

**BUY**

TP: Rs 4,000 | ▲ 15%

**AIA ENGINEERING**

| Capital Goods

| 02 August 2023

**Strong quarter, guidance maintained.**

- All-round beat with Q1 topline up 15% YoY, EBITDA margin expansion of 480bps and PAT up 43%
- FY24 volume growth guidance retained at 30,000mt; margin outlook intact at 22-24%
- FY24/FY25 EPS estimates raised 10%/11% to factor in the Q1 beat; TP revised to Rs 4,000 (vs Rs 3,500) post rollover – maintain BUY

**Strong performance:** AIAE’s Q1FY24 revenue grew 15% YoY to Rs 12.4bn backed by volume/realisation growth of 9%/5% YoY. EBITDA margin swelled 480bps YoY to 27.7% due to a favourable product mix, supporting a 43% YoY rise in PAT to Rs 2.7bn. The order book stood at Rs 6.6bn as at the quarter-end.

**Guidance maintained:** The company achieved production volumes of 288,000mn tonnes in FY23 and maintained its earlier forecast of incremental volumes of 30,000mt for FY24, totalling to ~320,000mt. This is expected to be underpinned by a mix of new and existing customers. Management continues to guide for a 22-24% EBITDA margin for FY24.

**Improving tailwinds:** AIAE indicated a strong outlook and does not anticipate 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 it is now able to pass on freight cost to customers.

**Capex to spur growth:** To capitalise on the conversion trend from forged media to high chrome mill internals in the mining industry, 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 as of FY23) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE above 15%.

**Retain BUY:** We scale up our FY24/FY25 EPS estimates by 10%/11% to incorporate the Q1 numbers and roll valuations forward to Jun’25E, translating to a revised TP of Rs 4,000 (from Rs 3,500). Our target price 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.

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**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	AIAE IN/Rs 3,465
Market cap	US\$ 4.0bn
Free float	42%
3M ADV	US\$ 3.8mn
52wk high/low	Rs 3,618/Rs 2,358
Promoter/FPI/DII	59%/18%/21%

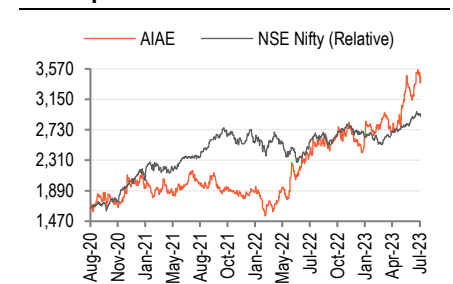
Source: NSE | Price as of 2 Aug 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	49,088	55,246	57,099
EBITDA (Rs mn)	12,406	14,261	14,713
Adj. net profit (Rs mn)	10,559	11,774	12,173
Adj. EPS (Rs)	112.0	124.8	129.1
Consensus EPS (Rs)	112.0	104.5	114.8
Adj. ROAE (%)	20.2	19.3	17.5
Adj. P/E (x)	30.9	27.8	26.8
EV/EBITDA (x)	26.3	22.6	21.8
Adj. EPS growth (%)	70.4	11.5	3.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE

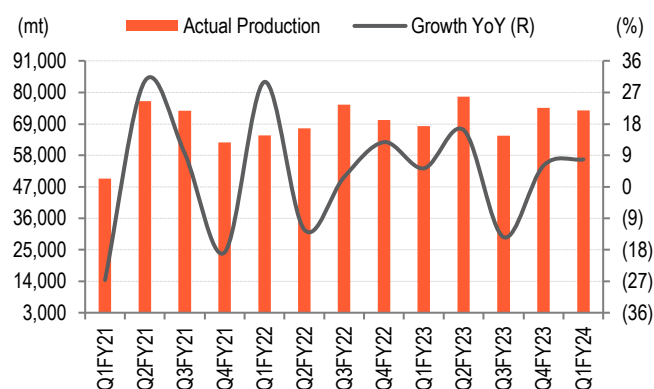


**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	12,396	10,797	14.8	12,736	(2.7)
EBITDA	3,430	2,472	38.8	3,157	8.6
EBITDA margin (%)	27.7	22.9	480bps	24.8	290bps
Depreciation	242	208	16.6	232	4.3
Interest	75	11	585.5	99	(24.2)
Other Income	596	206	188.5	638	(6.7)
PBT	3,708	2,459	50.8	3,464	7.0
Tax	983	545	80.4	788	24.8
Adjusted PAT	2,724	1,905	43.0	2,682	1.6
Exceptional item	0	0	-	0	-
Reported PAT	2,724	1,905	43.0	2,682	1.6
Adj. PAT margin (%)	22.0	17.6	433bps	21.1	91bps
EPS (Rs)	28.9	20.3	42.3	28.4	1.8

