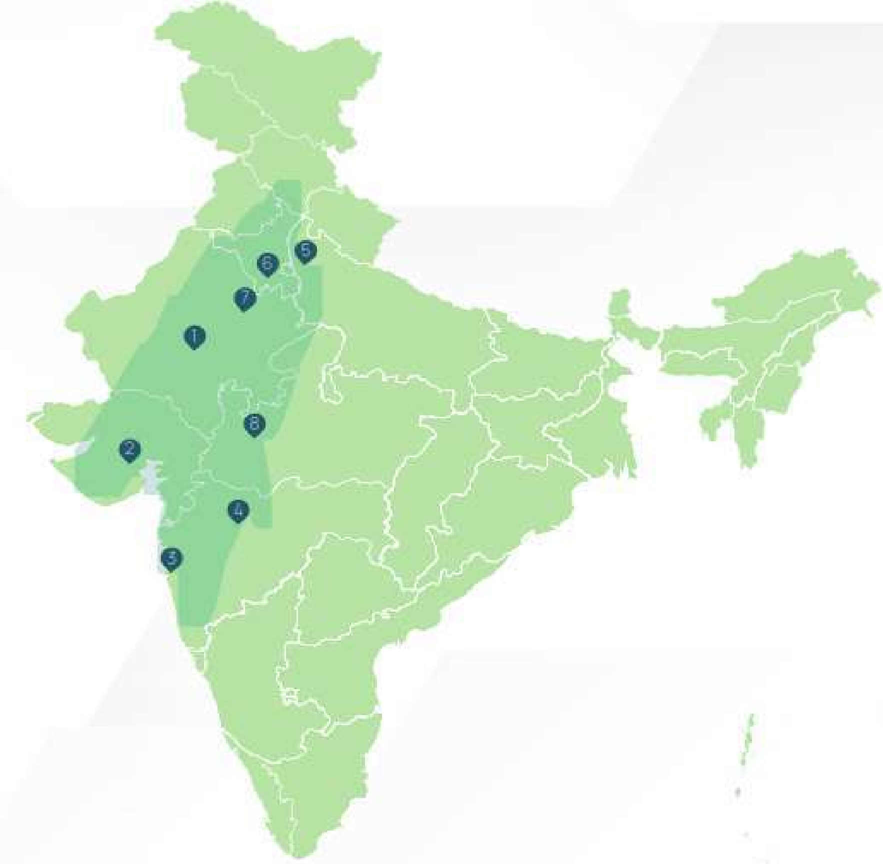
Source: Company; IDBI Capital Research

Exhibit 4: Infra spending — Buildout at full throttle with $1.9 Tn spend



Source: Company; IDBI Capital Research

Exhibit 5: Industrial Corridors — Govt. plans to invest over ~$100 Bn



Industrial Corridor | DMIC | Hi Tech Cluster

8 Nodes of the Delhi-Mumbai Industrial Corridor (DMIC)

1. **Jodhpur Pali Marwar Industrial Area** (Rajasthan)
   Industries > Agro Food,Textile & Apparel
   Phase I 2022 I Phase II 2032 I Phase III 2042

2. **Dholera, Special Investment Region** (Ahmedabad) [Hi Tech Cluster]
   Industries > Automobile, Pharma, Electronics
   2040

3. **Dighi Port Industrial Area** (Maharashtra)
   Industries > Heavy Industry & Food Processing

4. **Shendra Bidkin Industrial Area** (SBIA) (Maharashtra) [Hi Tech Cluster]
   Industries > Automotive, Engineering, Electronics

5. **Dadri Noida Ghaziabad Investment Region** (Uttar Pradesh) [Hi Tech Cluster]
   Industries > Electronics, ICT, Bio-tech

6. **Manesar Bawal Investment Region** (Haryana)
   Industries > Engineering, Consumer Products
   Phase I 2022 I Phase II 2031 I Phase III 2041

7. **Khushkhera Bhiwadi Neemrana IR** (Rajasthan)
   Industries > Automotive components, IT and ITES
   Phase I 2022 I Phase II 2030 I Phase III 2041

8. **Pithampur - Dhar - Mhow Region** (Madhya Pradesh)
   Industries > Textile, Pharma Chemicals, Electronics
   Phase I 2021 I Phase II 2031 I Phase III 2041

On the lines of USA and China, India to build multiple industrial corridors over next 10 years with individual centers of excellence for different sectors

Source: Company; IDBI Capital Research

Exhibit 6: PLI scheme — Govt incentives on domestic manufacturing to make India next factory of the world

$25 Bn — PLI total outlay

5% — Average incentive on total production for 5 years

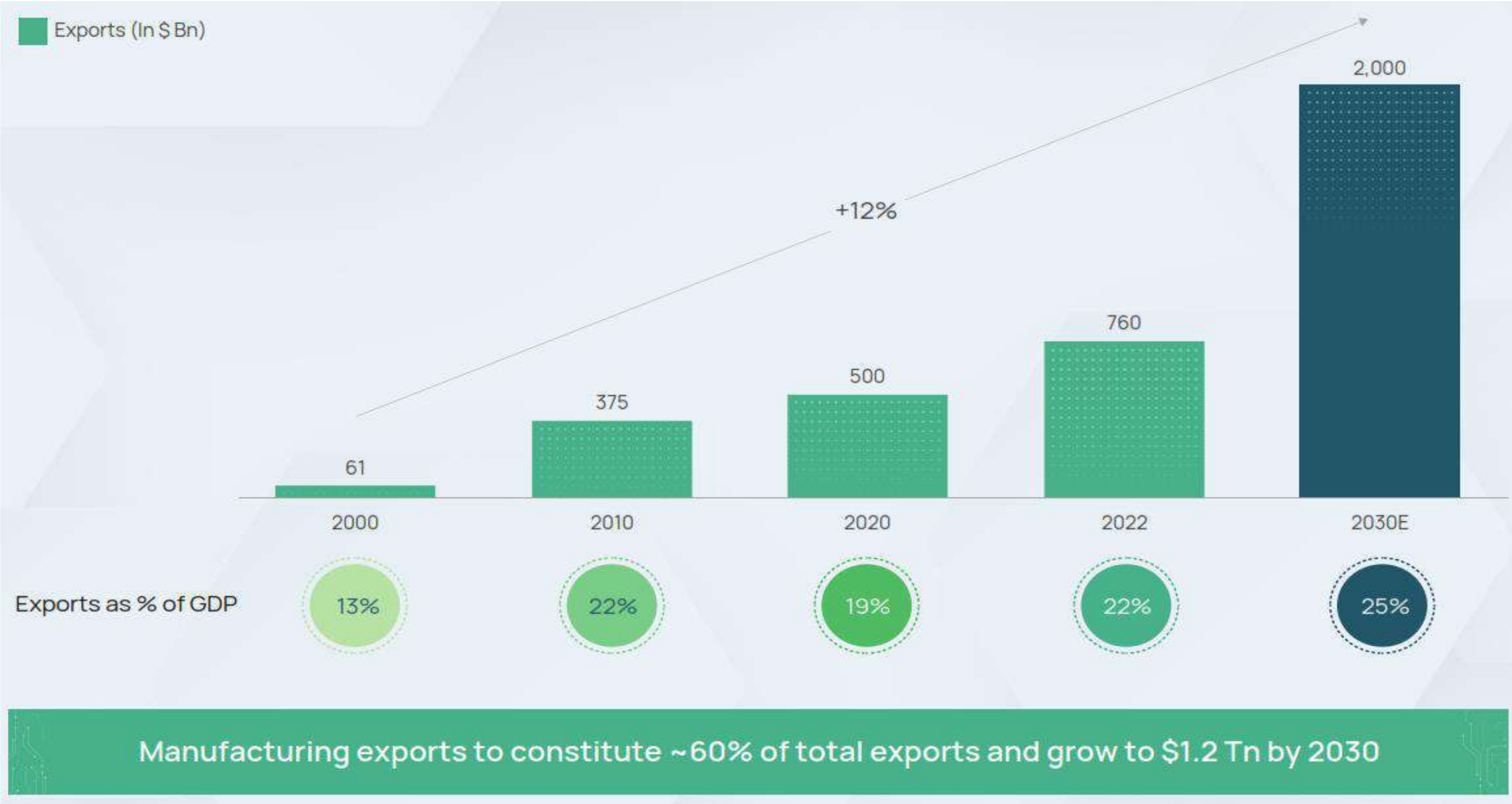
$370 Bn — PLI-led projected increase in production over next 5 years

14 sectors prioritized to drive manufacturing

Sector	Illustrative sub-segments
Advance Chemistry Cell (ACC) Battery	Lithium-ion batteries
Electronic/Technology Products	SMT components, transistors, diodes, thyristors, PCBs, capacitors and sensors
Automobiles & Auto Components	Auto OEMs, transmission and steering components, braking systems, auto electronics
High Efficiency Solar PV Modules	Poly silicon, Solar PV cells, solar PV modules
Drone and Drone Components	Drone components like camera, airframe, etc.
White Goods	ACs & LED: Components and assembly
Telecom & Networking Products	Details to be announced
Textile Products	Man Made Fiber segments and technical textiles
Food Products	Ready to Cook/Ready to Eat (RTC/RTE) food products, including millet-based foods, processed fruits and vegetables, marine products
Specialty Steel	Stainless steel, auto steel, electrical steel, etc
Pharmaceuticals drugs	API, Biopharmaceuticals

Source: Company; IDBI Capital Research

Exhibit 7: Export potential — Indian exports poised to be ~25% of GDP at $2 Tn by 2030 driven by strong manufacturing focus



Source: Company; IDBI Capital Research

INITIATING COVERAGE

Cummins India BUY

More power to the industry leader

Summary

Cummins India (KKC) is a potent play on domestic growth in the capex cycle and the robust infrastructure led momentum in the country. We like the company on the back of (1) strong demand drivers across sectors, (2) strong technology support from Cummins Inc., and (3) strong aftermarket business. KKC is benefitting from strong demand from end user industries such as data centres, manufacturing, general infrastructure, rental, hospitality and real estate. The company envisages strong growth in domestic infrastructure to be a multi-year theme. We expect revenue/earnings CAGR of 19%/18% over FY24-27E and are positive on the long term prospects of the company. Thus, we initiate coverage on Cummins India with a BUY rating and target price of Rs 4,401 based on 47x 1HFY27E earnings.

Key Highlights and Investment Rationale

- **Strong underlying demand momentum to continue:** With application across multitude of infra led industries, the Diesel Generator (DG) industry has multiple demand drivers in place. In its Industrial business, it caters to the engine requirements across sectors. India has been identified as a key outsourcing destination for the global demand and green shoots are now visible in its export business. The company over the years has gained market share across product categories on the back of new products and technology along with unparalleled distribution & service network

- **Superior R&D & Distribution Capabilities:** With access to Parents technology and wide product portfolio, the company has a much shorter time to market, a significant advantage in the competitive Indian market. Its strong distribution and service network are the key differentiators. Strong R&D also leads to superior product performance and brand perception.

TP	Rs4,401
CMP	**Rs3,726**
Potential upside/downside	+18%

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.9)	(2.6)	115.9
Rel to Sensex	(4.4)	(10.2)	92.8

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	71	85	101
Consensus	67	79	90
% difference	*6.1*	*7.6*	*11.9*

Key Stock Data

Bloomberg/Reuters	KKC IN/CUMM.BO
Sector	Capital Goods
Shares o/s (mn)	277
Market cap. (Rs mn)	1,032,847
3-m daily avg. trd. value (Rs mn)	60.1
52-week high / low	Rs4,170 / 1,590
Sensex / Nifty	83,185 / 25,416

Shareholding Pattern (%)

Promoters	51.0
FII	18.0
DII	20.6
Public	10.4

Consolidated Financial Snapshot (Rs mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	76,414	88,600	1,07,961	1,27,660	1,50,971
Change yoy, %	*26*	*16*	*22*	*18*	*18*
EBITDA	12,477	17,697	20,375	24,181	28,401
Change yoy, %	*41*	*42*	*15*	*19*	*17*
EBITDA Margin (%)	*16.3*	*20.0*	*18.9*	*18.9*	*18.8*
Adj.PAT	12,425	17,223	19,667	23,540	28,014
EPS (Rs)	45	62	71	85	101
Change yoy, %	*55*	*39*	*14*	*20*	*19*
P/E(x)	83.1	60.0	52.5	43.9	36.9
Dividend Yield (%)	0.6	0.8	0.9	0.9	1.0
P/B (x)	17.9	15.6	13.5	11.4	9.5
RoE (%)	22.8	27.8	27.5	28.1	28.1
RoCE (%)	18.7	24.8	25.4	26.1	26.0

Source: IDBI Capital Research, Company

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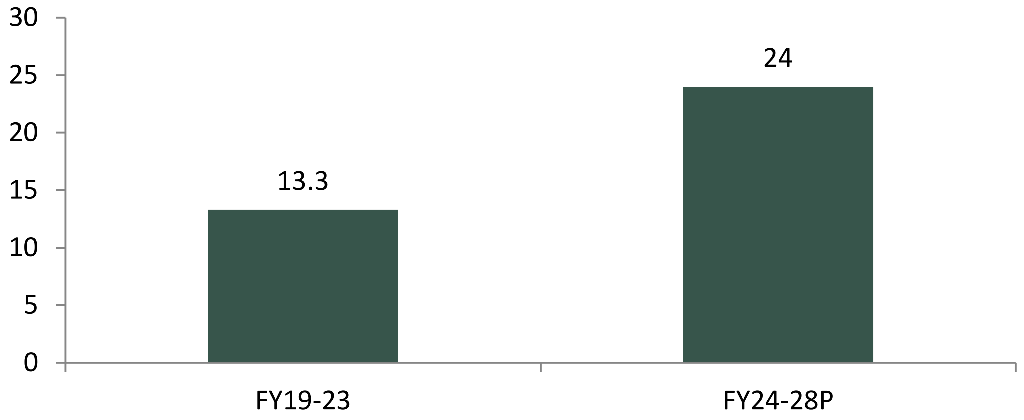
Investment thesis

- **Strong domestic infrastructure momentum to fuel growth**

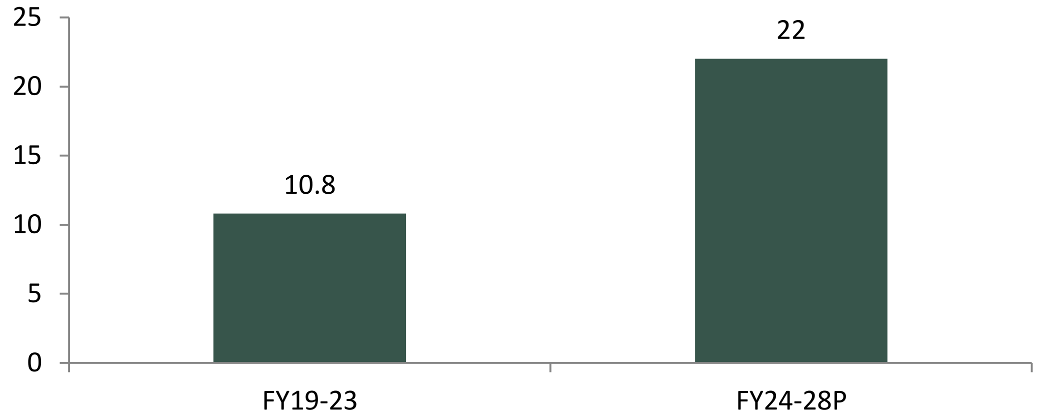
With applications across a multitude of industries and sectors, the Diesel Generator (DG) industry has several demand drivers in place. Traditionally linked to the power deficit and IIP growth, the DG has moved to standby source of power, as seen in many developed countries on the back of improved power availability in India. With government's push for Aatmanirbhar Bharat, we expect manufacturing sector to drive DG demand, as industrial & capex activity pick up pace. However, we expect larger demand to be driven by strong government led capex programs which will drive large scale infrastructure building in the country across varied areas such as roads, railways, defense, marine and others.

Exhibit 1: Growth in Roads Capex(Rs trn)



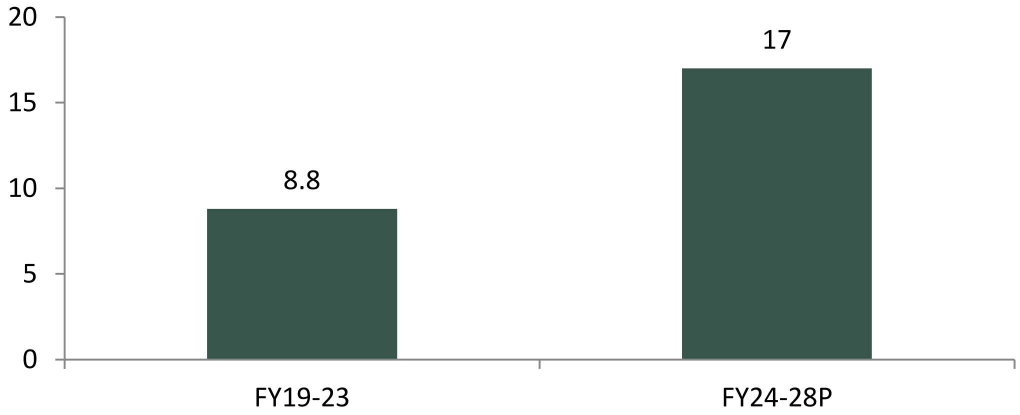
Source : Industry Estimates, IDBI Capital Research

Exhibit 2: Growth in Power Capex(Rs trn)



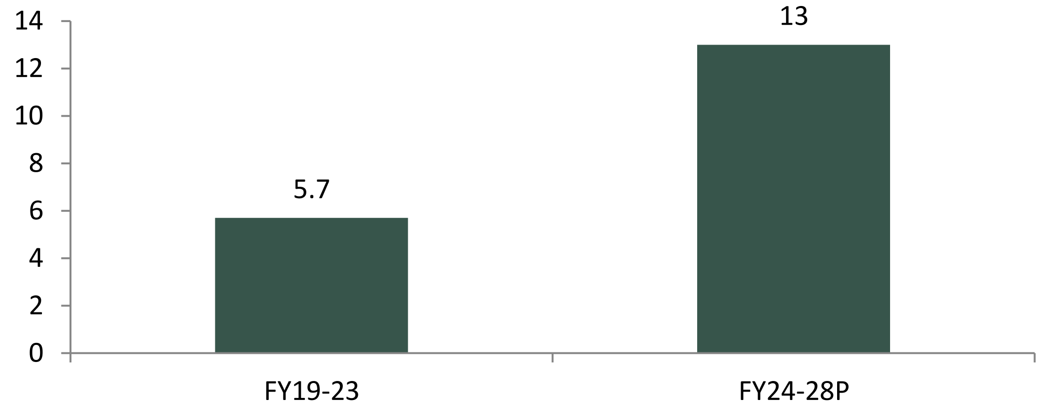
Source : Industry Estimates, IDBI Capital Research

Exhibit 3: Growth in Railways Capex (Rs trn)



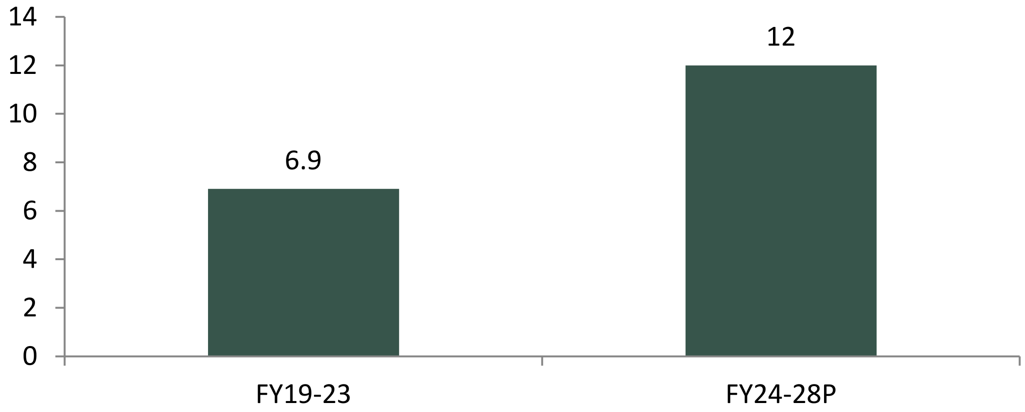
Source : Industry Estimates, IDBI Capital Research

Exhibit 4: Growth in Urban Infra Capex (Rs trn)



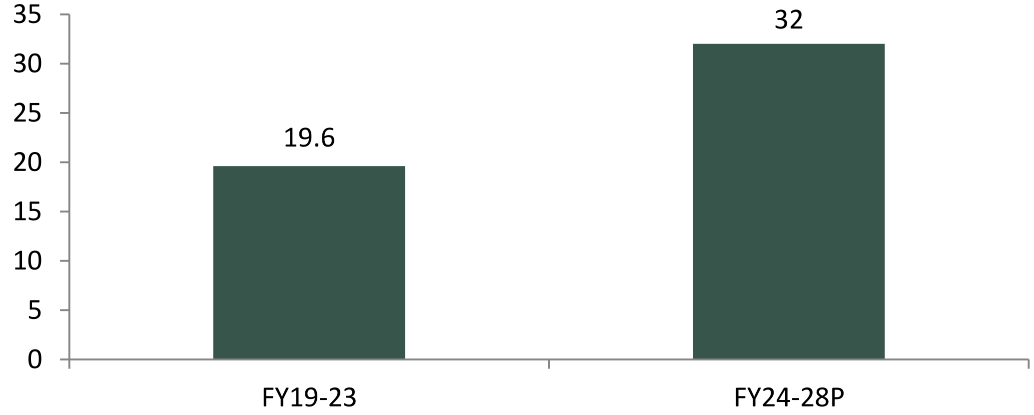
Source : Industry Estimates, IDBI Capital Research

