

BUY
 TP: Rs 3,500 | ▲ 20%

AIA ENGINEERING

| Capital Goods

| 25 May 2023

Robust performance

- Q4 EBITDA margin expands to 24.8% on a better revenue mix; stronger margin coupled with higher other income aids a beat on PAT
- FY24 volume growth guidance at ~10% with a 20-22% margin; freight cost headwinds have abated
- FY24/FY25 EPS estimates raised 9%/12% to bake in guidance; TP revised to Rs 3,500 (vs. Rs 3,300) post rollover – retain BUY

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Strong performance: AIAE’s Q4FY23 revenue grew 16% YoY to Rs 12.7bn backed by volume/realisation growth of 1%/15% YoY. EBITDA margin swelled 410bps YoY to 24.8% due to a favourable product mix and a Rs 153mn forex gain. Management expects a 20-22% margin for FY24. PAT increased 38% YoY in Q4 to Rs 2.7bn vs. Rs 2.3bn estimated.

FY24 volume growth guided at 10%: At 291,000mt, AIAE nearly met its FY23 sales volume guidance of 295,000mt, and maintained its earlier forecast of achieving incremental volumes of 30,000mt for FY24, totaling to ~320,000mt. This is expected to be underpinned by a mix of new and existing customers.

Improving tailwinds: AIAE indicated that core industries remain strong and that it does not anticipate any major macroeconomic challenges for its customers in the mining, cement and utilities verticals over the next 12 months. Australia, North America, LATAM and CIS nations remain key geographies for the company. AIAE’s strategy is to serve as a complete solution provider for grinding media and mill liners. On the cost side, management stated that freight-related challenges post Covid have abated and the company is now able to pass on freight cost to customers.

Controlled capex to augment growth: To capitalise on the mining industry’s conversion trend from forged media to high chrome mill internals, AIAE plans to expand capacity from 440,000mt to 520,000mt by FY24, through brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 25bn) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE above 15%.

Retain BUY: We upgrade our FY24/FY25 EPS estimates by 9%/12% to incorporate the FY23 numbers, and also roll forward to Mar’25E valuations, translating to a revised TP of Rs 3,500 (from Rs 3,300). Our target is set at an unchanged 30x P/E multiple – a 25% premium to the stock’s 5Y average. We retain BUY as we remain positive on AIAE’s structural growth story.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	AIAE IN/Rs 2,910
Market cap	US\$ 3.3bn
Free float	42%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 2,988/Rs 1,902
Promoter/FPI/DII	59%/18%/21%

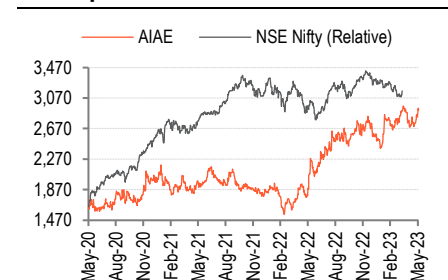
Source: NSE | Price as of 25 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	49,088	54,606	56,422
EBITDA (Rs mn)	12,406	12,800	13,114
Adj. net profit (Rs mn)	10,559	10,680	10,976
Adj. EPS (Rs)	112.0	113.2	116.4
Consensus EPS (Rs)	112.0	104.5	114.8
Adj. ROAE (%)	20.2	17.6	16.1
Adj. P/E (x)	26.0	25.7	25.0
EV/EBITDA (x)	22.1	21.1	20.5
Adj. EPS growth (%)	70.4	1.1	2.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