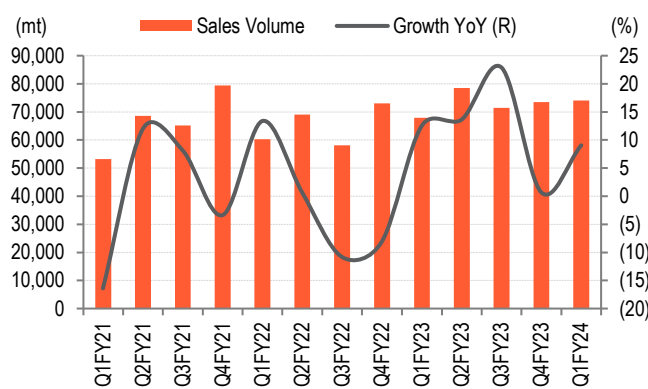
Source: Company, BOBCAPS Research

**Fig 2 – Production volume trend**



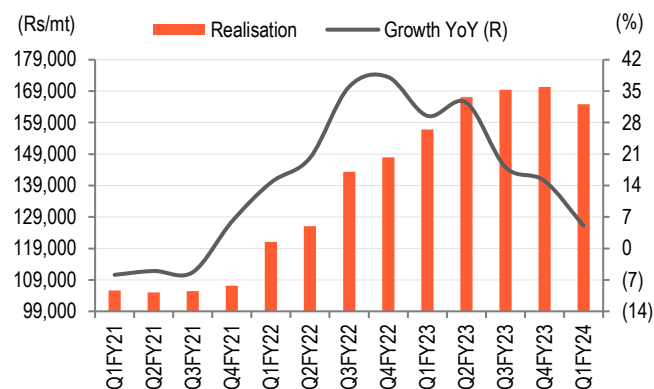
Source: Company, BOBCAPS Research

**Fig 3 – Sales volume trend**



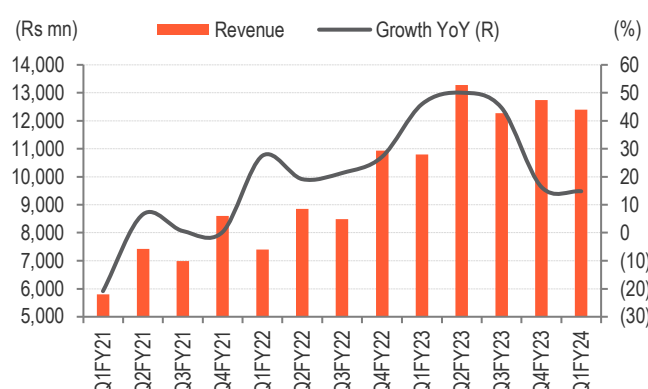
Source: Company, BOBCAPS Research

**Fig 4 – Realisation trend**



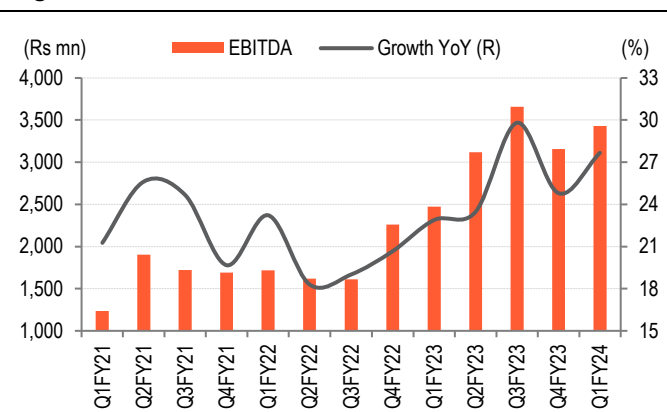
Source: Company, BOBCAPS Research

**Fig 5 – Revenue trend**



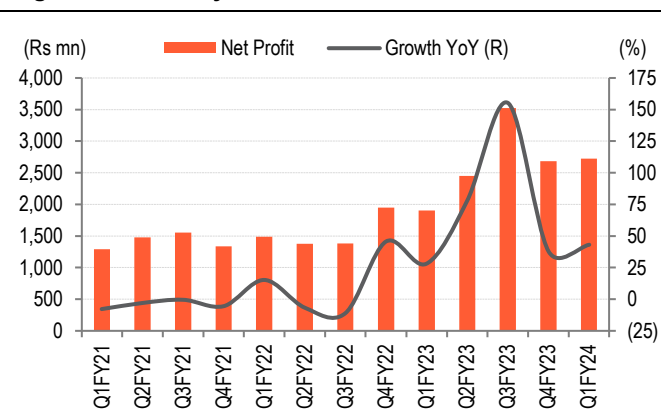
Source: Company, BOBCAPS Research

Fig 6 – EBITDA trend



Source: Company, BOBCAPS Research

Fig 7 – Profitability trend



Source: Company, BOBCAPS Research

## Earnings call highlights

- Volumes:** AIAE expects to increase annual production volumes by 30,000mt in FY24 compared to 288,000mt during FY23. Volumes in the others segment (comprising cement and power) were slower during Q1FY24 but are expected to normalise over the year. Mill liner volumes stood at 9,000mt during the quarter, of which 4,000mt came from the new plant.
- Opportunities:** In the domestic mining space, management sees a 2.5-3mt market opportunity with a high-chrome grinding media opportunity of 1.5-2mt. The opportunity in the cement industry is fairly flattish at 300,000t, entirely for high-chrome use.
- Margins:** The company maintained its EBITDA margin guidance of 22-24% for FY24.
- Latin America:** During and after the Covid-19 pandemic, freight cost was a major concern in the Latin America region, causing friction for AIAE's operations in the region. Freight prices have since come down and the company has been bullish on demand in the region, but there have been no significant developments yet.