Exhibit 5: Growth in Other Infra Capex (Rs trn)



Source : Industry Estimates, IDBI Capital Research

Exhibit 6: Growth in Industrial Capex (Rs trn)



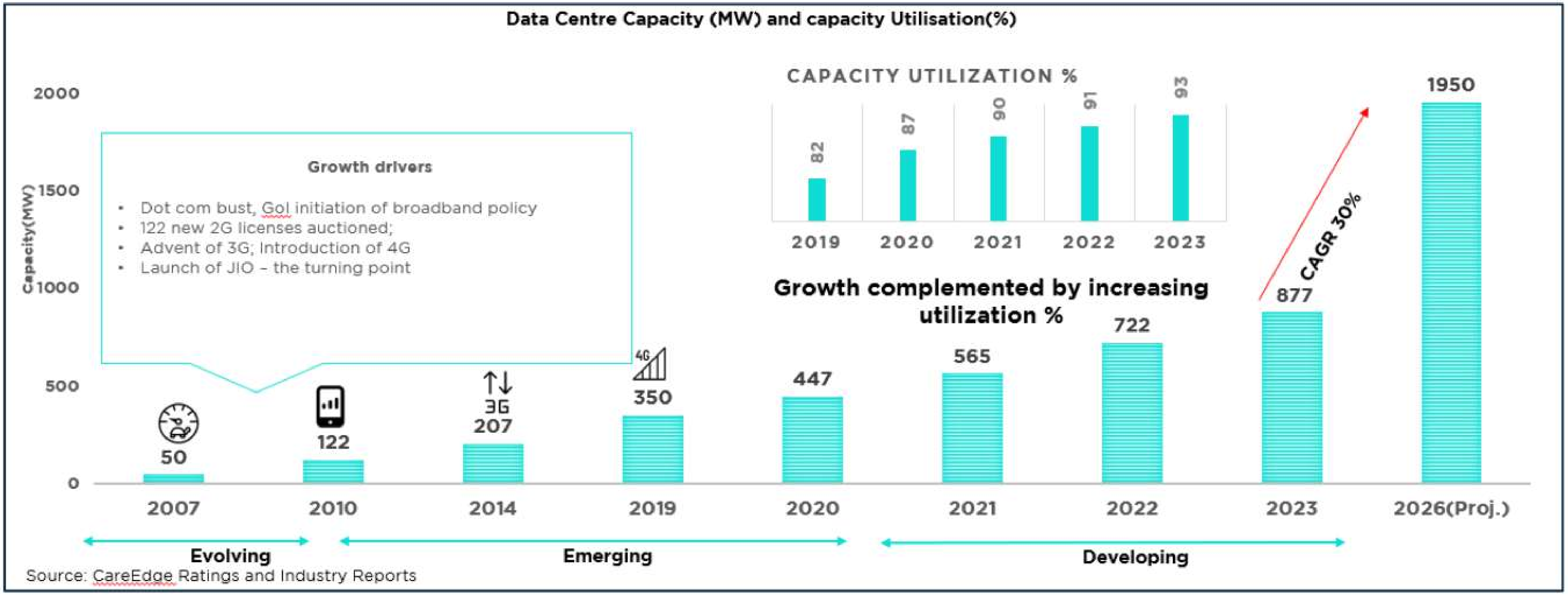
Source : Industry Estimates, IDBI Capital Research

- **Data Centres present a large and a vast opportunity**

  The Indian Data Centre Industry has witnessed a surge in investor and operator activities on account of it being a high growth market but currently being underserved by existing supply and facing strong demand from a variety of end users. The data centre is set to witness explosive growth over the next few years with capacity slated to increase from 800 MW in Dec 2022 to 1700 MW in March 2025. This translates to growth of 40% CAGR entailing an investment of US$5bn. The developers have a pipeline of over 3,000 MW to be delivered over the next decade requiring capex of US$ 23bn.

  Cummins is the market leader in supplying gensets to data centres in India and we expect strong demand from this segment in the upcoming years. While some investments are already in the pipeline by various companies, we expect India to see further investments being announced in data centres, which are power guzzlers, consuming as much power as small towns and thus would require large number of DG sets (HHP range) for power backup.

Exhibit 7: Data Centre Investments to grow at a fast clip



Source: Company; IDBI Capital Research, CareEdge

- **Strong prowess led by cutting edge technology, product range and service network**

  Cummins is a top notch technology company encompassing software, controls, system design, machining and manufacturing. Over the years, there has been significant evolution in technology of engines and DG sets, but Cummins Inc. and CIL have been at the forefront given strong R&D over the years. With access to Cummins Inc.'s technology and wide product portfolio, CIL is a beneficiary as the time to market is significantly lesser compared to some other players. With focus on efficiency and high emission norms, CIL is well placed to launch products meeting the most stringent norms. Also, being a leading technology company, it is agnostic to technology, whether diesel, gas or electric, as it is set to remain at the forefront of the prime moving technology. With the scale up in the CPCB 4+ emission norms, we expect market share gains for Cummins.

  Historically, it is seen that CIL has gained market share every time there is a change in emission norms. The company has managed to achieve this feat, given it has usually been the first one to adapt its engines to the new norms. However, given the price sensitive that the Indian market is, prices have also been an important aspect of market share gain. Given the price sensitivity of the Indian market, CIL has lower market share in the highly competitive LHP range due to its premium pricing, even though it continues to work to improve its market share. In the present scenario, the competition is not only limited to LHP, but has increased across the product range, from both domestic and foreign players looking at taping the growth of the Indian market. The sweet spot for CIL is HHP range, where it enjoys strong market of ~50%, even as competition is heating up in this segment, mainly from the foreign players like Caterpillar, Perkins, MTU, Hyundai, amongst others. The company however, continues to improve its value proposition through several initiatives in emission control, telematics, noise reduction, raising efficiency amongst others, which we believe gives it a competitive edge over its peers. CIL has three national level distributors to manage region specific area of CIL business – (1) Powerica (West & South), (2) Sudhir Gensets (North & North West), and (3) Jakson Power (North & North East).

Exhibit 8: Commentary on specific business verticals

Sub-Segment	Revenue (Rs bn)	Revenue Share (%)	Comments
Business Verticals of Data Centres, Infra, Residential and Commercial Realty, Hospitality and Manufacturing exhibiting strong traction	14	16%	These powergen markets are expected to grow at a robust pace for the next few years owing to the robust impetus on infrastructure creation
Distribution segment	23	26%	Healthy growth in sales of spare parts, enhanced warranties, uptime and service extension to more areas is resulting in robust growth in this business.
Market share enhancement in CPCB IV regime	10	12%	Historically, it is seen that CIL has gained market share every time there is a change in emission norms. The company has managed to achieve this feat, given it has usually been the first one to adapt its engines to the new norms.
Growth in Exports	10	11%	Exports have bottomed and are expected to grow with improvement in global macros

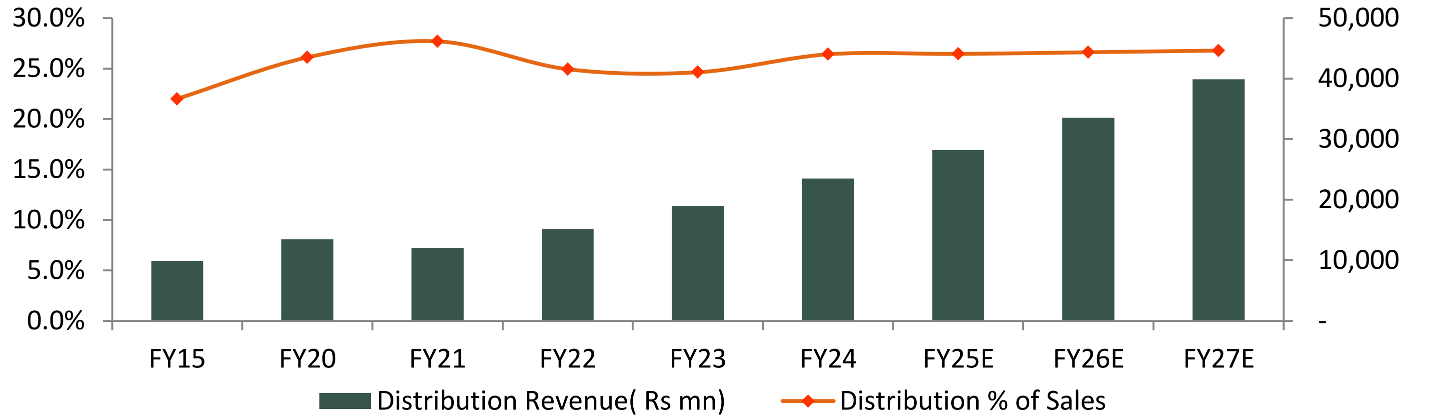
Source: Company; IDBI Capital Research

Commendable scale up of Distribution business; Exports seem to have bottomed out

The distribution business is a critical component of the business of the company as it contributes ~25% to revenue. Cummins was underserving customers in the past and hence they are investing into parts, services and network enhancement as a catch up strategy to achieve a growth rate of 2x GDP. Healthy growth in sales of spare parts, enhanced warranties, uptime and service extension to more areas is resulting in robust growth in this business. Cummins is also looking at reconditioning opportunities in the domestic market as there is plenty of headroom to grow the same.

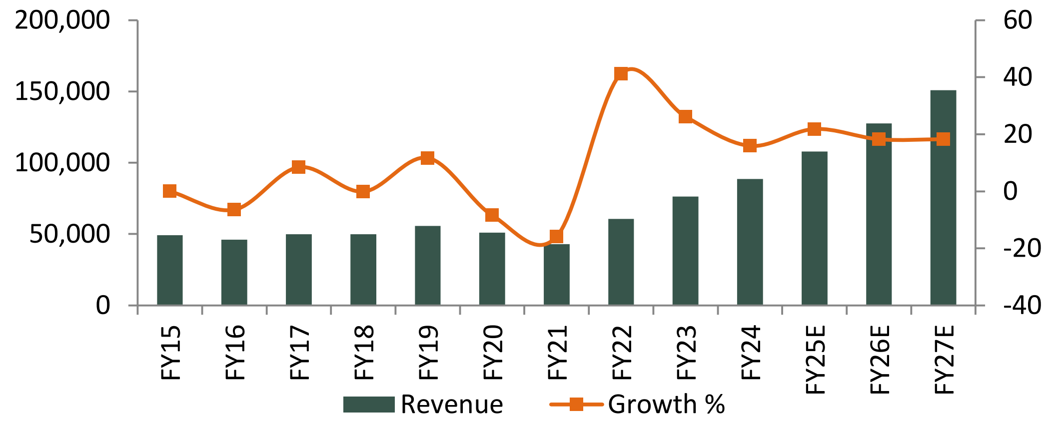
Export trajectory seems to have bottomed out owing to macroeconomic weaknesses and high interest costs over the globe. Demand softening is being seen across the regions of Europe, Middle East and APAC. The Red sea crisis has further elongated lead times.

Exhibit 9: Revenue snapshot of the distribution vertical



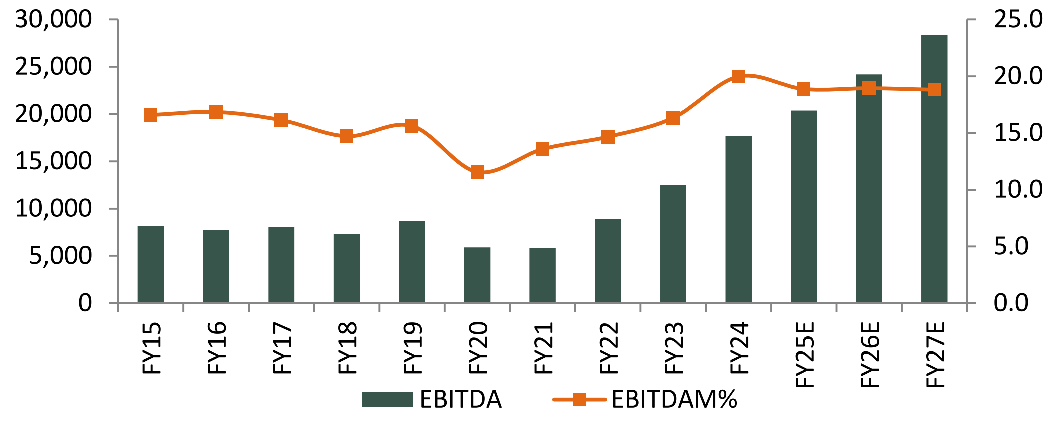
Source: Company; IDBI Capital Research

Exhibit 10: Revenue and Revenue Growth Snapshot(Rs mn)



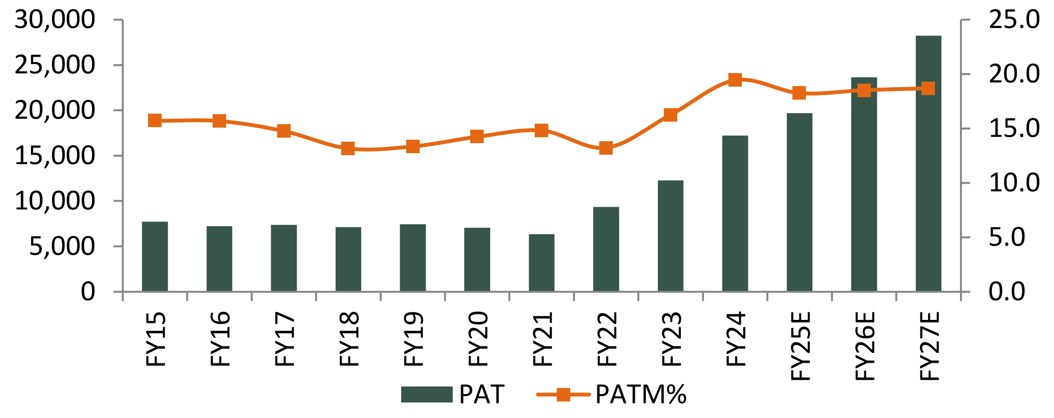
Source : Company, IDBI Capital Research

Exhibit 11: EBITDA and EBITDA Margin Snapshot(Rs mn)



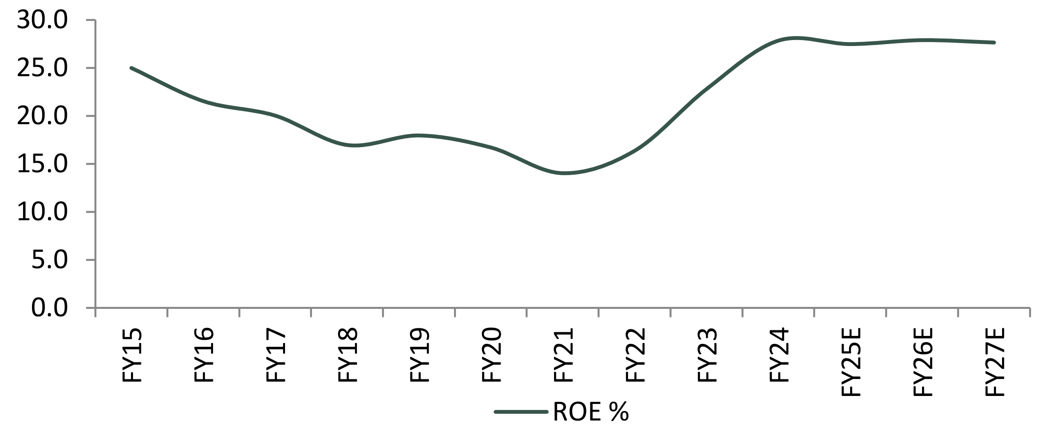
Source : Company, IDBI Capital Research

Exhibit 12: PAT and PAT Growth Snapshot(Rs mn)



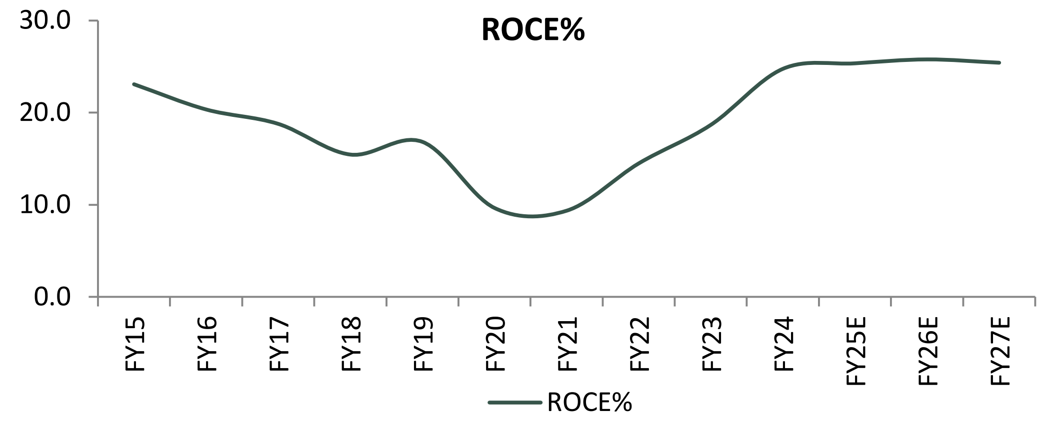
Source : Company, IDBI Capital Research

Exhibit 13: ROE Snapshot



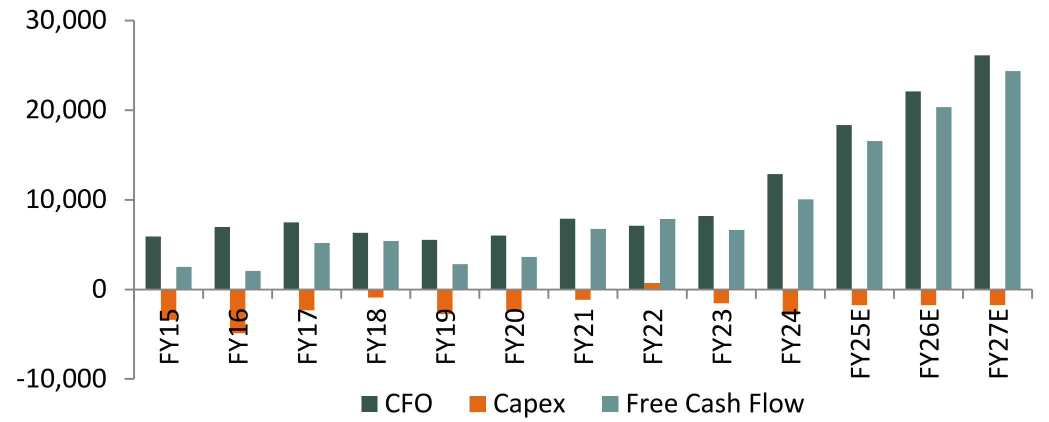
Source : Company, IDBI Capital Research

Exhibit 14: ROCE Snapshot



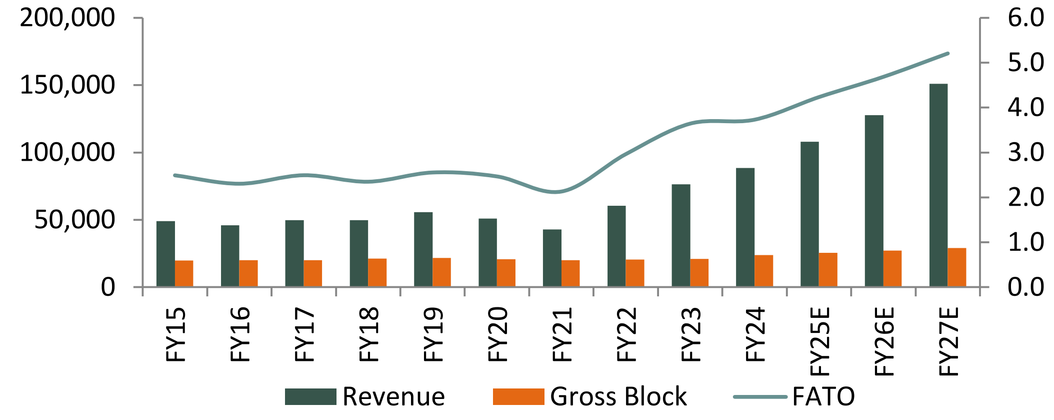
Source : Company, IDBI Capital Research

Exhibit 15: Cash Flow Snapshot(Rs mn)



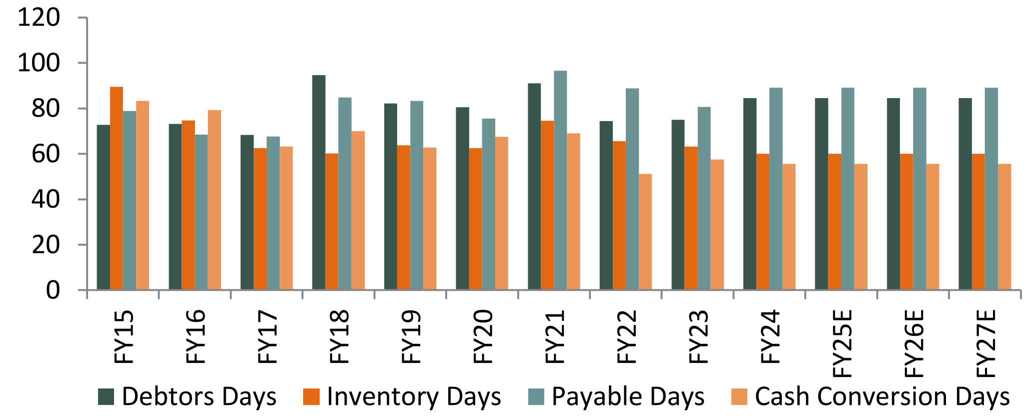
Source : Company, IDBI Capital Research

Exhibit 16: FATO Snapshot(Rs mn)



Source : Company, IDBI Capital Research

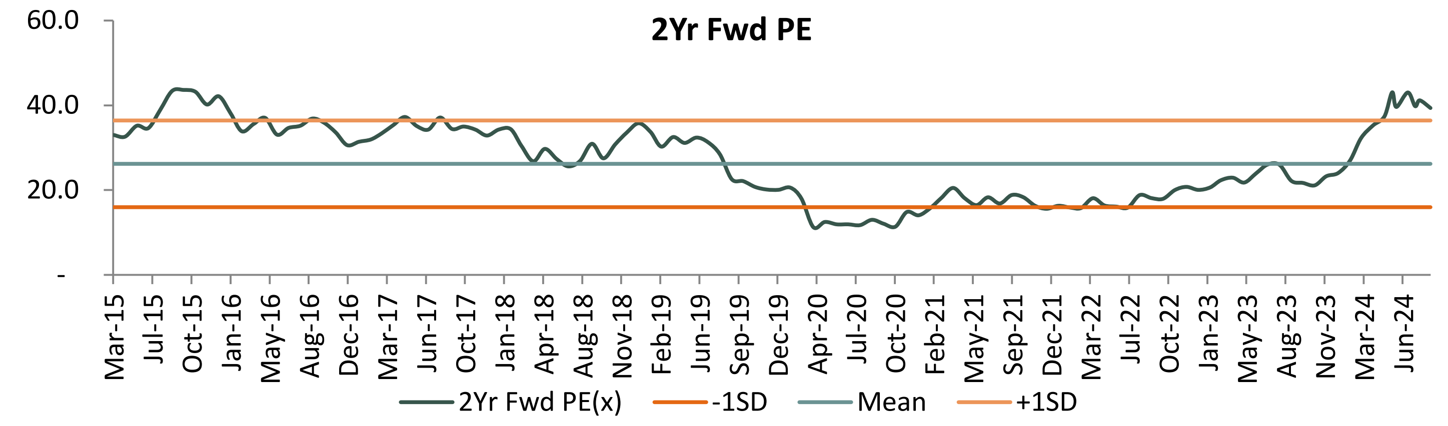
Exhibit 17: Working Capital Snapshot



Source : Company, IDBI Capital Research

Valuation

Exhibit 18: 2 year forward PE band



Source: Company; IDBI Capital Research

The stock price has exhibited a sharp upmove post Covid in light of the concrete and robust government initiatives to rev up the manufacturing cycle in the country. Although valuations are rich, we believe the long and strong runway for demand for both genset as standby power and prime power for off grid areas will sustain as the capex cycle in the country continues its momentum. The growth levers of exports and distribution will further propel growth. We assign a TP of Rs 4,401 at 47x1HFY27 expected earnings.