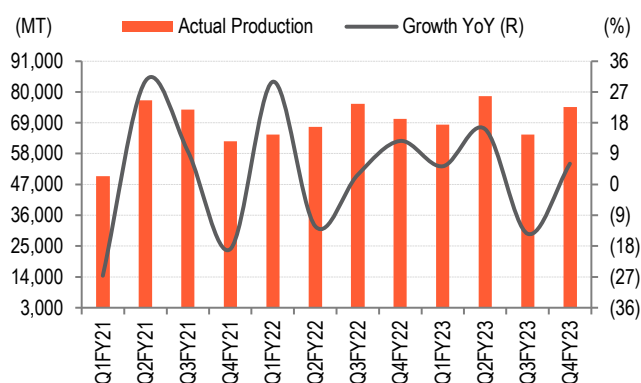
Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	12,736	10,933	16.5	12,269	3.8	49,088	35,665	37.6
EBITDA	3,157	2,259	39.8	3,657	(13.7)	12,406	7,209	72.1
EBITDAM (%)	24.8	20.7	410bps	29.8	(500bps)	25.3	20.2	510bps
Depreciation	232	213	9.2	244	(4.9)	930	921	1.0
Interest	99	(2)	NM*	52	88.7	201	39	422.1
Other Income	638	387	64.7	1,180	(45.9)	2,345	1,563	50.1
PBT	3,464	2,436	42.2	4,540	(23.7)	13,620	7,813	74.3
Tax	788	496	58.9	1,015	(22.4)	3,055	1,617	89.0
Adjusted PAT	2,682	1,946	37.8	3,525	(23.9)	10,559	6,196	70.4
Exceptional item	0	0	-	0	-	0	0	-
Reported PAT	2,682	1,946	37.8	3,525	(23.9)	10,559	6,196	70.4
Adj. PATM (%)	21.1	17.8	326bps	28.7	(767bps)	21.5	17.4	414bps
EPS (Rs)	28.4	20.6	38	37.4	(24.1)	112.0	65.7	70.4

Source: Company, BOBCAPS Research; * Not Meaningful

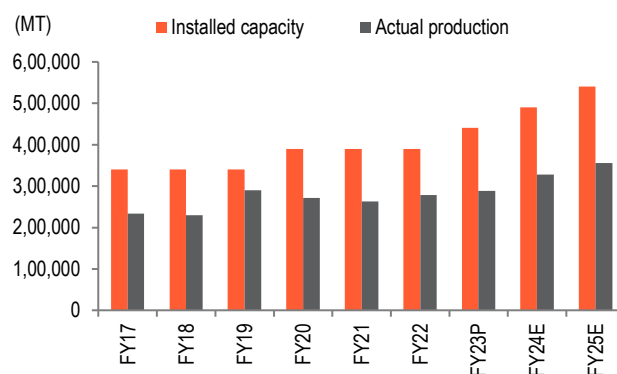
Fig 2 – Actuals vs. Estimates

Particulars (Rs mn)	Actuals	Estimates	Variance (%)
Revenue	12,736	12,232	4.1
EBITDA	3,157	2,933	7.7
EBITDA Margin (%)	24.8	24.0	0.8
Adj. PAT	2,682	2,306	16.3

Source: Company, BOBCAPS Research

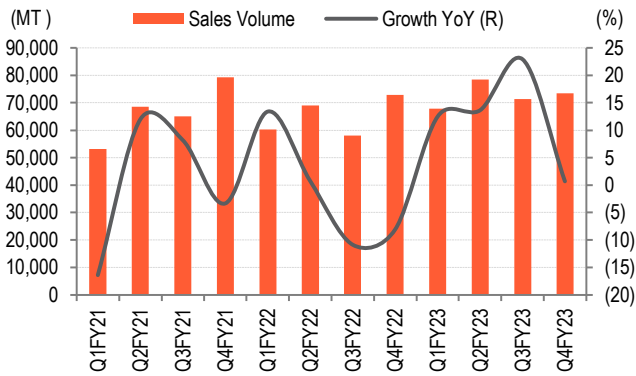
Fig 3 – Quarterly production volume trend