- Brazil:** Brazil is set to have a sunset review on anti-dumping duty, which is currently at 11.98%. More details on this are expected by the end of FY24. The company aims to sell 8,000-10,000t in the country this fiscal year.
- Capex:** AIAE plans to incur Rs 5.1bn in capex for both FY25-FY26. Of this, Rs 2bn relates to old restructuring, including that of warehouse space, pattern storage and related infrastructure, old plants, and some debottlenecking, and Rs 2.5bn relates to the manufacturing plant for grinding media which is due to be commissioned next year. The balance 600mn will be spent on captive renewable power generation. The company has incurred Rs 630mn of this capex in Q1.
- Tax:** AIAE expects to have a normalised tax rate of 23% for FY24, compared to 26.5% incurred in Q1.

## 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 client 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 conversion trend from forged media to high chrome mill internals in the mining industry, 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 as of FY23) with negligible leverage and strong free cash flow generation. We believe this will keep ROCE above 15%.

We scale up our FY24/FY25 EPS estimates by 10%/11% to incorporate the Q1FY24 numbers and roll valuations forward to Jun'25E, translating to a revised TP of Rs 4,000 (from Rs 3,500). Our target price 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 8 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	55,246	57,099	54,606	56,422	1.2	1.2
EBITDA	14,261	14,713	12,800	13,114	11.4	12.2
PAT	11,774	12,173	10,680	10,976	10.2	10.9
EPS	124.8	129.1	113.2	116.4	10.2	10.9
EBITDA margin (%)	25.8	25.8	23.4	23.2	240bps	250bps