Peer Valuation

Exhibit 19: Comparative financial performance of peers

Valuation Table	Rating	MCap (Rs bn)	CMP (Rs)	TP (Rs)	Up / Down (%)	P/E (x)			EV/EBITDA (x)			ROE (%)		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Cummins India	BUY	1,033	3,726	4,401	18	52.5	43.9	36.9	49.8	41.6	35.1	27.5	28.1	28.1
Kirloskar Oil Eng.	BUY	179	1,233	1,491	21	32.6	25.8	20.4	17.5	14.7	10.7	18.8	20.1	21.1

Source: Company, IDBI Capital Research

Company overview

Cummins India (CIL), a leading player in the domestic diesel generator market, began its India operations in 1962 through a joint venture between Kirloskar Group, Pune and Cummins Inc., USA. In 1997, Cummins Inc. acquired Kirloskar's stake to increase its holding to 51% with CIL becoming its subsidiary. CILs major business segments include Industrial, Power Generation and Distribution. The Industrial segment caters to high-power engine needs of railways, construction/mining and marine business. The Power Generation business serves high growth segments in the form of commercial infrastructure and data centres. With an attempt to stay relevant with the modernization, the company has introduced digital monitoring solutions for its power generators. Finally, the Distribution business provides sales and service solutions to its wide customer base. With a reputation for being market experts in engine technology, CIL has had a history of delivering innovation to its customers and turning obstacles into opportunities.

The company has five manufacturing facilities in India and its product range includes diesel engines from 700 HP to 4,500 HP for marine, railways, defense and mining applications as well as engines for construction and compressor equipment from 50 HP to 600 HP. In its power generation segment, the company manufactures integrated generator sets in the range of 7.5 kVA to 3,750 kVA, including transfer switches, paralleling switchgear & controls for use in standby, prime and continuous rated systems. The company also provides support and services more than 600,000 engines in the field covering more than 0.22mn customers.

Key Risks

- Weaker-than-expected momentum in domestic powergen market,
- Weakness in commodity prices impacts exports,
- Significant presence of Cummins Inc. outside CIL, and
- Rise in diesel prices.

Consolidated Profit & Loss Account (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	**60,570**	**76,414**	**88,600**	**1,07,961**	**1,27,660**	**1,50,971**
Change (yoy, %)	*41*	*26*	*16*	*22*	*18*	*18*
Operating expenses	(52,829)	(65,244)	(72,305)	(87,586)	(1,03,479)	(1,22,571)
EBITDA	**8,881**	**12,477**	**17,697**	**20,375**	**24,181**	**28,401**
Change (yoy, %)	*53*	*41*	*42*	*15*	*19*	*17*
Margin (%)	*14.7*	*16.3*	*20.0*	*18.9*	*18.9*	*18.8*
Depreciation	(1,356)	(1,420)	(1,592)	(1,723)	(1,846)	(1,968)
EBIT	**7,524**	**11,057**	**16,105**	**18,652**	**22,335**	**26,432**
Interest paid	(122)	(162)	(274)	(110)	(110)	(110)
Other income	3,343	5,161	6,232	6,853	8,171	9,851
Pre-tax profit	**12,070**	**15,913**	**22,046**	**25,394**	**30,396**	**36,173**
Tax	(2,732)	(3,631)	(4,840)	(5,728)	(6,856)	(8,159)
Effective tax rate (%)	*22.6*	*22.8*	*22.0*	*22.6*	*22.6*	*22.6*
Minority Interest	-	-	-	-	-	-
Net profit	**9,337**	**12,282**	**17,206**	**19,667**	**23,540**	**28,014**
Exceptional items	1,324	(143)	(17)	-	-	-
Adjusted net profit	**8,014**	**12,425**	**17,223**	**19,667**	**23,540**	**28,014**
Change (yoy, %)	*26*	*55*	*39*	*14*	*20*	*19*
EPS	28.9	44.8	62.1	70.9	84.9	101.1
Dividend per sh	16.0	22.5	31.0	32.6	34.2	35.9
Dividend Payout %	*55.3*	*50.2*	*50*	*46*	*40*	*36*

Consolidated Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	**51,450**	**57,582**	**66,123**	**76,767**	**90,833**	**1,08,900**
Share capital	554	554	554	554	554	554
Reserves & surplus	50,895	57,028	65,569	76,213	90,279	1,08,345
Total Debt	**3,947**	**3,500**	**1,000**	**1,000**	**1,000**	**1,000**
Other liabilities	935	1,008	872	872	872	872
Curr Liab & prov	**14,788**	**17,095**	**21,710**	**24,648**	**27,879**	**31,578**
Current liabilities	12,495	14,671	18,864	21,801	25,032	28,731
Provisions	2,293	2,424	2,847	2,847	2,847	2,847
Total liabilities	**19,670**	**21,604**	**23,582**	**26,519**	**29,751**	**33,450**
Total equity & liabilities	**71,120**	**79,186**	**89,705**	**1,03,286**	**1,20,584**	**1,42,349**
Net fixed assets	12,147	12,119	13,854	13,880	13,784	13,566
Investments	18,709	24,765	26,188	29,188	32,188	35,188
Other non-curr assets	333	362	366	366	366	366
Current assets	**39,931**	**41,941**	**49,298**	**59,852**	**74,246**	**93,230**
Inventories	7,375	9,037	9,497	11,477	13,655	16,148
Sundry Debtors	12,581	15,971	20,854	25,015	29,579	34,980
Cash and Bank	14,268	13,862	15,128	19,541	27,192	38,281
Loans and advances	5,707	3,071	3,820	3,820	3,820	3,820
Total assets	**71,120**	**79,186**	**89,705**	**1,03,286**	**1,20,584**	**1,42,349**

Consolidated Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	12,070	15,913	22,046	25,394	30,396	36,173
Depreciation	1,356	1,420	1,592	1,723	1,846	1,968
Tax paid	(2,546)	(3,521)	(5,012)	(5,728)	(6,856)	(8,159)
Chg in working capital	(637)	(3,245)	(3,382)	(3,204)	(3,511)	(4,196)
Other operating activities	(3,124)	(2,371)	(2,390)	110	110	110
Cash flow from operations (a)	**7,119**	**8,197**	**12,853**	**18,296**	**21,985**	**25,897**
Capital expenditure	704	(1,543)	(2,821)	(1,750)	(1,750)	(1,750)
Chg in investments	(7,597)	376	(2,967)	(3,000)	(3,000)	(3,000)
Other investing activities	1,031	1,858	3,106	-	-	-
Cash flow from investing (b)	**(5,863)**	**691**	**(2,682)**	**(4,750)**	**(4,750)**	**(4,750)**
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	3,693	(506)	(2,571)	-	-	-
Dividend (incl. tax)	(4,435)	(6,237)	(8,593)	(9,023)	(9,474)	(9,948)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(80)	(130)	(179)	(110)	(110)	(110)
Cash flow from financing (c)	**(823)**	**(6,873)**	**(11,343)**	**(9,133)**	**(9,584)**	**(10,058)**
Net chg in cash (a+b+c)	**434**	**2,015**	**(1,171)**	**4,413**	**7,651**	**11,089**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	186	208	239	277	328	393
Adj EPS (Rs)	*28.9*	*44.8*	*62.1*	*70.9*	*84.9*	*101.1*
Adj EPS growth (%)	*26*	*55*	*39*	*14*	*20*	*19*
EBITDA margin (%)	*14.7*	*16.3*	*20.0*	*18.9*	*18.9*	*18.8*
Pre-tax margin (%)	*19.9*	*20.8*	*24.9*	*23.5*	*23.8*	*24.0*
Net Debt/Equity (x)	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.3*	*-0.3*
ROCE (%)	*14*	*19*	*25*	*25*	*26*	*26*
ROE (%)	*16*	*23*	*28*	*28*	*28*	*28*
DuPont Analysis						
Asset turnover (x)	0.9	1.0	1.0	1.1	1.1	1.1
Leverage factor (x)	1.3	1.4	1.4	1.4	1.3	1.3
Net margin (%)	*13.2*	*16.3*	*19.4*	*18.2*	*18.4*	*18.6*
Working Capital & Liquidity ratio						
Inventory days	44	43	39	39	39	39
Receivable days	76	76	86	85	85	85
Payable days	69	65	71	71	71	71

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	128.9	83.1	60.0	52.5	43.9	36.9
Price/Book value (x)	20.1	17.9	15.6	13.5	11.4	9.5
EV/Net sales (x)	16.9	13.4	11.5	9.4	7.9	6.6
EV/EBITDA (x)	115.1	81.9	57.6	49.8	41.6	35.1
Dividend Yield (%)	*0.4*	*0.6*	*0.8*	*0.9*	*0.9*	*1.0*

Source: Company; IDBI Capital Research

IDBI capital

Kirloskar Oil Engines BUY

Robust Value Champion

Summary

Kirloskar Oil Engines Ltd. (KOEL), a leading diesel genset player is poised to be a major beneficiary of the infrastructure momentum in the country. Business enquiries in domestic powergen segment continues to remain healthy due to strong demand in MHP segment, where KOEL is the market leader, and HHP, where it has gained considerable market. KOEL is seizing opportunities in power generation, industrial, and distribution sectors, focusing on expanding its export market share. With products compliant with CPCB 4+ norms and fuel-agnostic solutions, KOEL is poised for growth, leveraging market leadership in mid-kVA and new introductions in 1,500 kVA range (OptiPrime), the company targets significant expansion. Ambitiously aiming to double revenues in 3 years, KOEL plans new product launches and enhanced export initiatives.

Key Highlights and Investment Rationale

- **Demand Momentum to improve growth**: The strong impetus of the GoI to rev up the capex cycle is bearing fruit in terms of growth across various infrastructure verticals**.** This is expected to augment the demand for power**.** The need for generator sets in off-grid areas, and growing demand for continuous power supply across various sectors, including manufacturing, infrastructure, healthcare, data centers, and residential areas, is favorable for genset demand. Improvement in demand for CPCB IV+ compliant products will come through particularly in regions with stricter emission norms. KOEL's strong position in low and mid KVa ranges, coupled with its expansion into high KVa ranges, positions it well to benefit from this demand growth.

- **Valuation & Outlook: We are anticipating a 26% PAT CAGR over the FY24-FY27E, valuing its core business at 30x1HFY27E PAT. With promising prospects, we initiate coverage on KOEL with a BUY rating and a target price of Rs 1,491.**

TP	**Rs1,491**
CMP	**Rs1,233**
Potential upside/downside	+21%

Key Stock Data	
Bloomberg/Reuters	KOEL IN/KIRO.BO
Sector	Capital Goods
Shares o/s (mn)	145
Market cap. (Rs mn)	178,917
3-m daily avg. trd. value (Rs mn)	25.4
52-week high / low	Rs1,450 / 475
Sensex / Nifty	83,185 / 25,416

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.0)	(6.8)	160.5
Rel to Sensex	(6.4)	(14.4)	137.5

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	38	48	60
Consensus	33	43	50
% difference	*13.9*	*12.8*	*21.0*

Shareholding Pattern (%)

Promoters	41.2
FII	10.0
DII	22.7
Public	26.1

Consolidated Financial Snapshot **(Rs mn)**

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	50,238	58,983	71,349	86,564	1,05,904
Change yoy, %	*25*	*17*	*21*	*21*	*22*
EBITDA	7,340	10,276	11,879	13,794	16,369
Change yoy, %	*78*	*40*	*16*	*16*	*19*
EBITDA Margin(%)	*14.6*	*17.4*	*16.6*	*15.9*	*15.5*
Adj.PAT	3,317	4,550	5,487	6,929	8,766
EPS (Rs)	23	31	38	48	60
Change yoy, %	*94.1*	*37*	*21*	*26*	*27*
P/E(x)	53.9	39.3	32.6	25.8	20.4
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.5
P/B (x)	7.8	6.7	5.7	4.8	3.9
RoE (%)	15.1	18.3	18.8	20.1	21.1
RoCE (%)	16.9	20.4	21.2	21.9	23.0

Source: IDBI Capital Research, Company

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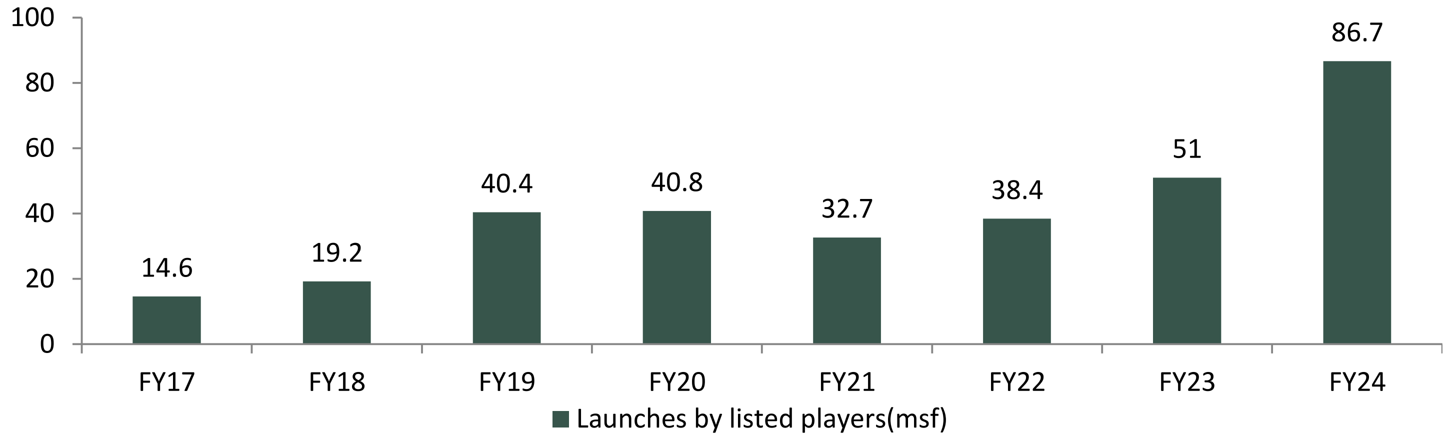
Investment thesis

- **Beneficiary of strong demand environment:**

  While short-term market uncertainties persist for CPCB II and CPCB IV+ compliant products, long-term demand drivers remain strong in the power generation sector, particularly from real estate, commercial, hospitality, data centers, and manufacturing industries. The need for generator sets in off-grid areas, especially for telecom towers in 5G infrastructure, and rising demand for uninterrupted power across various sectors, including manufacturing, infrastructure, healthcare, data centers, and residential areas, is favorable for genset demand. Improvement in demand for CPCB IV+ compliant products is noted, particularly in regions with stricter emission norms like the NCR Delhi Region. KOEL's strong position in low and mid KVa ranges, coupled with its expansion into high KVa ranges, positions it well to benefit from this demand growth.

Exhibit 1: Strong momentum in real estate to propel demand for gensets



Source: Company; IDBI Capital Research

- **Ready with CPCB4+ and HHP products in powergen segment:**

  In FY21/22, KOEL allocated approximately INR 1.3 billion/1 billion for in-house research and development, resulting in new products compliant with CPCBIV+ norms. KOEL has introduced new CPCBIV+ compliant products and can adjust its supply chain to meet market demand for both CPCB II and CPCB IV+ products. They offer fuel-agnostic products and IoT-enabled gas generators with digital monitoring systems. Additionally, they've launched a dual fuel kit for diesel generators, allowing operation on gas and diesel. KOEL has entered the high horsepower (HHP) range with its OptiPrime series, targeting data centers and infrastructure. These initiatives position KOEL to address changing emission norms and dual fuel needs, especially in regions like NCR, and strengthen its presence in the growing data center market. Indian Data Center industry is maturing with the influx of long-term stable capital. The demand remains high on account of digitization and data localization themes and is expected to accentuate due to AI implementation. Developers have a pipeline of over 3 GW to be delivered over next 10 years , requiring capex of ~ US$ 25 Bn.

Exhibit 2: The Data Centre Industry is primed for robust growth

Source: Company; IDBI Capital Research

- **Strengthening distribution and aftermarket network**

In the distribution and aftermarket sectors, KOEL has established two distinct segments: 1)Customer Support and Service Channel- This segment focuses on providing customer support and services, with the renowned Kirloskar CARE brand delivering exceptional after-sales service for Kirloskar Powergen and Industrial products. With over 400 service outlets across India, all seamlessly connected through a robust digital platform. 2)Retail Channel for Spare Parts, Oil, and Allied Products: This segment concentrates on retailing spare parts, oil, and related products, including Electric Motors and Organic Waste Composter. Despite experiencing a decline in spare parts revenue contribution, it aims to introduce agriculture and construction parts along with other allied products to broaden its reach. KOEL plans to diversify its channels into markets such as Andhra Pradesh, Telangana, Kerala, and Rajasthan, while also implementing digitalization solutions to enhance sales visibility. Furthermore, the company intends to launch loyalty programs to stimulate sales.

- **B2C segments form a smaller proportion of sales**

Currently, B2C sales represent 13% of net sales for the company. Within this segment, the company primarily targets water management solutions (pump sets and diesel engines) and farm mechanization (power tillers and weeders). While there's been a slowdown in demand for diesel pump sets due to the industry's shift towards electric alternatives, KOEL intends to introduce more electric pump set options to adapt to market trends. Farm mechanization, focusing on power tillers and weeders, remains a key area of focus.

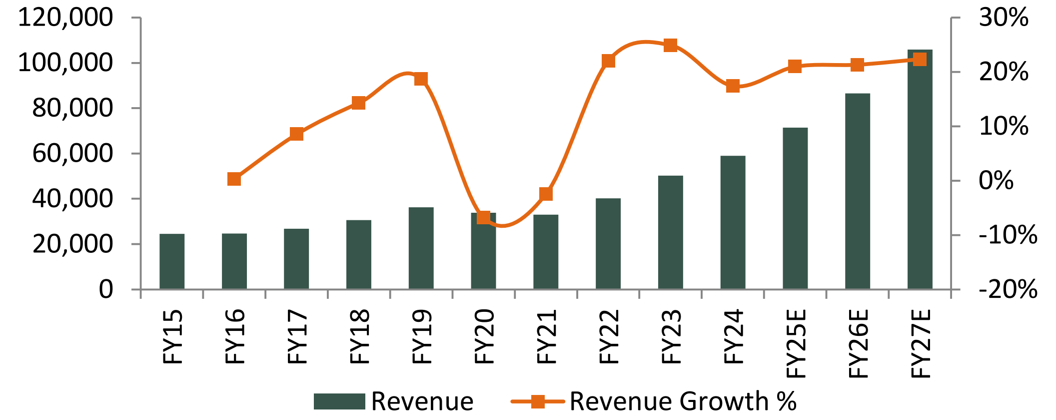
Strategy of 2X revenues in 3 years

The company has devised a strategic roadmap to double its revenues to INR 65 billion within three years on standalone basis, starting from FY22. This entails: 1) Introducing new products in the HHP category (1,500 kVA to 3,000 kVA), 2) Expanding the share of exports to 30% of sales through new product launches and penetration of CPCB IV+ compliant products in international markets, 3) Strengthening distribution channels and enhancing presence in the aftermarket segment. This strategy positions the company as a formidable player in the market, with revenue estimated to reach INR 58 billion by FY25. This would help them to increase their market share along with doubling their revenues aiding the bottom line as well.