Source: Company, BOBCAPS Research

Fig 4 – Annual production volume trend

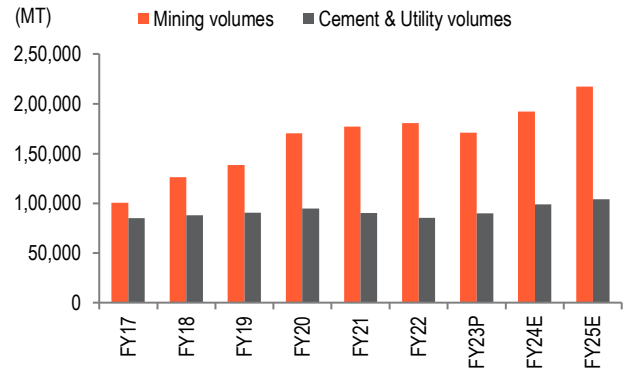
Source: Company, BOBCAPS Research

Fig 5 – Quarterly sales volume trend



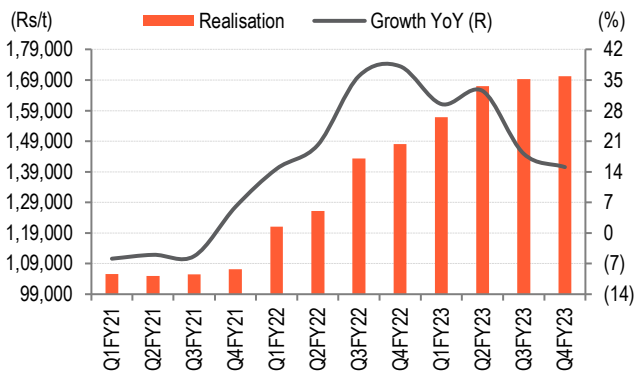
Source: Company, BOBCAPS Research

Fig 6 – Annual sales volume trend



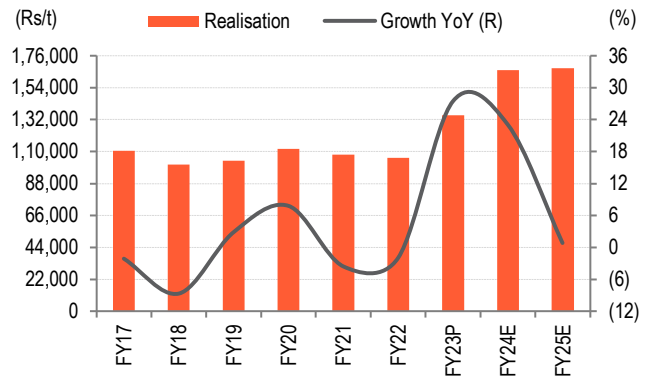
Source: Company, BOBCAPS Research

Fig 7 – Quarterly realisation trend



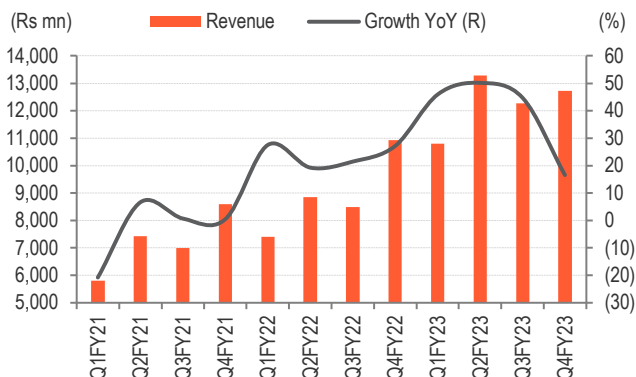
Source: Company, BOBCAPS Research

Fig 8 – Annual realisation trend



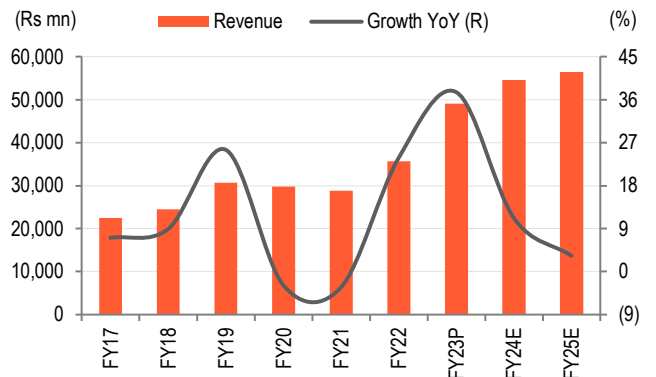
Source: Company, BOBCAPS Research

Fig 9 – Quarterly revenue trend



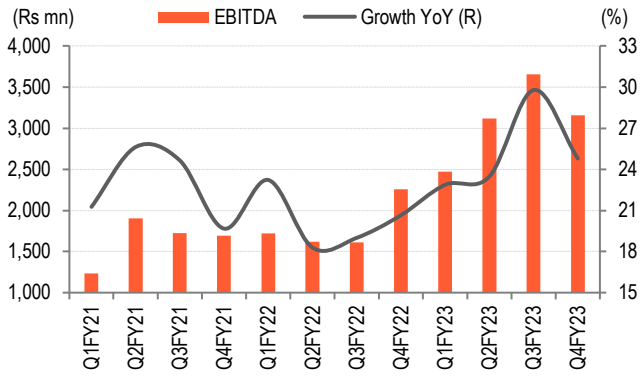
Source: Company, BOBCAPS Research

Fig 10 – Annual revenue trend