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	11.4	4,408	3,700	HOLD
AIA Engineering	AIAE IN	4.0	3,465	4,000	BUY
Cummins India	KKC IN	6.4	1,900	2,000	BUY
Hitachi Energy	POWERIND IN	2.1	4,033	4,400	HOLD
KEC International	KECI IN	2.0	634	550	HOLD
Larsen & Toubro	LT IN	44.8	2,622	3,000	BUY
Siemens India	SIEM IN	16.5	3,819	3,700	HOLD
Thermax	TMX IN	3.8	2,602	2,600	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Aug 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>28,815</b>	<b>35,665</b>	<b>49,088</b>	<b>55,246</b>	<b>57,099</b>
EBITDA	6,552	7,209	12,406	14,261	14,713
Depreciation	935	921	930	1,096	1,265
EBIT	5,617	6,288	11,476	13,164	13,448
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	15,742	16,275
Income taxes	1,639	1,617	3,055	3,962	4,096
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4	0	(6)	(6)	(6)
<b>Reported net profit</b>	<b>5,661</b>	<b>6,196</b>	<b>10,559</b>	<b>11,774</b>	<b>12,173</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>5,661</b>	<b>6,196</b>	<b>10,559</b>	<b>11,774</b>	<b>12,173</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	1,658	1,967	2,614	3,027	3,129
Other current liabilities	943	1,057	1,176	2,270	2,347
Provisions	0	0	0	0	0
Debt funds	1,845	28	4,960	5,582	5,769
Other liabilities	693	654	649	725	752
Equity capital	189	189	189	189	189
Reserves & surplus	42,255	47,361	56,725	64,966	73,487
Shareholders' fund	42,443	47,550	56,913	65,155	73,676
<b>Total liab. and equities</b>	<b>47,582</b>	<b>51,256</b>	<b>66,312</b>	<b>76,759</b>	<b>85,672</b>
Cash and cash eq.	19,468	15,610	30,595	32,665	40,764
Accounts receivables	6,410	8,001	8,608	12,109	12,515
Inventories	7,548	12,260	12,180	13,622	14,079
Other current assets	1,191	1,395	1,741	2,876	2,972
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	1,209	1,250
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	669	3,882	2,077	2,338	2,417
<b>Total assets</b>	<b>47,582</b>	<b>51,256</b>	<b>66,312</b>	<b>76,759</b>	<b>85,672</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>5,985</b>	<b>(392)</b>	<b>8,677</b>	<b>8,306</b>	<b>12,662</b>
Capital expenditures	(1,231)	(1,253)	(1,924)	(3,000)	(1,000)
Change in investments	(2,572)	1,490	(10,746)	(136)	(41)
Other investing cash flows	289	762	587	(190)	(57)
<b>Cash flow from investing</b>	<b>(3,513)</b>	<b>999</b>	<b>(12,083)</b>	<b>(3,326)</b>	<b>(1,098)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	755	(1,816)	4,932	622	187
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(90)	(859)	(982)	(3,532)	(3,652)
<b>Cash flow from financing</b>	<b>665</b>	<b>(2,676)</b>	<b>3,950</b>	<b>(2,910)</b>	<b>(3,465)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>3,137</b>	<b>(2,069)</b>	<b>544</b>	<b>2,070</b>	<b>8,099</b>
<b>Closing cash &amp; cash eq.</b>	<b>19,468</b>	<b>15,610</b>	<b>30,595</b>	<b>32,665</b>	<b>40,764</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	60.0	65.7	112.0	124.8	129.1
Adjusted EPS	60.0	65.7	112.0	124.8	129.1
Dividend per share	9.0	9.0	16.0	37.4	38.7
Book value per share	450.0	504.1	603.4	690.8	781.1

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	11.3	9.1	6.7	5.8	5.6
EV/EBITDA	49.7	45.1	26.3	22.6	21.8
Adjusted P/E	57.7	52.7	30.9	27.8	26.8
P/BV	7.7	6.9	5.7	5.0	4.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	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	119.6	121.0
EBIT margin (EBIT/Revenue)	19.5	17.6	23.4	23.8	23.6
Asset turnover (Rev./Avg TA)	64.6	72.2	83.5	77.2	70.3
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.2	1.2
Adjusted ROAE	14.2	13.8	20.2	19.3	17.5

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(3.3)	23.8	37.6	12.5	3.4
EBITDA	(3.7)	10.0	72.1	14.9	3.2
Adjusted EPS	(4.1)	9.4	70.4	11.5	3.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	22.7	20.2	25.3	25.8	25.8
EBIT margin	19.5	17.6	23.4	23.8	23.6
Adjusted profit margin	19.6	17.4	21.5	21.3	21.3
Adjusted ROAE	14.2	13.8	20.2	19.3	17.5
ROCE	13.0	13.0	19.9	20.0	18.1
<b>Working capital days (days)</b>					
Receivables	81	82	64	80	80
Inventory	96	125	91	90	90
Payables	21	20	19	20	20
<b>Ratios (x)</b>					
Gross asset turnover	1.8	2.2	2.7	2.6	2.5
Current ratio	7.8	12.3	6.1	5.6	6.3
Net interest coverage ratio	130.8	163.3	57.1	109.7	96.1
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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**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### 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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