Exhibit 3: Strong momentum in real estate to propel demand for gensets

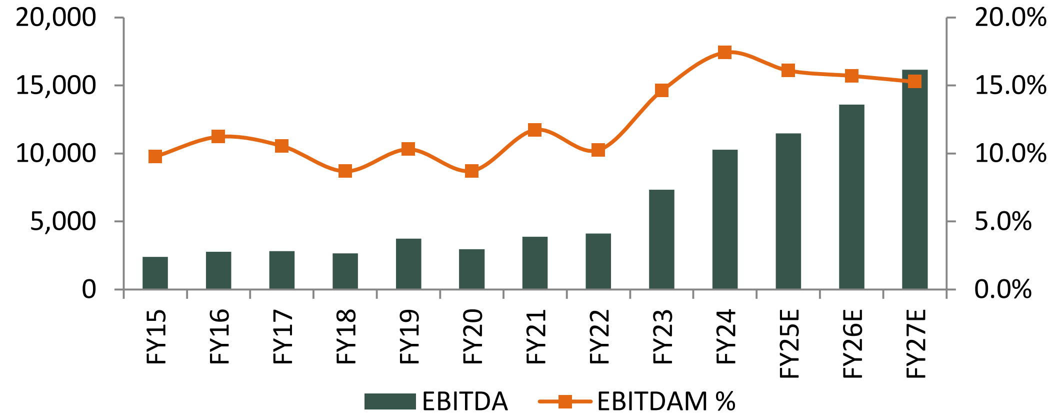
Source: Company; IDBI Capital Research

Exhibit 4: Revenue and Revenue Growth Snapshot (Rs mn)



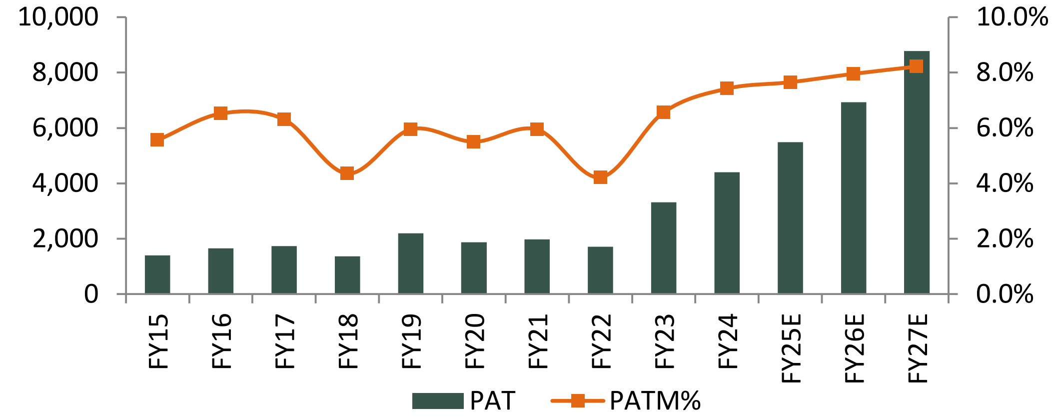
Source : Company, IDBI Capital Research

Exhibit 5: EBITDA and EBITDA Margin Snapshot(Rs mn)



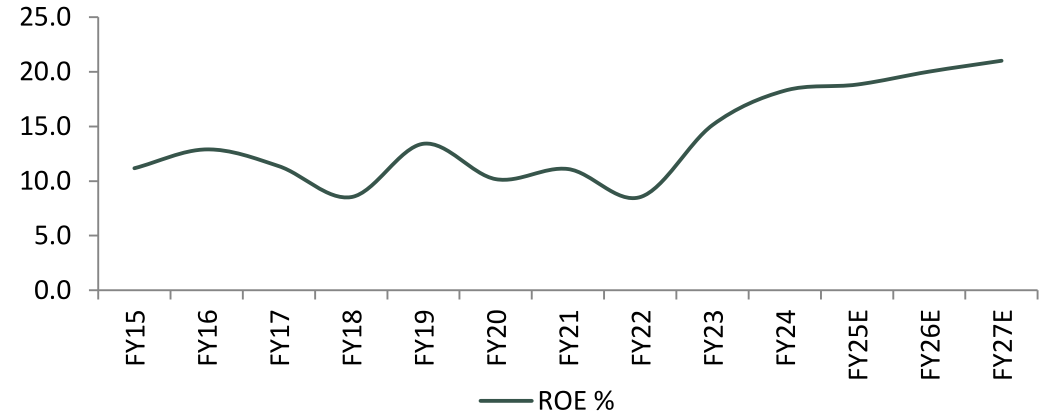
Source : Company, IDBI Capital Research

Exhibit 6: PAT and PAT Growth Snapshot(Rs mn)



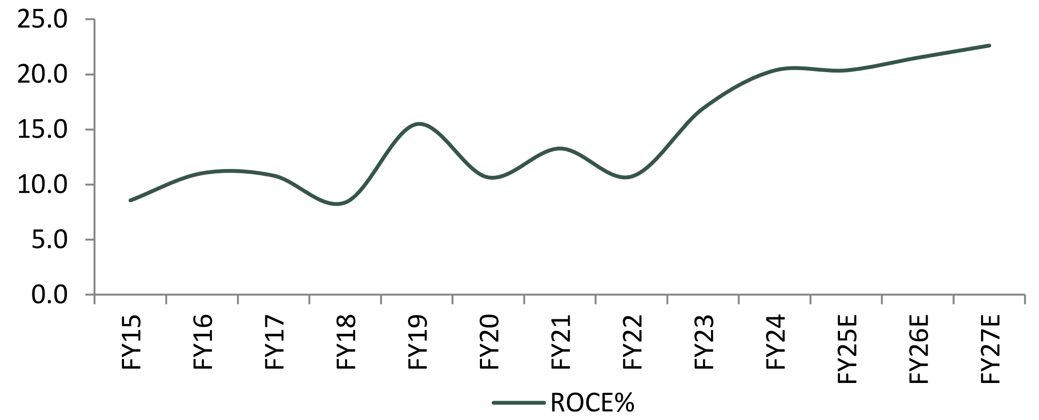
Source : Company, IDBI Capital Research

Exhibit 7: ROE Snapshot



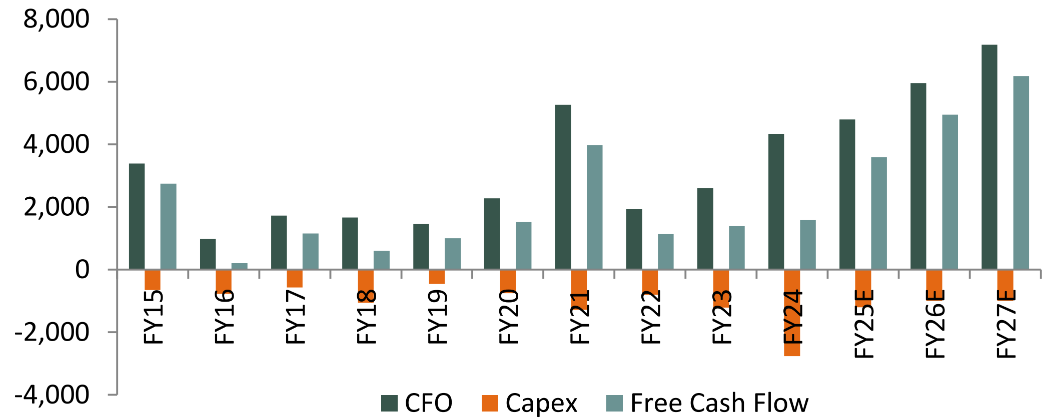
Source : Company, IDBI Capital Research

Exhibit 8: ROCE Snapshot



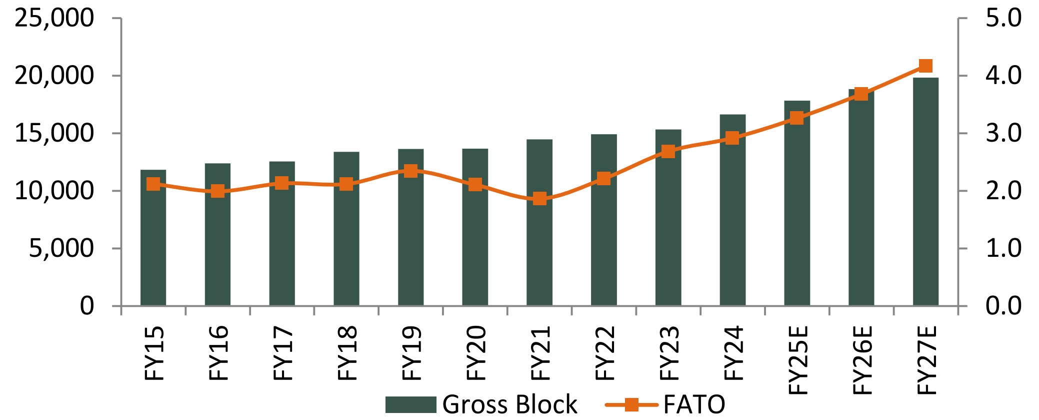
Source : Company, IDBI Capital Research

Exhibit 9: Cash Flow Snapshot(Rs mn)



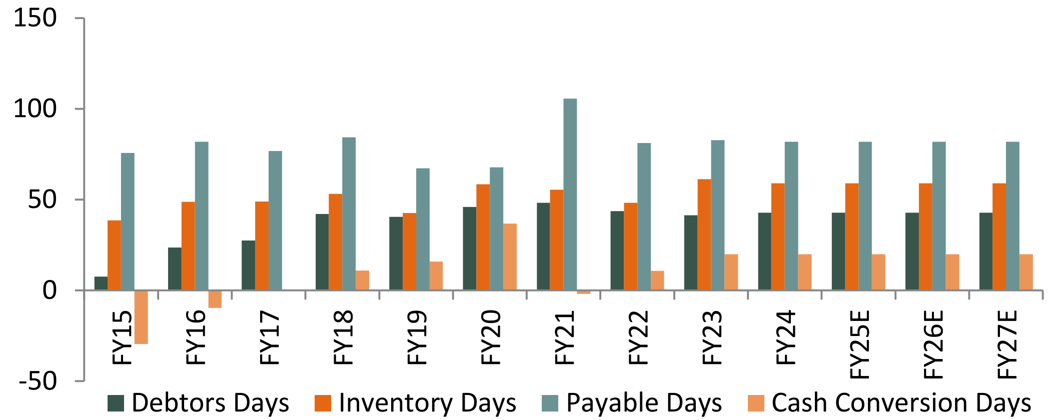
Source : Company, IDBI Capital Research

Exhibit 10: FATO Snapshot(Rs mn)



Source : Company, IDBI Capital Research

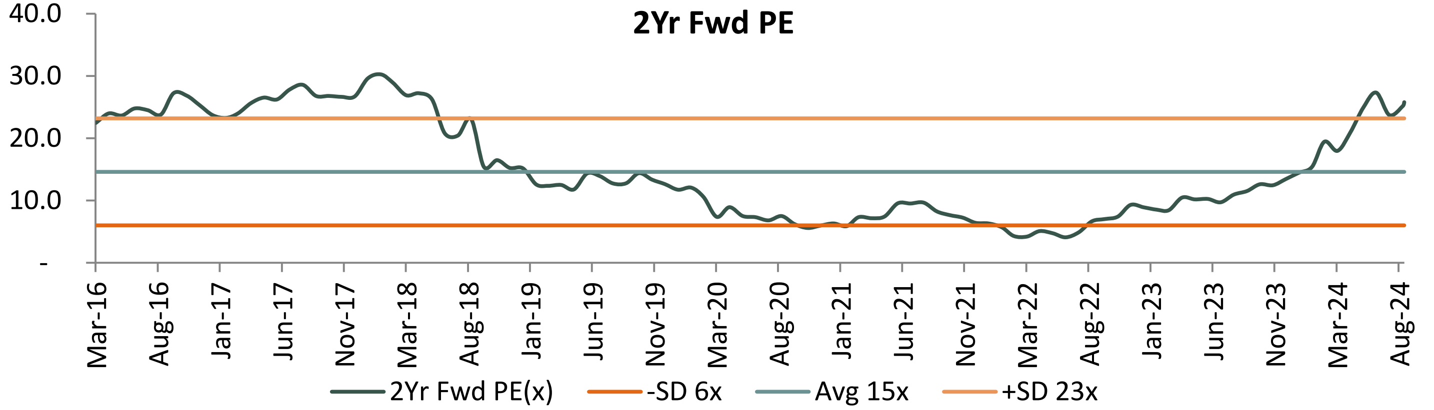
Exhibit 11: Working Capital Snapshot



Source : Company, IDBI Capital Research

Valuation

Exhibit 12: 2 year Forward PE Band Chart



Source: Company; IDBI Capital Research

SOTP Based Valuation

Exhibit 13: SOTP Valuation

Business Segments	1HFY27E PAT/ Book Value	Multiple	Value
Core Business	6,324	30.0	1,89,722
La Gajjar Machineries	364	12.0	4,364
Arka Financial Holdings(NBFC)	16,831	1.3	21,881
Total			2,15,967
Target Price			**1,491**

Source: Company; IDBI Capital Research

KOEL has a solid brand presence in the mid-range segment and is well poised to continue its growth trajectory as sectors such as residential and commercial real estate, hospitality and data centres propel growth. The stock price has exhibited a sharp upmove post Covid in light of the concrete and robust government initiatives to rev up the manufacturing cycle in the country.

Although valuations have run up sharply, we believe the long and strong runway for demand for both genset as standby power and prime power for off grid areas will sustain as the capex cycle in the country continues its momentum. The growth levers of exports and distribution will further propel growth. We assign a SOTP derived TP of Rs 1,491 implying PE of 28x1HFY27 expected earnings.

Peer Valuation

Exhibit 14: Comparative financial performance of peers

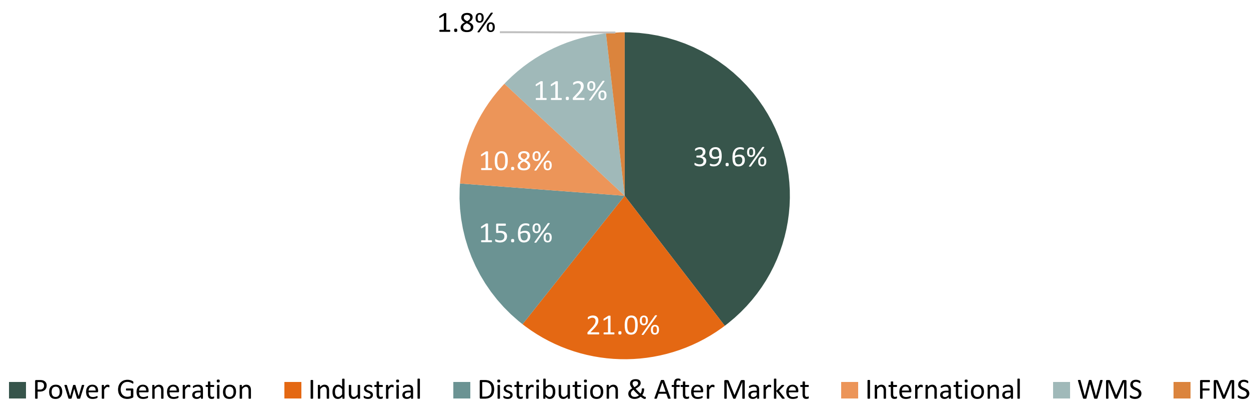
Valuation Table	Rating	MCap (Rs bn)	CMP (Rs)	TP (Rs)	Up / Down (%)	P/E (x)			EV/EBITDA (x)			ROE (%)		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Kirloskar Oil Eng.	BUY	179	1,233	1,491	21	32.6	25.8	20.4	17.5	14.7	10.7	18.8	20.1	21.1
Cummins India	BUY	1,033	3,726	4,401	18	52.5	43.9	36.9	49.8	41.6	35.1	27.5	28.1	28.1

Source: Company, IDBI Capital Research

Company overview

Kirloskar Oil Engines Ltd. (KOEL) is one of India's largest diesel genset manufacturers with dominant market share of ~23%. KOEL has developed strong manufacturing base with eight manufacturing facilities and presence across thirty countries. KOEL develops and offers indigenous engines for agriculture, genset, and industrial off highway equipment segments. KOEL offers wide range of products, from 2.5 HP to 740 HP engines to diesel gensets with power output of 5 kVA to 1,500 kVA, to serve a large set of customers. KOEL has eight facilities with a workforce of more than 2,100 employees. The company has set-up manufacturing units in India at Pune, Nashik, Kolhapur, Rajkot, and Bhare. These plants are equipped with CNC machinery for machining of all critical components. Its engines facility at Nashik includes a machine shop and assembly line, capable of manufacturing key components for in-line and V engines. KOEL's engine test facility is well equipped to test engines from 2.5 MW to 10 MW dynamometers. We also have facilities to test dieselgenerating (DG) sets up to 5 MW rating. KOEL, established in 1944, manufactures diesel engines, used in generator sets, industrial machinery and agricultural pumps. It is one of the largest diesel generator manufacturers in India with a 30%/23% market share in volume/value terms.

Exhibit 15: Segmental Revenue Contribution



Source: Company; IDBI Capital Research

Key risks

- Sharper than expected slowdown in exports leading lower of sales and impacting the margins of the company.
- Inability to being agile to the new, emerging products coupled up with heightened competition can lead to a key risk position for the company.
- The Government of India is focused on reducing usage of polluting fuel and promoting usage of clean fuel technology. Ministry of power has issued notification to states to reduce dependence on diesel gensets by providing 24x7 electricity and temporary connection within seven days of application.

Consolidated Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	**40,220**	**50,238**	**58,983**	**71,349**	**86,564**	**1,05,904**
Change (yoy, %)	*22*	*25*	*17.4*	*21.0*	*21*	*22*
Operating expenses	(36,098)	(42,898)	(48,707)	(59,470)	(72,770)	(89,535)
EBITDA	**4,122**	**7,340**	**10,276**	**11,879**	**13,794**	**16,369**
Change (yoy, %)	*7*	*78*	*40*	*16*	*16*	*19*
Margin (%)	*10.2*	*14.6*	*17.4*	*16.6*	*15.9*	*15.5*
Depreciation	(1,013)	(1,047)	(1,188)	(1,368)	(1,729)	(2,084)
EBIT	**3,109**	**6,294**	**9,088**	**10,511**	**12,065**	**14,285**
Interest paid	(1,060)	(2,099)	(3,282)	(3,454)	(3,258)	(3,258)
Other income	267	282	286	387	590	870
Pre-tax profit	**2,316**	**4,477**	**5,939**	**7,444**	**9,397**	**11,897**
Tax	(610)	(1,173)	(1,555)	(1,956)	(2,468)	(3,130)
Effective tax rate (%)	*26.3*	*26.2*	*26.2*	*26.3*	*26.3*	*26.3*
Minority Interest	3.2	12.7	13.3	-	-	-
Net profit	**1,709**	**3,317**	**4,397**	**5,487**	**6,929**	**8,766**
Exceptional items	-	-	(153)	-	-	-
Adjusted net profit	**1,709**	**3,317**	**4,550**	**5,487**	**6,929**	**8,766**
Change (yoy, %)	*(16)*	*94*	*37*	*21*	*26*	*27*
EPS	11.8	22.9	31.4	37.8	47.8	60.5
Dividend per sh	4.0	5.0	5.0	5.2	5.5	5.8
Dividend Payout %	*33.9*	*22*	*16*	*14*	*12*	*10*

Consolidated Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	**20,817**	**23,036**	**26,762**	**31,489**	**37,619**	**45,547**
Share capital	289	290	290	290	290	290
Reserves & surplus	20,528	22,746	26,472	31,199	37,329	45,257
Total Debt	**19,561**	**32,304**	**41,247**	**41,247**	**41,247**	**19,703**
Other liabilities	(7,900)	(13,348)	(20,544)	(20,544)	(20,544)	1,000
Curr Liab & prov	**17,826**	**25,257**	**35,474**	**37,486**	**39,536**	**42,092**
Current liabilities	17,036	24,175	34,366	36,378	38,428	40,984
Provisions	790	1,081	1,108	1,108	1,108	1,108
Total liabilities	**29,487**	**44,212**	**56,176**	**58,188**	**60,238**	**62,794**
Total equity & liabilities	**50,304**	**67,248**	**82,779**	**89,518**	**97,698**	**1,08,182**
Net fixed assets	4,463	4,027	6,788	7,620	7,891	7,807
Investments	14,252	24,149	33,615	33,615	33,615	33,615
Other non-curr assets	4,054	5,157	5,215	5,215	5,215	5,215
Current assets	**27,536**	**33,916**	**37,160**	**43,068**	**50,977**	**61,545**
Inventories	3,881	5,450	6,436	8,477	10,358	12,797
Sundry Debtors	4,688	5,277	6,070	7,302	8,758	10,541
Cash and Bank	8,290	8,514	9,579	12,214	16,786	23,132
Loans and advances	10,678	14,675	15,074	15,074	15,074	15,074
Total assets	**50,304**	**67,248**	**82,779**	**89,518**	**97,698**	**1,08,182**