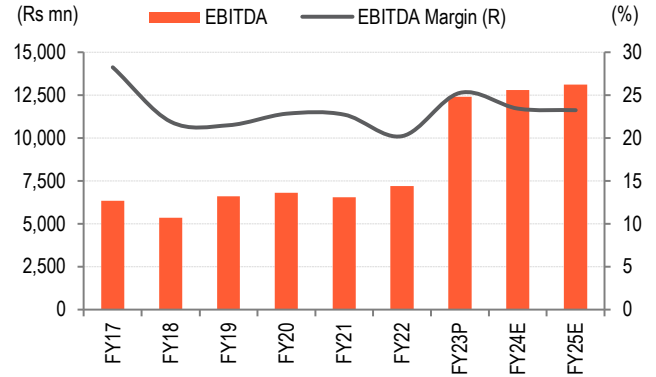
Source: Company, BOBCAPS Research

Fig 11 – Quarterly EBITDA trend



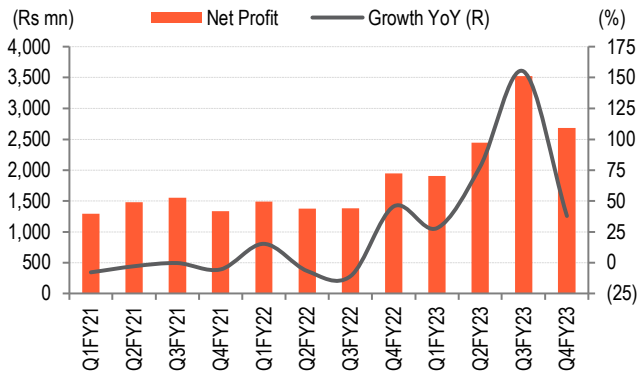
Source: Company, BOBCAPS Research

Fig 12 – Annual EBITDA trend



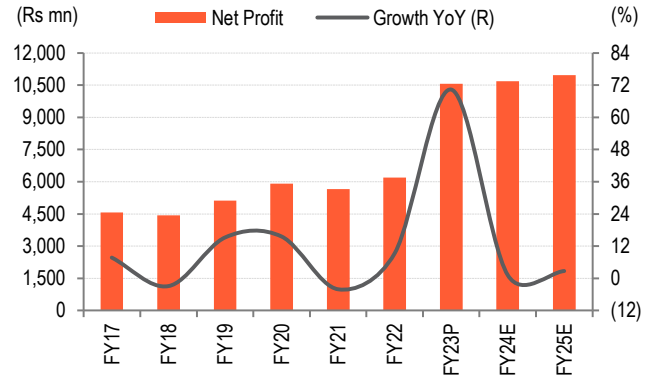
Source: Company, BOBCAPS Research

Fig 13 – Quarterly adj. PAT trend



Source: Company, BOBCAPS Research

Fig 14 – Annual adj. PAT trend



Source: Company, BOBCAPS Research

Valuation methodology

AIAE's strategy is to serve as a complete solution provider for grinding media and mill liners. The company has indicated that core industries remain strong and that it does not anticipate any major macroeconomic challenges for its customers in the mining, cement and utilities verticals over the next 12 months.