Consolidated Cash Flow Statement (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	2,316	4,477	5,939	7,444	9,397	11,897
Depreciation	1,013	1,047	1,188	1,368	1,729	2,084
Tax paid	(787)	(1,216)	(1,510)	(1,956)	(2,468)	(3,130)
Chg in working capital	(13,834)	(13,673)	(10,062)	(1,260)	(1,287)	(1,666)
Other operating activities	886	163	(243)	3,454	3,258	3,258
Cash flow from operations (a)	**(10,407)**	**(9,203)**	**(4,688)**	**9,049**	**10,629**	**12,442**
Capital expenditure	(1,244)	(2,699)	(3,776)	(2,200)	(2,000)	(2,000)
Chg in investments	1,111	1,048	2,405	-	-	-
Other investing activities	104	206	282	-	-	-
Cash flow from investing (b)	**(29)**	**(1,444)**	**(1,089)**	**(2,200)**	**(2,000)**	**(2,000)**
Equity raised/(repaid)	-	14	24	-	-	-
Debt raised/(repaid)	11,131	12,750	-	-	-	-
Dividend (incl. tax)	(578)	(723)	(724)	(761)	(799)	(839)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(1,048)	(219)	8,703	(3,454)	(3,258)	(3,258)
Cash flow from financing (c)	**9,505**	**11,822**	**8,003**	**(4,214)**	**(4,057)**	**(4,097)**
Net chg in cash (a+b+c)	**(931)**	**1,174**	**2,227**	**2,635**	**4,572**	**6,346**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	144	159	185	217	259	314
Adj EPS (Rs)	*11.8*	*22.9*	*31.4*	*37.8*	*47.8*	*60.5*
Adj EPS growth (%)	*-16*	*94*	*37*	*21*	*26*	*27*
EBITDA margin (%)	*10.2*	*14.6*	*17.4*	*16.6*	*15.9*	*15.5*
Pre-tax margin (%)	*5.8*	*8.9*	*10.1*	*10.4*	*10.9*	*11.2*
Net Debt/Equity (x)	*0.5*	*1.0*	*1.2*	*0.9*	*0.7*	*-0.1*
ROCE (%)	*11*	*17*	*20*	*21*	*22*	*23*
ROE (%)	*9*	*15*	*18*	*19*	*20*	*21*
DuPont Analysis						
Asset turnover (x)	0.9	0.9	0.8	0.8	0.9	1.0
Leverage factor (x)	2.2	2.7	3.0	3.0	2.7	2.5
Net margin (%)	*4.2*	*6.6*	*7.7*	*7.7*	*8.0*	*8.3*
Working Capital & Liquidity ratio						
Inventory days	35	40	40	43	44	44
Receivable days	43	38	38	37	37	36
Payable days	58	58	60	61	60	59

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	104.6	53.9	39.3	32.6	25.8	20.4
Price/Book value (x)	8.6	7.8	6.7	5.7	4.8	3.9
EV/Net sales (x)	4.7	4.0	3.6	2.9	2.3	1.7
EV/EBITDA (x)	46.1	27.6	20.5	17.5	14.7	10.7
Dividend Yield (%)	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*

Source: Company; IDBI Capital Research

IDBI capital

Voltamp Transformers BUY

Well run execution machine

TP	Rs16,681
CMP	Rs13,522

Potential upside/downside +23%

Key Stock Data	
Bloomberg/Reuters	VAMP IN/VOTL.BO
Sector	Capital Goods
Shares o/s (mn)	10
Market cap. (Rs mn)	136,804
3-m daily avg. trd. value (Rs mn)	22.8
52-week high / low	Rs14,800 / 4,208
Sensex / Nifty	83,185 / 25,416

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.0)	15.3	165.5
Rel to Sensex	(6.4)	7.7	142.4

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	335	385	449
Consensus	330	379	428
% difference	*1.6*	*1.5*	*4.9*

Shareholding Pattern (%)

Promoters	38.0
FII	27.3
DII	24.2
Public	10.5

Summary

We initiate coverage on Voltamp Transformers (VAMP) with a BUY rating and a target price of Rs 16,681. Domestic demand outlook over the next 5 years is robust, with demand trends being sanguine across market segments, particularly in data centers and renewable energy projects. Oil & gas capex will also pick up in 2 years and see momentum for a long period. Current demand upcycle is well diversified across a multitude of sectors, with industrial capacity expansions being funded in a disciplined manner, largely from internal accruals of corporates. Voltamp has been a preferred vendor amongst its clients due to its prudent execution track record and working capital management despite the cyclical nature of the business. Company has been able to manage its cashflows better than peers and command healthy return ratios. It has net cash of Rs9.5bn (7% of current market cap) as at FY24 end.

Key Highlights and Investment Rationale

- **Robust Execution with stringent financial discipline:** Voltamp is a preferred vendor for many companies in the private sector to supply distribution transformers. It supplies mainly to the industrial segment, renewables and state transcos. Company has got supply approvals to major industries like textile, thermal power, auto, and cement. We expect Voltamp to benefit from higher private capex due to increasing capacity utilisation levels, government's PLI schemes to boost domestic manufacturing across several sectors, and the 'China+1' strategy.
- **Valuation & Outlook: We are positive on VAMP owing to its strong market position, robust demand momentum and solid financial discipline. We initiate the stock with BUY rating valuing it at Rs 16,681 (PE of 40x on 1HFY27E EPS) factoring in an earnings CAGR of 14% over FY24-FY27E.**

Financial snapshot **(Rs mn)**

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	13,851	16,162	19,171	22,138	25,565
Change yoy, %	*23*	*17*	*19*	*15*	*15*
EBITDA	2,309	3,223	3,642	4,206	4,857
Change yoy, %	*66*	*40*	*13*	*15*	*15*
EBITDA Margin(%)	*16.7*	*19.9*	*19.0*	*19.0*	*19.0*
Adj.PAT	1,999	3,074	3,391	3,896	4,542
EPS (Rs)	198	304	335	385	449
Change yoy, %	*51*	*54*	*10*	*15*	*17*
P/E(x)	68.4	44.5	40.3	35.1	30.1
Dividend Yield (%)	0.3	0.4	0.5	0.5	0.5
P/B (x)	12.4	10.1	8.4	7.0	5.9
RoE (%)	19.5	25.0	22.7	21.8	21.2
RoCE (%)	21.3	24.9	23.2	22.4	21.6

Source: IDBI Capital Research, Company

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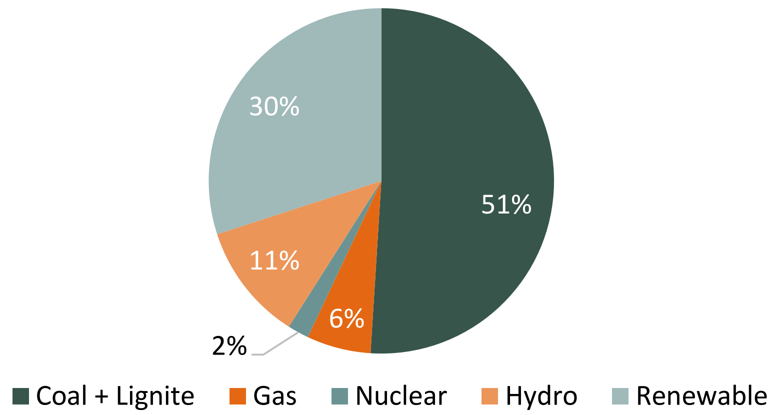
Investment thesis

Demand momentum to sustain with increased emphasis on renewables

Voltamp is a preferred supplier for many private sector companies, particularly in supplying distribution transformers to industries such as industrial, renewables, and state transmission companies. The company holds supply approvals from major sectors including textile, thermal power, automotive, and cement. Voltamp is poised to benefit from increased private capital expenditure driven by higher capacity utilization, government initiatives like the PLI schemes aimed at boosting domestic manufacturing across various sectors, and the 'China+1' strategy.

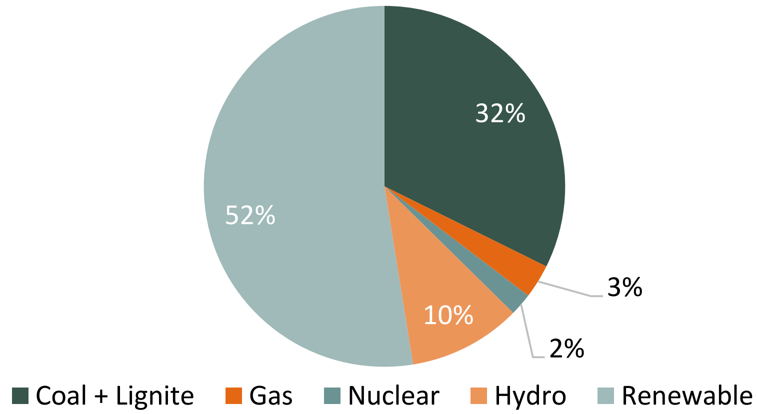
With a strong focus on ESG, many corporates are increasingly setting up green captive power plants (e.g., solar), thereby driving demand for transformers. Given that solar power plants typically run for ~8 hours/day, they require ~3x the capacity installation (including transformers) of a thermal power plant to meet the same level of power requirements. Green energy projects typically use higher capacity transformers, so VAMP’s 6,000 MVA capacity expansion will enable the company to cater to these requirements. The company’s exposure to green energy will be limited to ~25% of the total business, and it will be well diversified across corporates.

Exhibit 1: Power generation Installed Capacity (FY23) - 415 GW



Source : Company, IDBI Capital Research

Exhibit 2: Power generation Installed Capacity (FY30) - 777 GW



Source : Company, IDBI Capital Research

Exhibit 3: Total pipeline of investments towards capacity addition (INR bn)

Project	Pipeline Capacity	Investment required (INR bn)
Utility scale RE	97 GW	5,360
Distributed RE	16 GW	752
Green Hydrogen & Electrolyser	10 GW/Yr	7,960
Energy storage systems	243 GWh	2,918
ACC battery manufacturing	97 GWh/Yr	874
Compressed Biogas	640+ TPD	45
Ethanol	28,500 kilolitres/day	361
Solar module	88 GW/yr	
Solar cell	68 GW/yr	1,240
Wafer	41 GW/yr	
Total		**19,510**

Source: Company; IDBI Capital Research

Investing to augment capacity to capture upcoming growth:

VAMP's current installed capacity stands at 14,000 MVA, including 8,000 MVA in power transformers (up to 120 MVA/220 kV), 4,500 MVA in oil-filled distribution transformers, and 1,500 MVA in dry-type distribution transformers. It has announced capacity expansion of 6,000 MVA in higher size power transformers (up to 250 MVA/220 kV) at a capex outlay of up to Rs2bn (~Rs1.3bn for the plant and ~Rs0.7bn for land acquisition), which will take its total capacity to 20,000 MVA. The plant is expected to be operational within 24 months of land acquisition, which is likely in Oct-24. The infrastructure at the new facility will be set up such that another 10,000 MVA can be added at a marginal cost.

Large addressable opportunity in data centers

VAMP supplies both power and dry-type transformers to data centers. With ~30% market share, it is among the top 3 players in this segment along with ABB and Siemens. Bharat Bijlee and Schneider Electric are also prominent players. Date centers present a significant opportunity for the transformer industry given their large power requirements. They require highly reliable transformers so as to avoid any kind of power disruption.

Exhibit 4: The Data Centre Industry is primed for robust growth

Source: Company; IDBI Capital Research

Comfortable capital structure and healthy balance sheet:

Voltamp has maintained its debt-free status for more than 20 years now by virtue of its minimal exposure to state electricity boards. This has enabled it to maintain a comfortable working capital cycle along with generation of free cashflows. It will continue to focus on short-cycle products and will not undertake project-based business until cashflow certainty is ensured. Timely collection of receivables has been an area of intense focus for the company. However, it has maintained a better cash-conversion cycle. It maintains low creditor days for competitive pricing and preference in delivery for timely execution.

Robust balance sheet:

Voltamp has been a debt-free company for more than a decade and continues to be so. This is attributable mainly to prudent management of working capital compared to peers. Company leverages its strong cash base to keep creditor days low, which helps it get better pricing from vendors and secure timely deliveries of raw material. The operating cashflow generation has been strong with 46% CAGR over FY19-FY24. We expect the momentum to continue with 20% CAGR over FY24-FY27E.

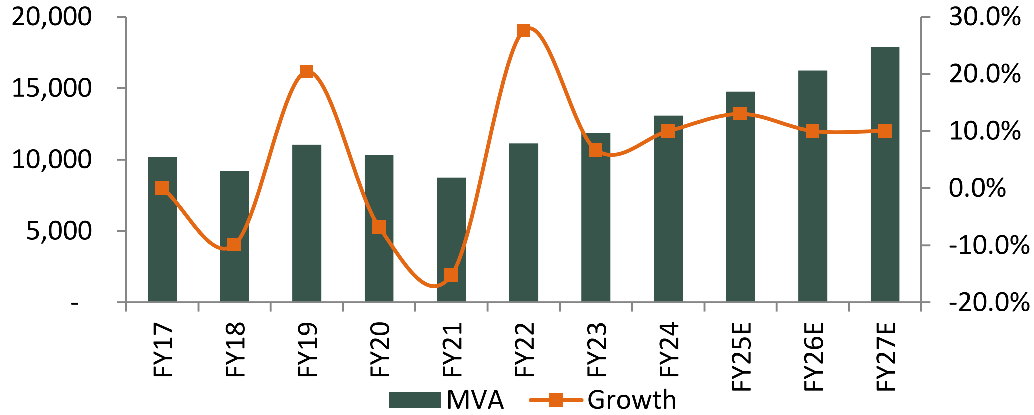
Improving profitability through better sales mix and higher service income:

Over the past five years, Voltamp's EBITDA margin remained in the range of 11- 20%. This was driven by better operating leverage, better sales mix and increasing share of services. Going ahead, the management expects to maintain margins in a similar range on the back of better cost controls, sales mix and higher service income. VAMP's services business has increased from Rs170mn in FY19 to Rs757mn in FY24, and accounts for ~5% of total revenue. The company is targeting services revenue of Rs1bn in the next 2years. Key growth drivers include 1) servicing its 74,000+ installed base as well as 3rd party transformers, 2) upgrading old transformers to enhance energy efficiency and 3) transformer "health checkups" every ~3 months, primarily in power-intensive segments such as data centers as well as in pharma & healthcare MNCs where reliability is a key factor. Spares & services generally have ~40% PBIT margin, and hence, are margin accretive.

Stable volume growth:

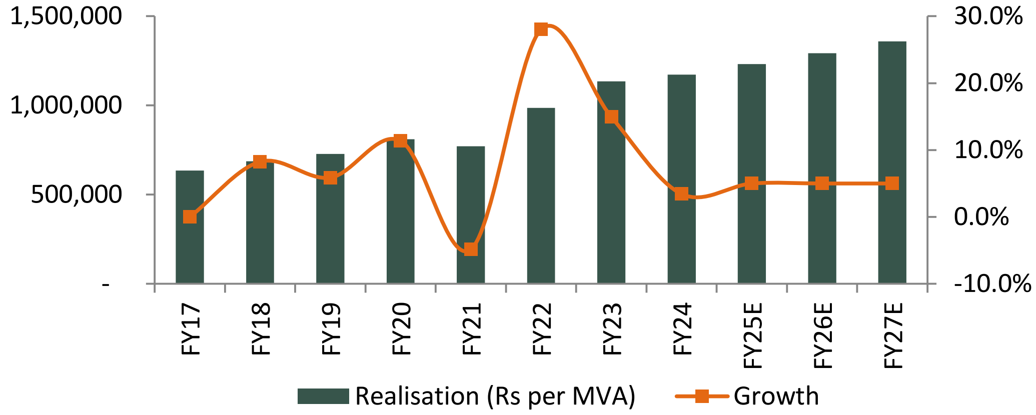
We expect power and distribution transformers to continue to constitute a major chunk of Voltamp's orderbook. Interaction with the management suggests that Voltamp would continue to seek profitable orders over the next three years and not compromise on profitability to achieve volume growth. Voltamp achieved sales volumes of 13,070MVA (up 10% YoY) in FY24. We expect volumes to pick up in the coming quarters with strong order-backlog and healthy utilization levels. We estimate gradual improvement in realisation per MVA from FY24-FY27E.

Exhibit 5: Sales in MVA



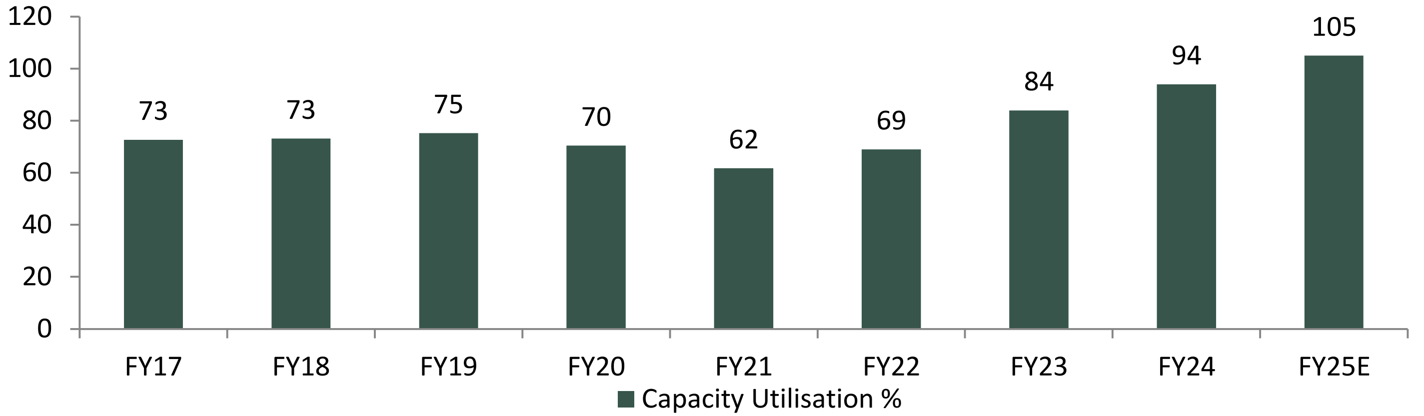
Source : Company, IDBI Capital Research

Exhibit 6: Realisation per MVA



Source : Company, IDBI Capital Research

Exhibit 7: Capacity Utilisation



Source: Company; IDBI Capital Research

Exhaustive clientele:

Voltamp is a trusted vendor for leading business houses across various industries, prominent PSUs, and large cooperatives. Its marquee client base includes entities such as GETCO, BPCL, IOCL, UltraTech Cement, Reliance Industries, Torrent Power, Infosys Technologies, and EPC contractors like Larsen & Toubro, ABB, Siemens, TATA Projects, Thyssenkrupp, and ISGEC, among others historically. Voltamp maintains long-term relationships with many of these clients, with a significant portion of its business (approximately 65-70%) coming from repeat orders. This client loyalty provides stability to its revenue streams and offers opportunities to expand its engagements with these key clients further.

Diversified business model:

Voltamp operates across three main segments: power transformers, which account for over 42% of sales; distribution transformers, constituting about 40% of sales; and dry transformers, representing approximately 15% of sales. Within its product mix, oil-filled transformers make up about 85% of sales, while dry transformers account for the remaining ~15%. This diversified segment approach enables Voltamp to cater to various transformer needs in different sectors. The growth drivers for each segment are as follows: Power transformers are primarily driven by capital expenditures in power generation and utilities sectors. Distribution transformers benefit from capital expenditures in distribution networks. Dry transformers see growth driven by industrial capital expenditures and commercial construction activities. This diversified strategy allows Voltamp to leverage different market opportunities across its product lines.

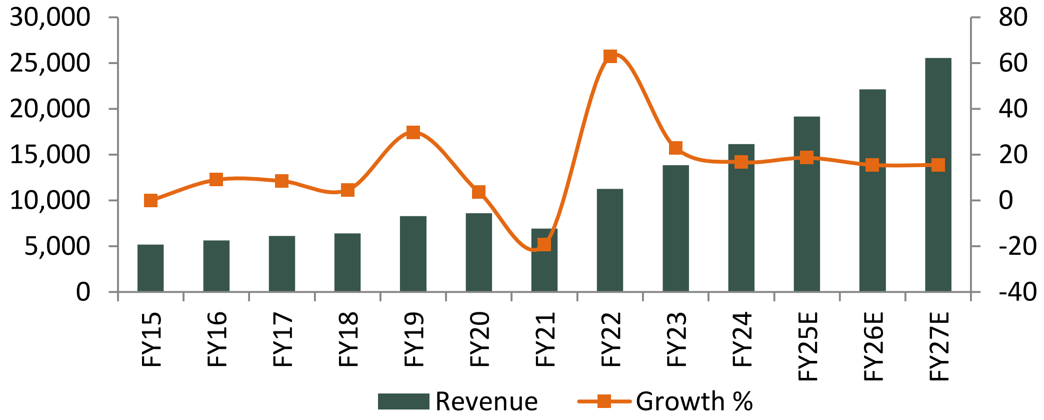
Demand Triggers:

Private capex is experiencing an upswing driven by favorable factors including increased capacity utilization, healthy banking conditions, and improvements in balance sheets. Particularly noteworthy is the surge in private investment due to the realignment of global supply chains, emphasis on electrification, sustainability-related expenditures, and government initiatives like the PLI scheme and Make in India. These factors bode well for Voltamp Transformers.

Prudent Capital Allocation:

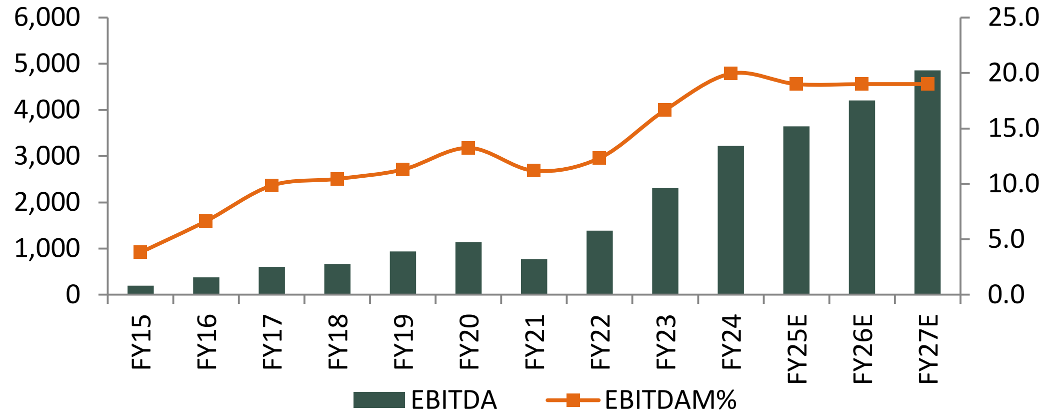
The management prioritizes prudent capital allocation and adheres to established policies consistently, ensuring effective management of balance sheets and cash flows. This disciplined approach extends to all aspects of operations, crucial for navigating the cyclical nature of businesses like transformers. This strategy supports the maintenance of key profitability metrics and ensures a strong balance sheet.