To capitalise on the mining industry's conversion trend from forged media to high chrome mill internals, AIAE plans to expand capacity from 440,000mt to 520,000mt by FY24, through brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 25bn) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE above 15%.

We upgrade our FY24/FY25 EPS estimates by 9%/12% to incorporate the FY23 numbers, and also roll forward to Mar'25E valuations, translating to a revised TP of Rs 3,500 (from Rs 3,300). Our target is set at an unchanged 30x P/E multiple – a 25% premium to the stock's five-year average. We retain BUY as we remain positive on AIAE's structural growth story.

Fig 15 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	54,606	56,422	51,725	50,180	5.6	12.4
EBITDA	12,800	13,114	11,777	11,710	8.7	12.0
PAT	10,680	10,976	9,804	9,797	8.9	12.0
EPS	113.2	116.4	103.9	103.9	8.9	12.0
EBITDA Margin (%)	23.4	23.2	22.8	23.3	70bps	(10bps)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued protectionist measures leading to anti-dumping duties, and
- a slowdown in mining capex.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.2	3,942	3,700	HOLD
AIA Engineering	AIAE IN	3.3	2,910	3,500	BUY
Cummins India	KKC IN	5.6	1,650	2,000	BUY
Hitachi Energy	POWERIND IN	2.0	3,796	4,400	BUY
KEC International	KECI IN	1.6	523	500	HOLD
Larsen & Toubro	LT IN	37.7	2,205	2,630	BUY
Siemens India	SIEM IN	15.1	3,487	3,700	HOLD
Thermax	TMX IN	3.3	2,269	2,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 25 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	28,815	35,665	49,088	54,606	56,422
EBITDA	6,552	7,209	12,406	12,800	13,114
Depreciation	935	921	930	1,096	1,265
EBIT	5,617	6,288	11,476	11,703	11,849
Net interest inc./(exp.)	43	39	201	120	140
Other inc./(exp.)	1,722	1,563	2,345	2,697	2,967
Exceptional items	0	0	0	0	0
EBT	7,296	7,813	13,620	14,280	14,676
Income taxes	1,639	1,617	3,055	3,594	3,694
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	0	(6)	(6)	(6)
Reported net profit	5,661	6,196	10,559	10,680	10,976
Adjustments	0	0	0	0	0
Adjusted net profit	5,661	6,196	10,559	10,680	10,976

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	1,658	1,967	2,614	2,992	3,092
Other current liabilities	943	1,057	1,176	2,244	2,319
Provisions	0	0	0	0	0
Debt funds	1,845	28	4,960	5,518	5,701
Other liabilities	693	654	649	717	744
Equity capital	189	189	189	189	189
Reserves & surplus	42,255	47,361	56,725	64,201	71,884
Shareholders' fund	42,443	47,550	56,913	64,389	72,073
Total liab. and equities	47,582	51,256	66,312	75,861	83,928
Cash and cash eq.	19,468	15,610	30,595	32,139	39,414
Accounts receivables	6,410	8,001	8,608	11,968	12,366
Inventories	7,548	12,260	12,180	13,465	13,912
Other current assets	1,191	1,395	1,741	2,843	2,937
Investments	2,572	5	8	9	9
Net fixed assets	8,114	8,000	10,027	11,931	11,666
CWIP	1,609	2,102	1,074	1,195	1,235
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	669	3,882	2,077	2,311	2,388
Total assets	47,582	51,256	66,312	75,861	83,928

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	5,985	(392)	8,677	7,483	11,481
Capital expenditures	(1,231)	(1,253)	(1,924)	(3,000)	(1,000)
Change in investments	(2,572)	1,490	(10,746)	(122)	(40)
Other investing cash flows	289	762	587	(171)	(56)
Cash flow from investing	(3,513)	999	(12,083)	(3,292)	(1,096)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	755	(1,816)	4,932	558	183
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(90)	(859)	(982)	(3,204)	(3,293)
Cash flow from financing	665	(2,676)	3,950	(2,647)	(3,109)
Chg in cash & cash eq.	3,137	(2,069)	544	1,544	7,275
Closing cash & cash eq.	19,468	15,610	30,595	32,139	39,414