Exhibit 8: Revenue and Revenue Growth Snapshot (Rs mn)



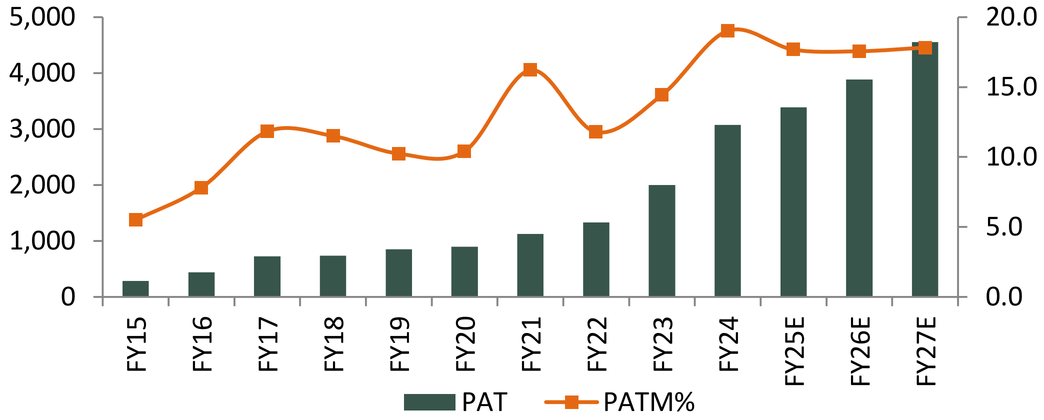
Source : Company, IDBI Capital Research

Exhibit 9: EBITDA and EBITDA Margin Snapshot(Rs mn)



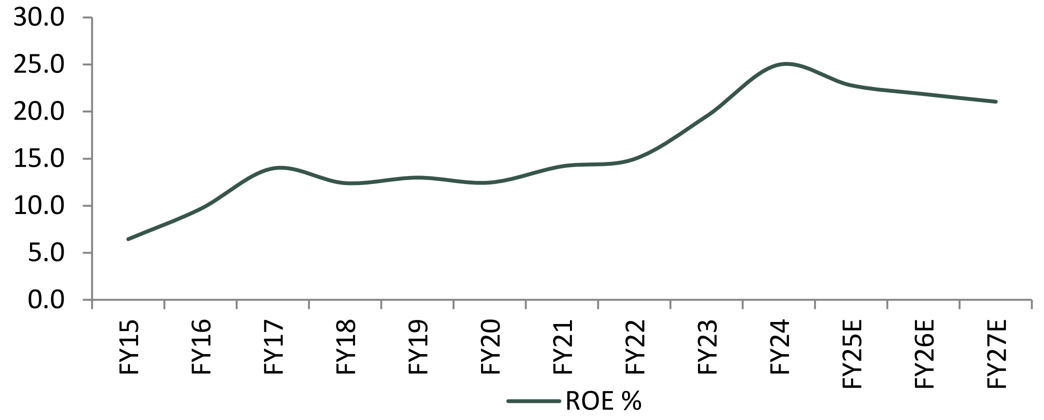
Source : Company, IDBI Capital Research

Exhibit 10: PAT and PAT Growth Snapshot(Rs mn)



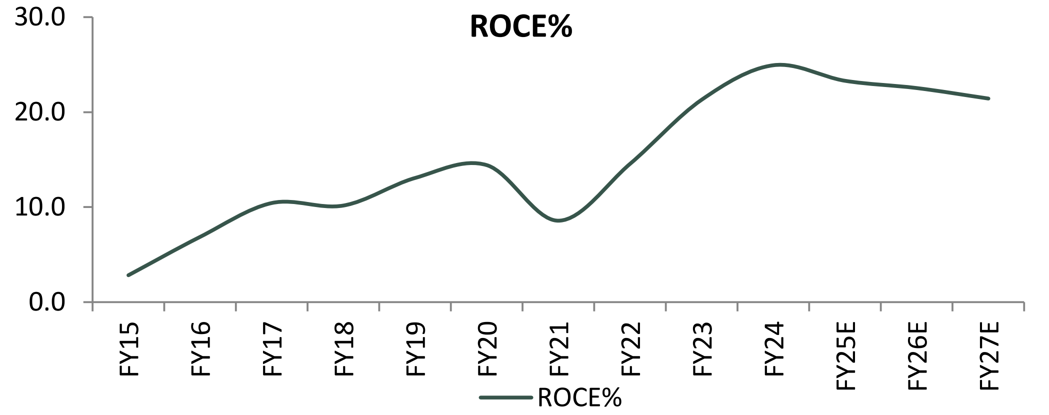
Source : Company, IDBI Capital Research

Exhibit 11: ROE Snapshot



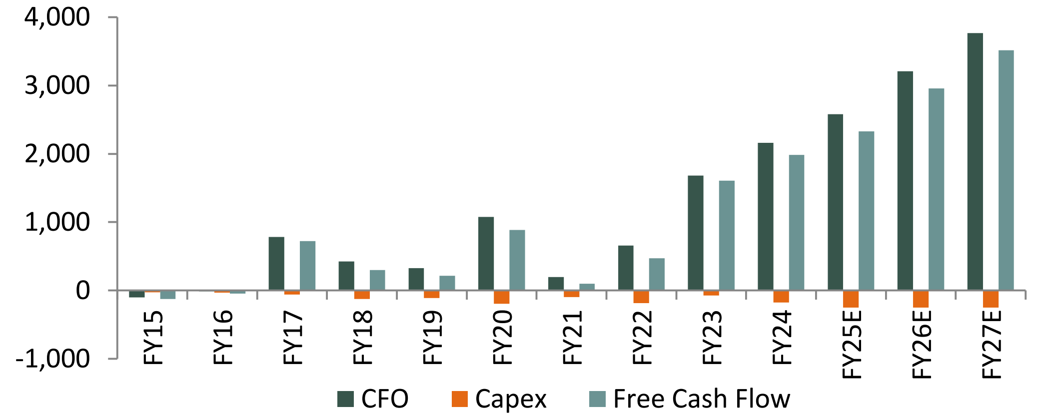
Source : Company, IDBI Capital Research

Exhibit 12: ROCE Snapshot



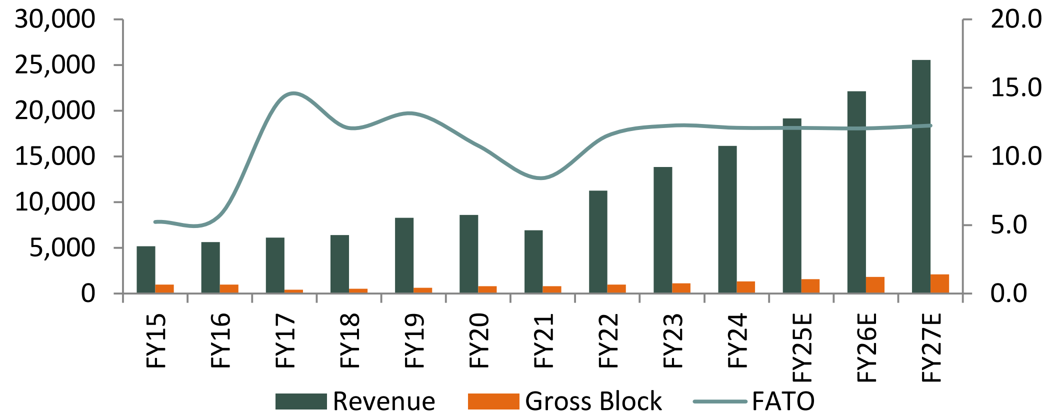
Source : Company, IDBI Capital Research

Exhibit 13: Cash Flow Snapshot(Rs mn)



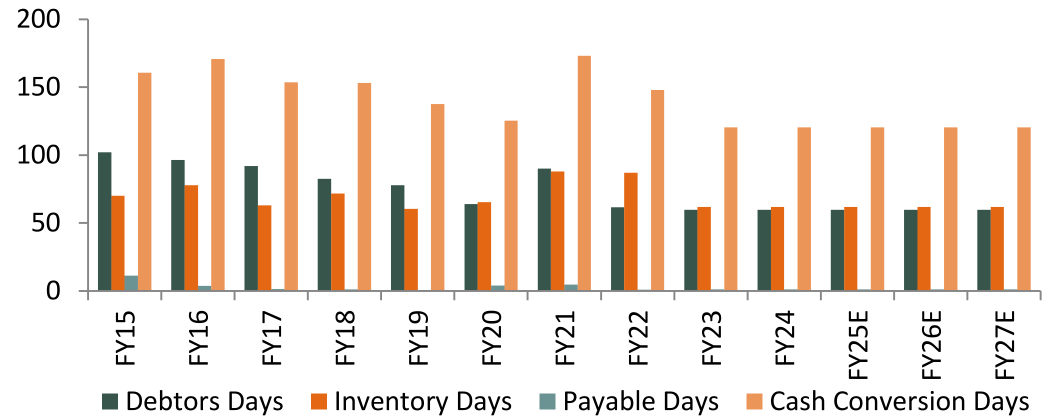
Source : Company, IDBI Capital Research

Exhibit 14: FATO Snapshot(Rs mn)



Source : Company, IDBI Capital Research

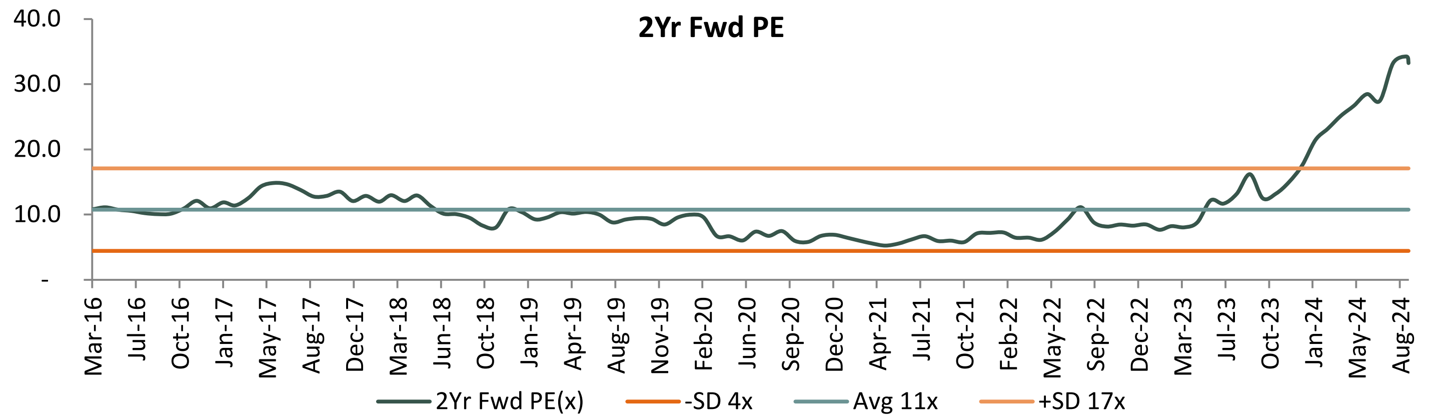
Exhibit 15: Working Capital Snapshot



Source : Company, IDBI Capital Research

Valuation

Exhibit 16: 2 year Forward PE Band



Source: Company; IDBI Capital Research

The stock has seen significant re-rating over the last 15 months owing to strong earnings growth, positive sectoral tailwinds, healthy demand momentum and stringent financial prudence. We believe the capex cycle will continue for the next 3-5 years with strong impetus of the government to position India as an efficient manufacturing destination which will further lead to job creation in the domestic economy. Demand momentum is also expected to be healthy with the growth in renewables, new energy, EVs and data centres. Voltamp is well set to capture this growth with its strong positioning with private/industrial customers. We assign BUY rating to the stock with TP of Rs 16,681 at 40x1HFY27 expected earnings

Valuation

Exhibit 17: Comparative financial performance of peers

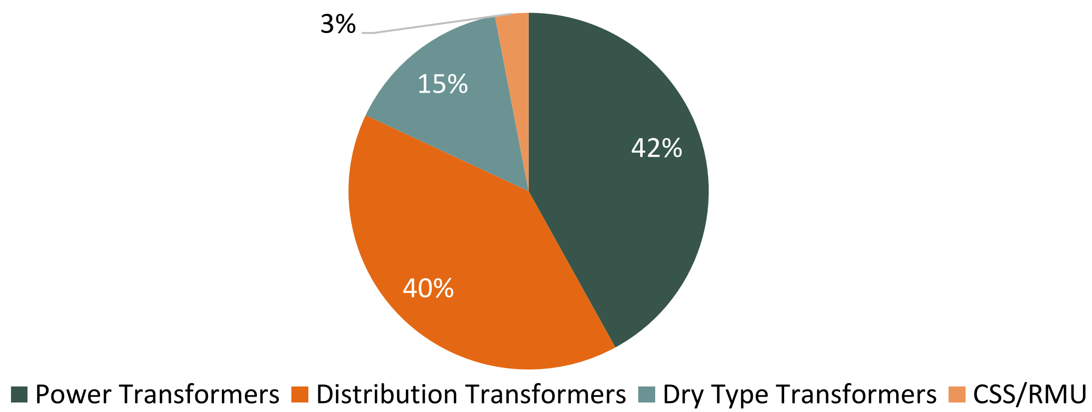
Valuation Table	Rating	MCap (Rs bn)	CMP (Rs)	TP (Rs)	Up / Down (%)	P/E (x)			EV/EBITDA (x)			ROE (%)		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Voltamp Transf.	BUY	137	13,522	16,681	23	40.3	35.1	30.1	36.9	31.4	26.7	22.7	21.8	21.2
TARIL	NR	93	619	NR	-	59.5	32.5	23.6	35.1	20.4	15.1	17.4	21.9	24.3

Source: Company, IDBI Capital Research, Bloomberg

Company overview

Voltamp Transformers Ltd. (Voltamp) is a leading manufacturer of oil-filled power and distribution transformers. Its product portfolio comprises these transformers up to 160 MVA, 220 KV class, and dry-type transformers up to 12.50 MVA, 33 KV class. Oil-filled transformers constitute 85% of sales and dry transformers about 15%. The products have applications in varied industries, including power, refineries, real estate, automobile, infrastructure and steel. Marquee client-base includes GETCO, BPCL, IOCL, UltraTech Cement, Reliance Industries, Torrent Power, Infosys Technologies and EPC contractors like Larsen & Toubro, ABB, Siemens, TATA Projects, Thyssenkrupp, Isgec Heavy Engineering to name few. Voltamp's production facilities are located at Makarpura and Savli in Vadodara, Gujarat, with an aggregate installed capacity of 14,000MVA per annum.

Exhibit 18: Composition of Revenue



Source: Company; IDBI Capital Research

Key risks

- **Significant increase in raw material prices to impact profitability:** Copper, silicon steel, cold rolled grain oriented (CRGO) steel and transformer oil are key raw materials required for Voltamp's operations. Their prices are volatile in nature. This exposes Voltamp's profitability to raw material price fluctuations since majority of the company's orders are at fixed prices. Any significant rise in raw material prices are likely to have a material impact on the profitability of the company.
- **Slowdown in industrial capex:** Voltamp mainly caters to the industrial/private customers (~85% of revenue). Any slowdown/delays in industrial capex could impact the order inflow and revenue growth of the company.
- **Reliance on non-fund-based working capital limits:** Voltamp is reliant on non-fundbased working capital limits since it has to extend performance bank guarantees (PBGs) to its customers. The average tenure of PBGs extended by it for transformers sold range from 3 to 6 years. However, there have not been any instances of invocation of such guarantees extended by the company over several years due to very low of failure rates of its products.

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	**11,272**	**13,851**	**16,162**	**19,171**	**22,138**	**25,565**
Change (yoy, %)	*63*	*23*	*16.7*	*18.6*	*15*	*15*
Operating expenses	(9,882)	(11,542)	(12,939)	(15,528)	(17,932)	(20,707)
EBITDA	**1,390**	**2,309**	**3,223**	**3,642**	**4,206**	**4,857**
Change (yoy, %)	*79*	*66*	*40*	*13*	*15*	*15*
Margin (%)	*12.3*	*16.7*	*19.9*	*19.0*	*19.0*	*19.0*
Depreciation	(79)	(97)	(114)	(132)	(154)	(177)
EBIT	**1,311**	**2,212**	**3,110**	**3,511**	**4,052**	**4,681**
Interest paid	(8)	(9)	(21)	(21)	(21)	(21)
Other income	430	401	890	931	1,048	1,262
Pre-tax profit	**1,732**	**2,604**	**3,979**	**4,421**	**5,079**	**5,922**
Tax	(404)	(604)	(905)	(1,030)	(1,183)	(1,380)
Effective tax rate (%)	*23.3*	*23.2*	*22.7*	*23.3*	*23.3*	*23.3*
Minority Interest	-	-	-	-	-	-
Net profit	**1,328**	**1,999**	**3,074**	**3,391**	**3,896**	**4,542**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**1,328**	**1,999**	**3,074**	**3,391**	**3,896**	**4,542**
Change (yoy, %)	*18*	*51*	*54*	*10*	*15*	*17*
EPS	131.3	197.6	303.8	335.2	385.0	449.0
Dividend per sh	25.0	35.0	60.0	63.0	66.1	69.4
Dividend Payout %	*19.0*	*18*	*20*	*19*	*17*	*15*

Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	**9,421**	**11,072**	**13,536**	**16,290**	**19,517**	**23,356**
Share capital	101	101	101	101	101	101
Reserves & surplus	9,320	10,971	13,435	16,189	19,415	23,255
Total Debt	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	137	133	203	203	203	203
Curr Liab & prov	**1,054**	**1,020**	**1,472**	**1,429**	**1,436**	**1,443**
Current liabilities	964	932	1,362	1,320	1,326	1,333
Provisions	91	88	110	110	110	110
Total liabilities	**1,191**	**1,153**	**1,675**	**1,632**	**1,638**	**1,646**
Total equity & liabilities	**10,612**	**12,225**	**15,211**	**17,922**	**21,155**	**25,002**
Net fixed assets	689	672	769	888	984	1,057
Investments	4,796	6,507	8,912	8,912	8,912	8,912
Other non-curr assets	69	48	70	70	70	70
Current assets	**5,058**	**4,998**	**5,460**	**8,053**	**11,190**	**14,963**
Inventories	2,094	1,748	2,262	2,433	2,810	3,245
Sundry Debtors	1,904	2,264	2,388	3,134	3,619	4,179
Cash and Bank	951	851	607	2,283	4,558	7,337
Loans and advances	109	135	203	203	203	203
Total assets	**10,612**	**12,225**	**15,211**	**17,922**	**21,155**	**25,002**

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	1,732	2,604	3,979	4,421	5,079	5,922
Depreciation	79	97	114	132	154	177
Tax paid	388	616	865	(1,030)	(1,183)	(1,380)
Chg in working capital	(867)	17	(602)	(960)	(855)	(988)
Other operating activities	(677)	(1,654)	(2,192)	21	21	21
Cash flow from operations (a)	**656**	**1,680**	**2,163**	**2,583**	**3,215**	**3,752**
Capital expenditure	(185)	(74)	(177)	(250)	(250)	(250)
Chg in investments	(424)	(1,355)	(1,408)	-	-	-
Other investing activities	146	157	170	-	-	-
Cash flow from investing (b)	**(463)**	**(1,273)**	**(1,414)**	**(250)**	**(250)**	**(250)**
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(253)	(354)	(607)	(637)	(669)	(703)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(8)	(9)	(26)	(21)	(21)	(21)
Cash flow from financing (c)	**(261)**	**(363)**	**(633)**	**(658)**	**(690)**	**(723)**
Net chg in cash (a+b+c)	**(68)**	**44**	**115**	**1,675**	**2,275**	**2,779**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	931	1,094	1,338	1,610	1,929	2,309
Adj EPS (Rs)	*131.3*	*197.6*	*303.8*	*335.2*	*385.0*	*449.0*
Adj EPS growth (%)	*18*	*51*	*54*	*10*	*15*	*17*
EBITDA margin (%)	*12.3*	*16.7*	*19.9*	*19.0*	*19.0*	*19.0*
Pre-tax margin (%)	*15.4*	*18.8*	*24.6*	*23.1*	*22.9*	*23.2*
Net Debt/Equity (x)	*-0.1*	*-0.1*	*0.0*	*-0.1*	*-0.2*	*-0.3*
ROCE (%)	*15*	*21*	*25*	*23*	*22*	*22*
ROE (%)	*15*	*20*	*25*	*23*	*22*	*21*
DuPont Analysis						
Asset turnover (x)	1.1	1.2	1.2	1.2	1.1	1.1
Leverage factor (x)	1.1	1.1	1.1	1.1	1.1	1.1
Net margin (%)	*11.8*	*14.4*	*19.0*	*17.7*	*17.6*	*17.8*
Working Capital & Liquidity ratio						
Inventory days	68	46	51	46	46	46
Receivable days	62	60	54	60	60	60
Payable days	1	1	2	1	1	1

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	103.0	68.4	44.5	40.3	35.1	30.1
Price/Book value (x)	14.5	12.4	10.1	8.4	7.0	5.9
EV/Net sales (x)	12.1	9.8	8.4	7.0	6.0	5.1
EV/EBITDA (x)	97.7	58.9	42.3	36.9	31.4	26.7
Dividend Yield (%)	*0.2*	*0.3*	*0.4*	*0.5*	*0.5*	*0.5*

Source: Company; IDBI Capital Research

Ador Welding BUY

Solid Play on the Capex Up-Cycle

TP	Rs1,621
CMP	Rs1,301
Potential upside/downside	+25%

Key Stock Data

Bloomberg/Reuters	AWL IN/ADOR.BO
Sector	Capital Goods
Shares o/s (mn)	14
Market cap. (Rs mn)	17,692
3-m daily avg. trd. value (Rs mn)	3.8
52-week high / low	Rs1,770 / 1,022
Sensex / Nifty	83,185 / 25,416

Price Performance (%)

	-1m	-3m	-12m
Absolute	0.8	(3.6)	19.2
Rel to Sensex	(2.6)	(11.2)	(3.8)

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	61	65	82
Consensus	56	77	--
% difference	*8.7*	*(15.7)*	--

Shareholding Pattern (%)

Promoters	56.9
FII	0.1
DII	7.0
Public	36.0

Summary

Ador Welding (AWL) is the second largest player in the domestic welding industry with a strong market share of ~16% in welding consumables space and ~8% market share in welding equipment space. Approval and certification requirements in project and infra-based requirements form a significant entry barrier for the organized players like AWL, which will further strengthen market share in the coming years. As and when the gradual steps of AWL towards narrowing the product portfolio gap with ESAB bear fruit, we expect the valuation differential between the two companies to contract providing healthy scope for AWL to expand its earnings multiple. With promising prospects, we initiate coverage on AWL with a BUY rating and a target price of INR 1,621 at 22x1HFY27 expected earnings.