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	60.0	65.7	112.0	113.2	116.4
Adjusted EPS	60.0	65.7	112.0	113.2	116.4
Dividend per share	9.0	9.0	16.0	34.0	34.9
Book value per share	450.0	504.1	603.4	682.7	764.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	9.5	7.6	5.6	4.9	4.8
EV/EBITDA	41.7	37.8	22.1	21.1	20.5
Adjusted P/E	48.5	44.3	26.0	25.7	25.0
P/BV	6.5	5.8	4.8	4.3	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	77.6	79.3	77.5	74.8	74.8
Interest burden (PBT/EBIT)	129.9	124.2	118.7	122.0	123.9
EBIT margin (EBIT/Revenue)	19.5	17.6	23.4	21.4	21.0
Asset turnover (Rev./Avg TA)	64.6	72.2	83.5	76.8	70.6
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.2	1.2
Adjusted ROAE	14.2	13.8	20.2	17.6	16.1

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(3.3)	23.8	37.6	11.2	3.3
EBITDA	(3.7)	10.0	72.1	3.2	2.5
Adjusted EPS	(4.1)	9.4	70.4	1.1	2.8
Profitability & Return ratios (%)					
EBITDA margin	22.7	20.2	25.3	23.4	23.2
EBIT margin	19.5	17.6	23.4	21.4	21.0
Adjusted profit margin	19.6	17.4	21.5	19.6	19.5
Adjusted ROAE	14.2	13.8	20.2	17.6	16.1
ROCE	13.0	13.0	19.9	18.0	16.3
Working capital days (days)					
Receivables	81	82	64	80	80
Inventory	96	125	91	90	90
Payables	21	20	19	20	20
Ratios (x)					
Gross asset turnover	1.8	2.2	2.7	2.6	2.4
Current ratio	7.8	12.3	6.1	5.6	6.2
Net interest coverage ratio	130.8	163.3	57.1	97.5	84.6
Adjusted debt/equity	0.0	0.0	0.0	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

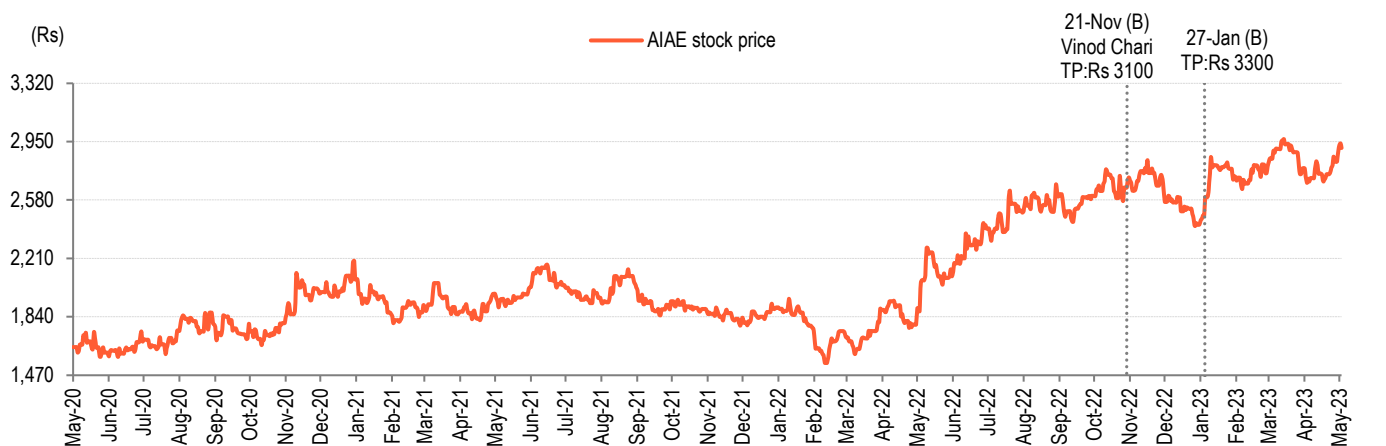
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AIA ENGINEERING (AIAE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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