Key Highlights and Investment Rationale

- **Strong Play on Capex Upcycle – Welding Consumables to Drive Growth:** Currently, AWL derives ~80% of its revenue from welding consumables segment with products ranging from electrodes, fluxes, flux cored wires to industries like Oil & Gas, Heavy Engineering, Shipbuilding, Power, Sugar, Construction, Railways and Automotive etc. We believe AWL is well-placed to gain from overall infrastructure and manufacturing spending in India led by 'Make in India', 'Aatmanirbhar Bharat' and PLI schemes that will further boost the demand for welding consumables in the long-run.

- **Outlook:** Demand is expected to stay salubrious owing to the solid impetus of the government on revving up the investment cycle. Further, consolidation benefits of merger with Ador Fontech and focused measures to narrow the product portfolio gap vs. ESAB are bound to gradually yield results.

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,768	8,838	10,732	11,160	12,010
Change yoy, %	*17*	*14*	*21*	*4*	*8*
EBITDA	872	899	1,275	1,239	1,396
Change yoy, %	*49*	*3*	*42*	*(3)*	*13*
EBITDA Margin(%)	*11.2*	*10.2*	*11.9*	*11.1*	*11.6*
Adj.PAT	599	632	835	889	1,111
EPS (Rs)	44	46	61	65	82
Change yoy, %	*56.8*	*5.5*	*32.1*	*6.4*	*25.0*
P/E(x)	29.5	28.0	21.2	19.9	15.9
Dividend Yield (%)	1.0	1.3	1.4	1.5	1.6
P/B(x)	5.5	4.9	4.2	3.7	3.1
RoE (%)	19.8	18.4	21.3	19.7	21.2
RoCE (%)	24.6	20.8	24.1	19.9	19.8

Source: IDBI Capital Research, Company

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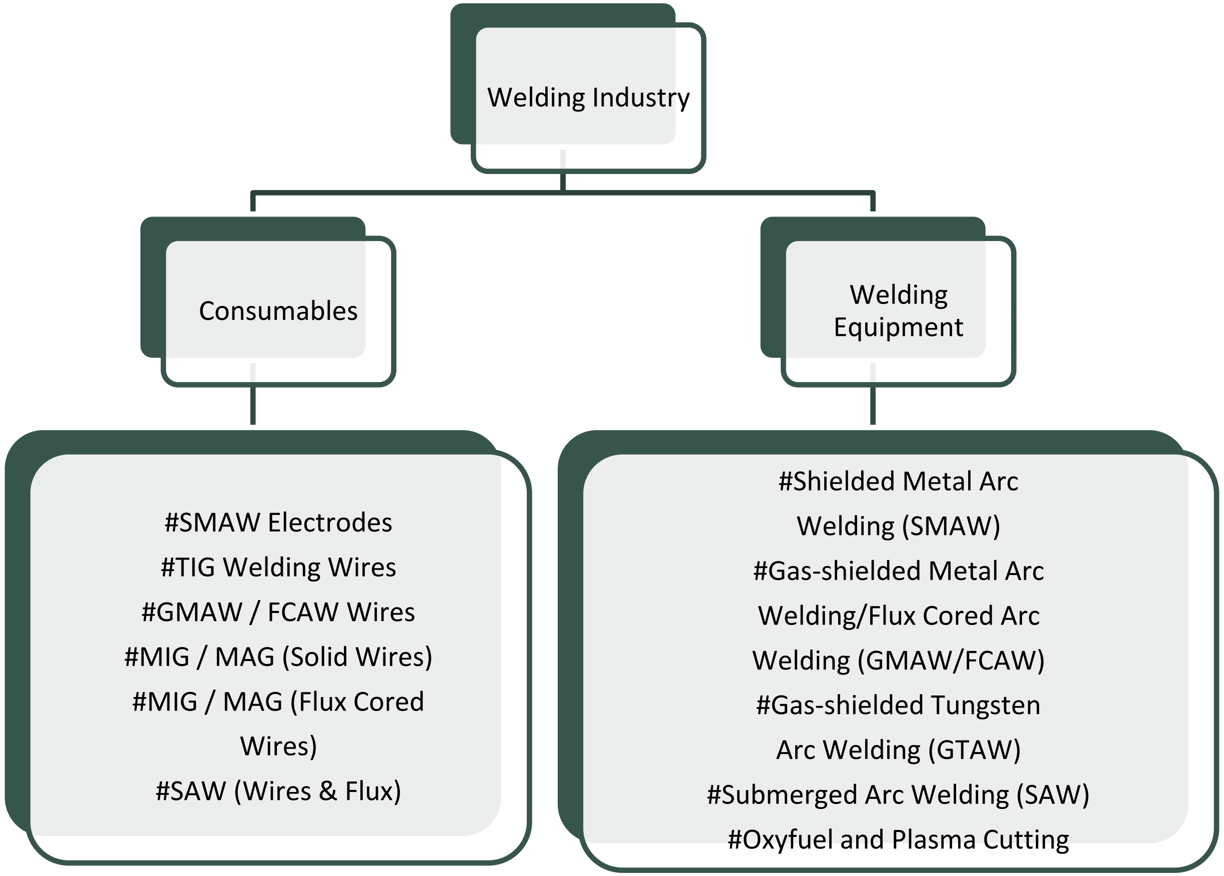
Investment thesis

- **Second Largest Player in Domestic Welding Industry**

Welding is a precise, reliable, cost-effective and high-tech method for joining materials in manufacturing industries. In fact, no other technique is so widely used by manufacturers in India to join metals and alloys efficiently in order to add value to their products. Most familiar objects in modern society, right from buildings and bridges to vehicles and medical devices, could not be made without the use of welding. AWL is the second largest player in domestic welding industry with a strong ~16% and ~8% market share in welding consumables and equipment space, respectively. Dedicated efforts to drive Indian manufacturing and domestic capex cycle bodes positively for AWL, as it directly serves a host of manufacturing-led industries i.e., Automotive, Construction & Infrastructure, Defence, Fertilizer, Energy, Mining, Oil & Gas and Railways etc.

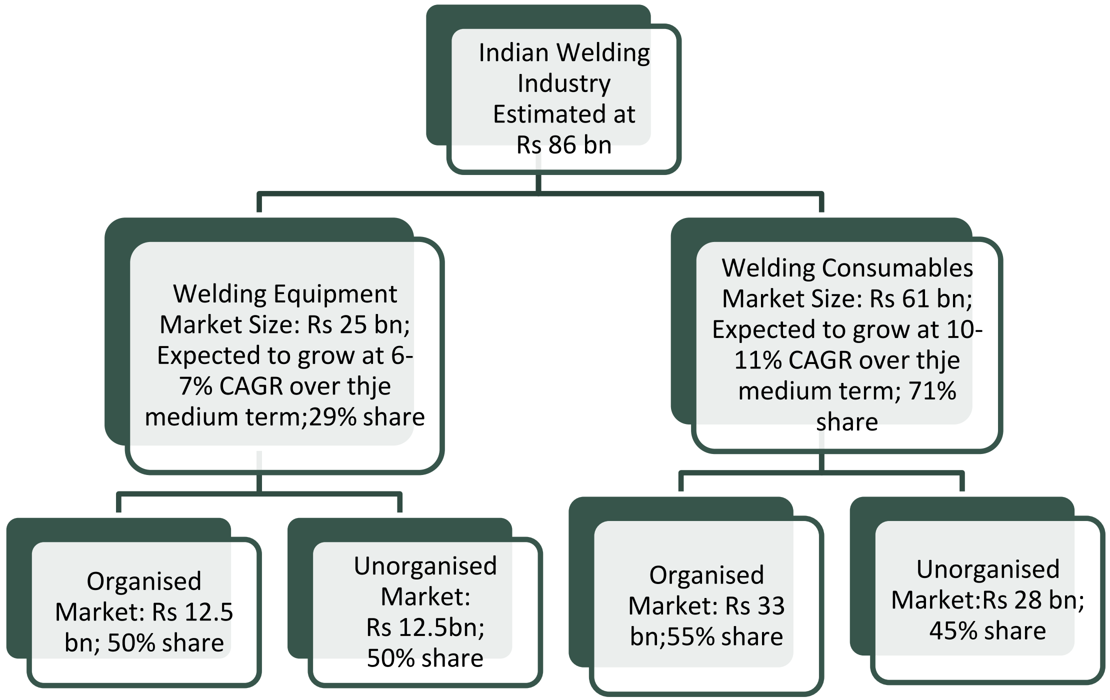
AWL – one of the largest players in domestic consumables market – has been maintaining its market share in 15-16% range despite strong competition from ESAB. However, AWL is likely to strengthen its position with: (1) higher penetration in unorganized markets; (2) new product development; and (3) technology innovation. The organised market for welding consumables is dominated by ESAB India, Ador Welding, EWAC Alloys, D&H Secheron and GEE while the welding equipment market majorly comprises of players such as ESAB India, Ador Welding, Kemppi India, Lincoln Electric, Miraj Electrical and Mechanical Company and ITW India. Further, with the strong impetus of the Government of India (GoI) on fast-tracking capex in the country, we believe the established and well-entrenched players such as AWL would be immensely benefited

Exhibit 1: Constituents of welding industry



Source: IDBI Capital Research

Exhibit 2: Size and structure of welding industry



Source IDBI Capital Research

Steel Sector – Sanguine Medium-term Demand Outlook

AWL provides its products and services to various infrastructure-led industries, which are seeing robust demand momentum. These infra led verticals are also large consumers of steel. Here, we delve into the sectoral outlook for the primary end user industries for AWL and their respective potential growth in the offing. As AWL is mainly a capex-led play, it derives a large chunk of its revenue from general infra and project related spend in India.

Despite short-term disruptions and uncertainty, most industry participants steel sector to witness a healthy growth of 7-8% in medium-to-long-term, led by demand from Roads, Rail, Water, Construction, Energy & Auto. Strong growth in infrastructure will be led by good progress on projects under the National Infrastructure Pipeline (NIP). We expect healthy execution of infrastructure orders post the elections. Most domestic steel players are likely to see strong earnings growth over FY24-FY26E, as major expansion projects would come on stream.

Steel demand is expected to grow by a healthy 6-8% in FY25 with improvement in 2HFY25 led by construction and infrastructure projects. It expects the demand to witness further up-tick to 7-9% in FY26 aided by lower prices and increased governmental push for project execution.

Building and construction (B&C): The B&C segment accounts for 35-40% steel consumption in India. Industry participants were positive on segmental growth prospects citing 1-2bn sqr. ft. of housing space under construction in India's Top-8 cities. Housing alone contributes 70-75% of segmental demand. Within urban centres, a growing share of high-rise buildings, reduction in column size and use of modern construction techniques such as monolithic construction for faster execution would also fuel an increase in steel intensity.

Infrastructure: The infrastructure segment contributes 25-30% to overall steel consumption in India. While 50% of segmental demand comes from Roads & Railways, the rest is contributed by Irrigation, Dams, Water Supply and Sanitation segments. Infrastructure contributed to 6-7% annual growth in steel demand over FY16-FY20 driven by investments in National Highways, Dedicated Freight Corridors (DFC), Railways Electrification and Metro projects.

The industry participants expect growth to pick up to 8-10% CAGR over FY21-FY26E as investments in NIP gather momentum. The industry expects the government to accelerate execution over the next 1.5 years to showcase material progress post the General Elections.

The industry participants estimate 140-180MT of steel demand from NIP alone, with a total allocation of Rs111 trillion over FY20-FY25. The GoI's active pursuit of projects is visible from the rise in number of identified projects from 6,835 at the time of NIP launch to 7,435 in Jun'21 and 9,335 in Jun'22. Within NIP, the participants specifically flagged the progress on government programmes i.e., PM Awas Yojana (housing scheme for urban/rural poor), Bharatmala (centrally-funded roads and highways development project), freight corridors and Jal Jeevan Mission (piped water access for all).

Within infrastructure segment, emerging sub-segment i.e., pre-engineered building (PEB) is expected to drive steel demand. In PEB segment, structures/steel tubular structures can substitute reinforced concrete (RCC) with 30-50% lower construction time apart from metal beam crash barriers and metal roofing etc.

Industry experts are optimistic about long-term growth potential of steel sector, highlighting that India needs to spend US$1.4tn on infrastructure to become a US$5tn economy, which could support long-term steel demand growth.

Domestic steel sector is expected to clock 8.5% CAGR over FY20-FY25, driven by the government's thrust on infrastructure across sectors.

Exhibit 3: Steel Demand Drivers

Sector Name	Share in Steel Demand (%)	FY16-20 CAGR (%)	FY21-26 CAGR (%)	Key Drivers
Engineering & Packaging	20-30	4-5	5.0	Good demand from consumer durables and packaging sectors and expected healthy double-digit growth in consumer durables segment.
Infrastructure	25-30	6-7	8-10	Roads, metro projects, railways, large-scale irrigation projects, especially in the south and west
Automotive	9-10	2-3	9-10	India the second-fastest growing market after China clocking double-digit growth and 19% CAGR in auto components over the past five years
Building & Construction	35-40	3-4	5-6	Affordable housing, kutcha (temporary) to pucca (permanent) house conversions in rural belts, especially in Eastern and Central regions and real estate construction

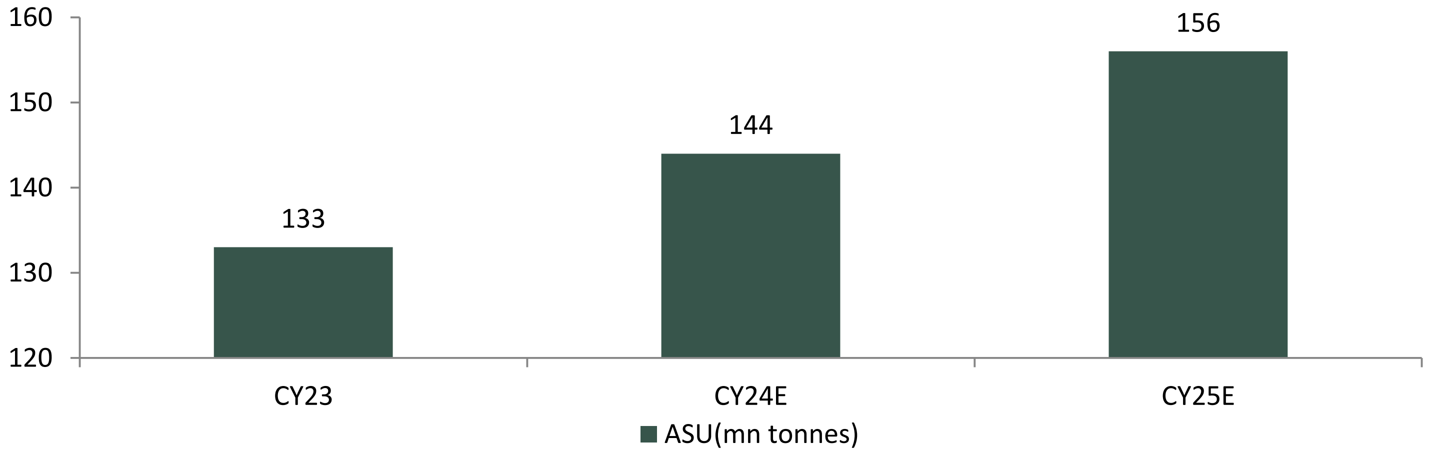
Source IDBI Capital Research

- **Steel demand from India to continue to remain strong as per forecasts from World Steel Association**

  India remains bright spot in the global steel industry benefiting from continuous growth in all steel using sector and especially by construction and infrastructure sector growth driven by government spending as well as recovery in private investment. After growing by 14.8% in CY23, demand is expected to grow by 8.2% each in CY24 and CY25.

  The global economy has faced numerous challenges including pandemic impacts, geopolitical tensions, and inflation, yet it has shown resilience. The construction sector has been negatively affected by the high interest rates and high-cost environment, especially the residential sector. Falling housing sales have led to financial troubles for major Chinese real estate developers, generating concerns about the health of the economy. Emerging regions like India, MENA and ASEAN are anticipated to experience robust growth in steel demand from 2024 to 2025 following a slowdown in previous years.

Exhibit 4: India Steel Demand Forecasts as per World Steel Association



Source IDBI Capital Research

Synergy Benefits Post Ador Fontech Merger & Healthy Exports Potential

AWL is looking to generate manufacturing, distribution and cost synergies through the merger of Ador Fontech. Ador Fontech Ltd. provides reclamation, fusion, surfacing and spraying solutions for industrial components. The company is primarily involved with refurbishment and repair or industrial components which enhance equipment life. With forty years of experience and comprehensive products and services, the organisation provides optimal and efficient solutions to multiple industries in the areas of cement manufacturing, steel, power, mining and defence. Its extensive sales and distribution network allows Ador Fontech to cover the most remote locations in India within the shortest possible time, thereby, making it the preferred partner to improve industrial asset utilization.

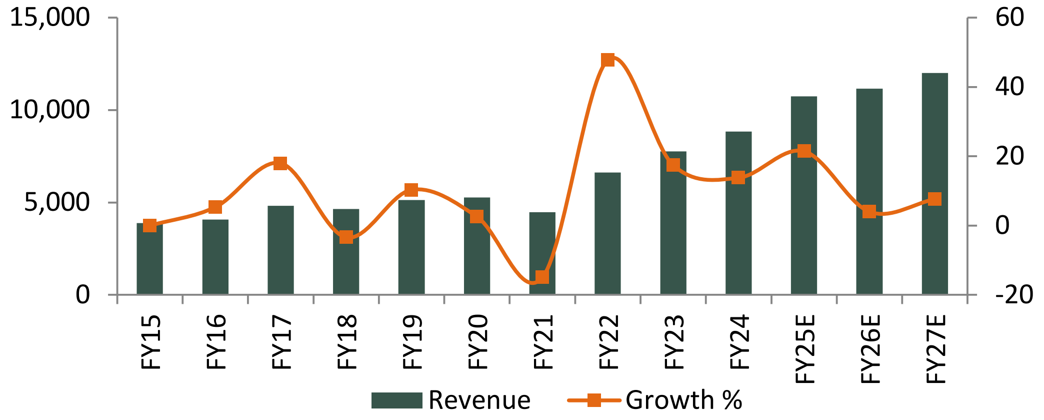
Currently, the exports account for 5% of total revenue and AWL has the potential to augment exports by targeting geographies such as Middle East, Africa and some parts of Europe. AWL looks forward to increase the share of exports to 15-18% in the long-term.

Approval & Certification-based Biz & Thrust on Improving Product-mix Augur Well

Approval & Certification-based Biz: The market share has started tilting towards the organized players post GST roll-out and will further strengthen, as the projects and infra-based requirements will require products with certain specific and stringent quality certifications such as ABS, ANSI and BIS among others. These requirements will drive market share for the organized players such as AWL and will form an entry barrier for the unorganized players.

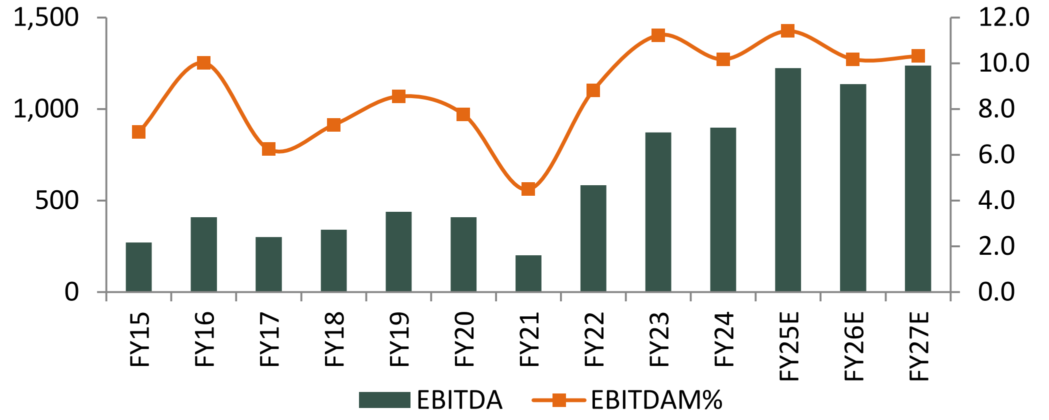
Thrust Improving Product-mix: AWL competes with ESAB in about 80-90% of its products with a portfolio gap of 10-20%, which the company expects to narrow to 7-8% by introducing high-efficiency products, improved operational scale and better input materials. AWL is working on these areas in a calibrated manner to narrow the portfolio gap with ESAB and is also open to looking at liaising with a technological partner.

Exhibit 5: Revenue and Revenue Growth Snapshot (Rs mn)



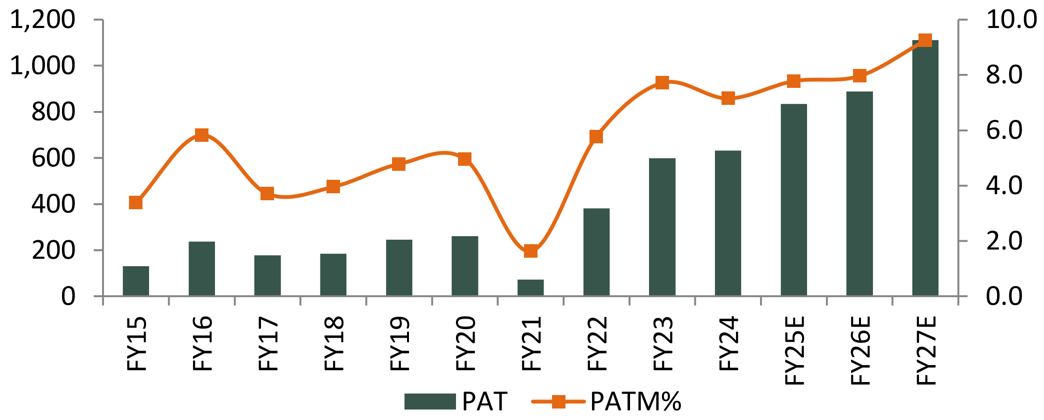
Source : Company, IDBI Capital Research

Exhibit 6: : EBITDA and EBITDA Margin Snapshot(Rs mn)



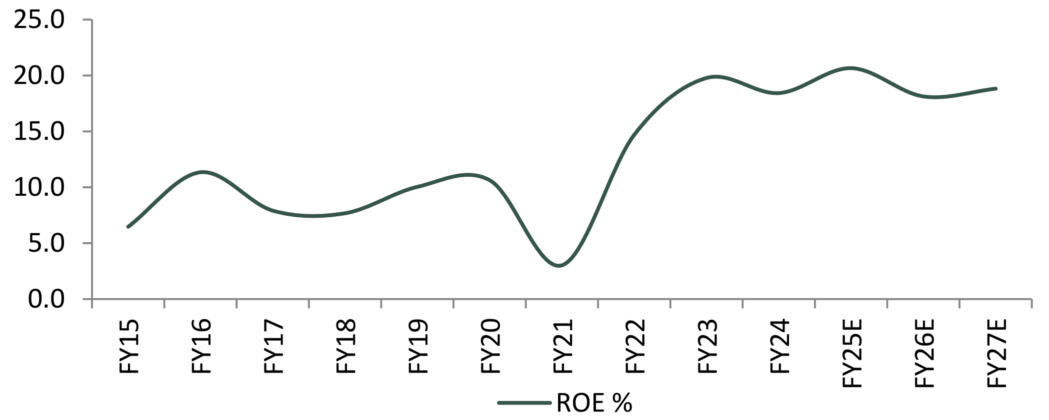
Source : Company, IDBI Capital Research

Exhibit 7: PAT and PAT Growth Snapshot(Rs mn)



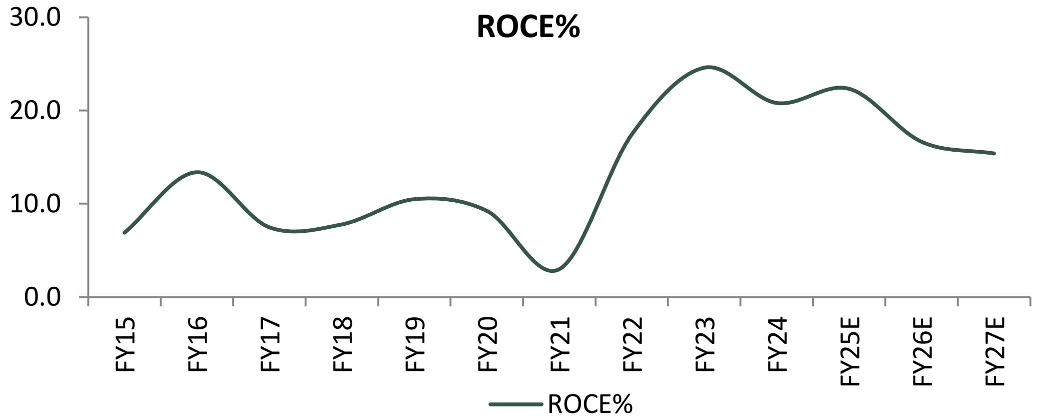
Source : Company, IDBI Capital Research

Exhibit 8: ROE Snapshot



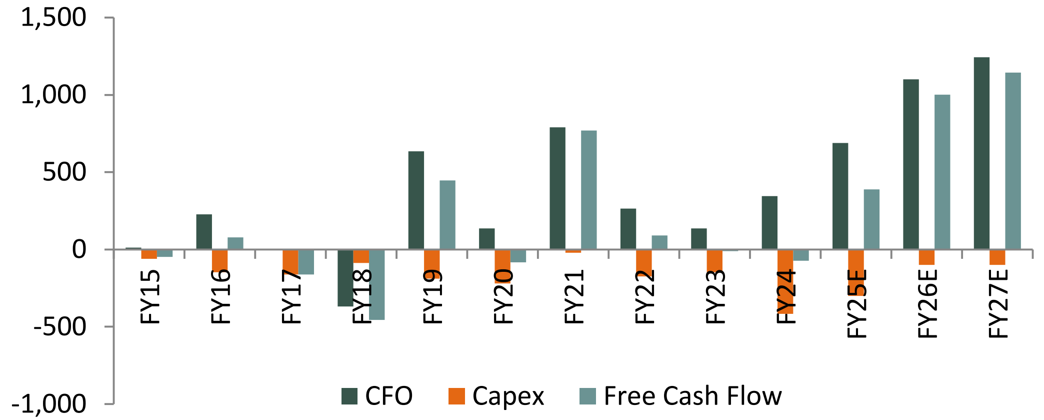
Source : Company, IDBI Capital Research

Exhibit 9: ROCE Snapshot



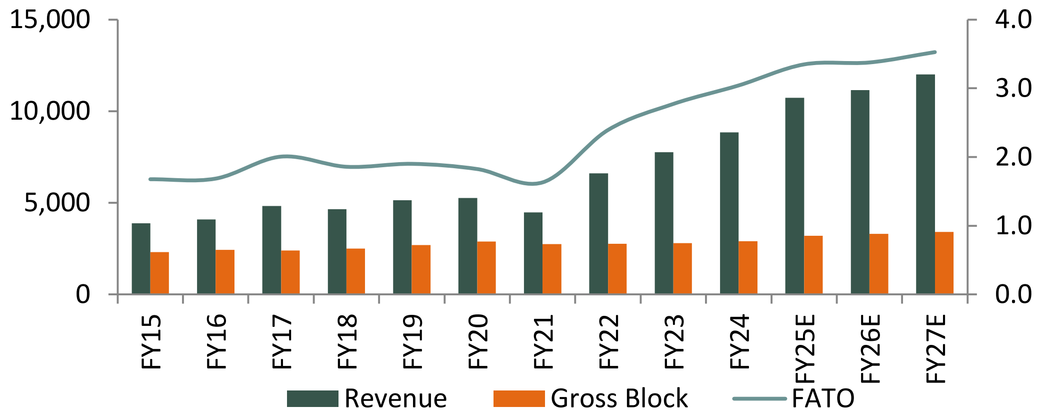
Source : Company, IDBI Capital Research

Exhibit 10: Cash Flow Snapshot(Rs mn)



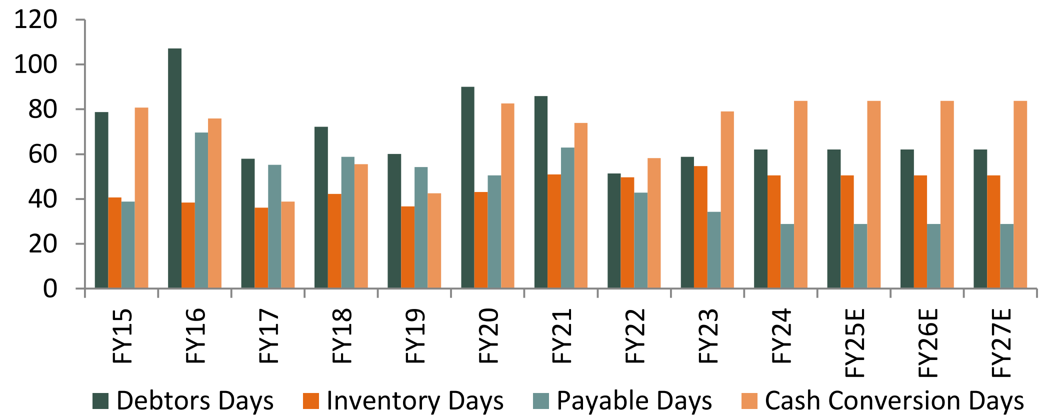
Source : Company, IDBI Capital Research

Exhibit 11: FATO Snapshot(Rs mn)



Source : Company, IDBI Capital Research

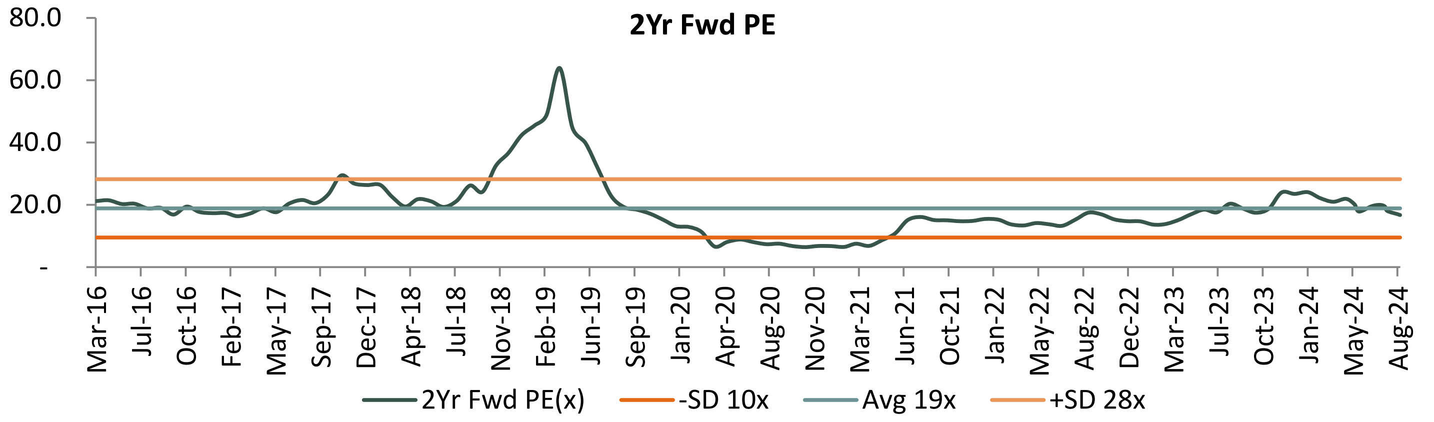
Exhibit 12 : Working Capital Snapshot



Source : Company, IDBI Capital Research

Valuation

Exhibit 13: 2 year forward PE Band



Source IDBI Capital Research

Valuation

Exhibit 14: Comparative financial performance of peers

Valuation Table	Rating	MCap (Rs bn)	CMP (Rs)	TP (Rs)	Up / Down (%)	P/E (x)			EV/EBITDA (x)			ROE (%)		
						FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Ador Welding	BUY	18	1,301	1,621	25	21.2	19.9	15.9	14.3	14.3	12.2	21.3	19.7	21.2
ESAB	NR	92	5,966	-	-	50.3	41.6	34.3	35.8	29.5	24.4	53.2	57.1	60.8

Source: Company, IDBI Capital Research ,Bloomberg

Initiate Coverage with BUY & Target Price of Rs1,621

We believe AWL is bound to be a natural beneficiary of robust domestic capex up-cycle owing to its healthy market share in both welding consumables and equipment space. Further, consolidation benefits of merger with Ador Fontech and focused measures to narrow the product portfolio gap vs. ESAB are bound to gradually yield results.

On comparative basis, ESAB India trades ~2x of TTM multiple of AWL owing to MNC parentage, superior return ratios, better margin and technology benefits owing to the parent. Another pertinent point to note is that ESAB generates a sizeable 6-7% of its revenue from service income, which could be the Indian arm providing engineering/technical services to foreign customers generating a high gross margin of ~50%. ESAB also benefits from its MNC parentage, strong sourcing advantages and technological prowess due to which it has a leadership in the equipment market. As and when the gradual steps of AWL towards narrowing the product portfolio gap with ESAB bear fruit, we expect the valuation differential between the two companies to contract providing healthy scope for AWL to expand its earnings multiple.

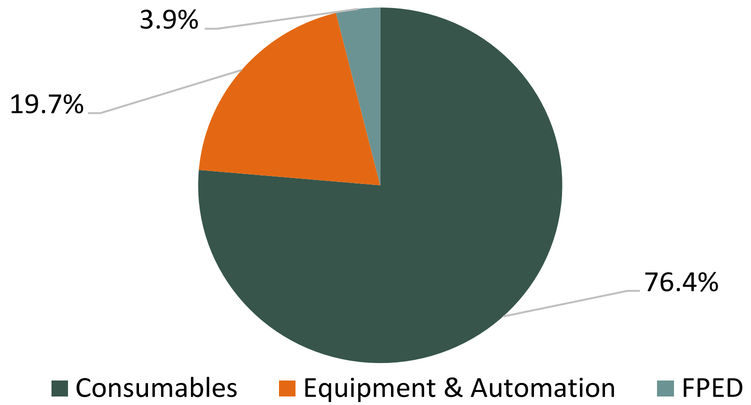
We expect AWL's revenue, EBITDA and PAT to clock growth of 11%, 16% and 21% CAGR, respectively over FY24-FY27E as its revenue growth closely tracks the IIP growth. As the company is a major player in the welding industry, we expect it to grow 4-5 percentage points above the IIP growth for the consumables business and the company on an average has closely tracked this growth over the past decade. We initiate coverage on Ador Welding with BUY and Target Price of Rs1,621 valuing the stock at 22x of 1HFY27 expected earnings, which implies an upside of 25% from the CMP.

Company overview

Ador Welding Ltd. (AWL) – formerly known as Advani Oerlikon Ltd. – was incorporated in October 1951 by JB Advani & Co. and Unaxis (formerly known as Oerlikon-Buhrle group) of Switzerland. It is one of the leading welding companies in India, It has 3 main segments: (a) Welding Consumables, which contribute 76% to its total revenue; (b) Welding equipment which contribute 20% to total revenue; and (c) Flares & Process equipment, which contribute 4% to total revenue. Domestic sales account for 86% of total sales, while exports account for the rest.

AWL – which has 6 manufacturing plants at Bhandup, Chinchwad, Raipur, Chennai, Pimpri and Silvassa – offers a welding package including >200 types of electrodes fluxes flux-cored wires and special customized electrodes.The company has annual installed capacity of 107800 tonne for Arc Welding Electrodes & Continuous Welding Wires and Fluxes. It caters to the steel ship-building defence power automobile general fabrication and engineering industries. The company has 2 Technology Development Centres (TDC) at Bhandup (Mumbai) and Chinchwad (Pune) in Maharashtra.

Exhibit 15: Segmental Revenue Composition



Source Ashika Institutional Research

Key risks

- Paucity of skilled labourers
- Increase in steel prices.
- Prolonged impediments to the capex up-cycle.
- Increasing domestic and international competition.

Profit & Loss Account (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	**6,615**	**7,768**	**8,838**	**10,732**	**11,160**	**12,010**
Change (yoy, %)	*48*	*17*	*14*	*21*	*4*	*8*
Operating expenses	(6,031)	(6,896)	(7,939)	(9,458)	(9,921)	(10,614)
EBITDA	**584**	**872**	**899**	**1,275**	**1,239**	**1,396**
Change (yoy, %)	*190*	*49*	*3*	*42*	*(3)*	*13*
Margin (%)	*8.8*	*11.2*	*10.2*	*11.9*	*11.1*	*11.6*
Depreciation	(109)	(116)	(134)	(215)	(223)	(240)
EBIT	**475**	**756**	**765**	**1,060**	**1,015**	**1,156**
Interest paid	(37)	(24)	(40)	(74)	(88)	(88)
Other income	55	67	131	127	257	413
Pre-tax profit	**582**	**791**	**855**	**1,113**	**1,185**	**1,481**
Tax	(131)	(198)	(224)	(278)	(296)	(370)
Effective tax rate (%)	*22.4*	*25.1*	*26.1*	*25.0*	*25.0*	*25.0*
Minority Interest	-	-	-	-	-	-
Net profit	**431**	**595**	**632**	**835**	**889**	**1,111**
Exceptional items	90	(8)	-	-	-	-
Adjusted net profit	**382**	**599**	**632**	**835**	**889**	**1,111**
Change (yoy, %)	*422*	*57*	*6*	*32*	*6*	*25*
EPS	28.1	44.0	46.5	61.4	65.3	81.7
Dividend per sh	-	12.5	17.5	18.4	19.3	20.3
Dividend Payout %	-	*28.4*	*38*	*30*	*30*	*25*

Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	**2,821**	**3,235**	**3,624**	**4,209**	**4,835**	**5,670**
Share capital	136	136	136	136	136	136
Reserves & surplus	2,685	3,099	3,488	4,073	4,699	5,534
Total Debt	**7**	**159**	**425**	**625**	**625**	**625**
Other liabilities	(27)	(46)	(44)	(44)	(44)	(44)
Curr Liab & prov	**1,101**	**1,123**	**1,157**	**1,307**	**1,341**	**1,408**
Current liabilities	989	996	985	1,135	1,169	1,236
Provisions	112	128	172	172	172	172
Total liabilities	**1,081**	**1,235**	**1,539**	**1,888**	**1,922**	**1,989**
Total equity & liabilities	**3,902**	**4,470**	**5,162**	**6,097**	**6,757**	**7,660**
Net fixed assets	1,125	1,098	1,351	1,436	1,313	1,173
Investments	272	307	341	491	641	791
Other non-curr assets	48	48	71	71	71	71
Current assets	**2,457**	**3,017**	**3,400**	**4,099**	**4,733**	**5,625**
Inventories	900	1,162	1,224	1,486	1,545	1,663
Sundry Debtors	932	1,252	1,505	1,827	1,900	2,044
Cash and Bank	76	69	27	142	643	1,274
Loans and advances	550	534	644	644	644	644
Total assets	**3,902**	**4,470**	**5,162**	**6,097**	**6,757**	**7,660**

Cash Flow Statement (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	582	791	855	1,113	1,185	1,481
Depreciation	109	116	134	215	223	240
Tax paid	(143)	(179)	(261)	(278)	(296)	(370)
Chg in working capital	(218)	(652)	(377)	(435)	(98)	(195)
Other operating activities	(66)	60	(7)	74	88	88
Cash flow from operations (a)	**264**	**137**	**345**	**688**	**1,101**	**1,243**
Capital expenditure	(173)	(148)	(417)	(300)	(100)	(100)
Chg in investments	100	12	10	(150)	(150)	(150)
Other investing activities	19	39	38	-	-	-
Cash flow from investing (b)	**(55)**	**(97)**	**(369)**	**(450)**	**(250)**	**(250)**
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(273)	152	259	200	-	-
Dividend (incl. tax)	-	(170)	(238)	(250)	(262)	(276)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(41)	(28)	(38)	(74)	(88)	(88)
Cash flow from financing (c)	**(314)**	**(47)**	**(17)**	**(123)**	**(350)**	**(363)**
Net chg in cash (a+b+c)	**(104)**	**(7)**	**(41)**	**115**	**501**	**630**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	207	238	266	309	356	417
Adj EPS (Rs)	*28.1*	*44.0*	*46.5*	*61.4*	*65.3*	*81.7*
Adj EPS growth (%)	*422*	*57*	*6*	*32*	*6*	*25*
EBITDA margin (%)	*8.8*	*11.2*	*10.2*	*11.9*	*11.1*	*11.6*
Pre-tax margin (%)	*8.8*	*10.2*	*9.7*	*10.4*	*10.6*	*12.3*
Net Debt/Equity (x)	*0.0*	*0.0*	*0.1*	*0.1*	*0.0*	*-0.1*
ROCE (%)	*17*	*25*	*21*	*24*	*20*	*20*
ROE (%)	*15*	*20*	*18*	*21*	*20*	*21*
DuPont Analysis						
Asset turnover (x)	1.7	1.9	1.8	1.9	1.7	1.7
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.4
Net margin (%)	*5.8*	*7.7*	*7.1*	*7.8*	*8.0*	*9.3*
Working Capital & Liquidity ratio						
Inventory days	50	55	51	51	51	51
Receivable days	51	59	62	62	62	62
Payable days	47	39	32	33	32	33

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	46.3	29.5	28.0	21.2	19.9	15.9
Price/Book value (x)	6.3	5.5	4.9	4.2	3.7	3.1
EV/Net sales (x)	2.7	2.3	2.0	1.7	1.6	1.4
EV/EBITDA (x)	30.2	20.4	20.1	14.3	14.3	12.2
Dividend Yield (%)	*0.0*	*1.0*	*1.3*	*1.4*	*1.5*	*1.6*

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

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

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