

HOLD
 TP: Rs 4,000 | ▼ 3%

AIA ENGINEERING

Capital Goods

07 February 2024

Soft quarter, volume growth uncertain; cut to HOLD

- Q3 topline and margins contracted due to change in product mix; FY24 volume guidance cut from 310,000t to 300,000t
- Uncertainty over whether volume shortfall will be met in FY25; long-term EBITDA margin target of 20-22% maintained
- Downgrade to HOLD with lower TP of Rs 4,000 (vs. Rs 4,200) as we pare FY25/FY26 EPS by ~6% each on softer volume outlook

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Topline and margins contract: AIAE’s Q3FY24 topline fell 5% YoY to Rs 12bn. Additionally, gross margin and EBITDA margin contracted by 490bps and 320bps YoY respectively to 58.9% and 26.6% due to a change in product mix that saw realisations decline from Rs 165/kg in the year-ago quarter to Rs 154/kg. PAT dropped 21% YoY to Rs 2.8bn

FY24 volume guidance cut yet again: Management now expects volumes of ~300,000t for FY24, down from 310,000t guided earlier on account of delayed order decisions by clients. Thereafter, AIAE is guiding for volume growth of 30,000t per annum but is uncertain whether the shortfall for FY24 will be met in FY25. The company continues to guide for at least 20-22% EBITDA margins over the medium term.

Capex plans on track: AIAE incurred capex of Rs 1.5bn during 9MFY24, with another Rs 500mn expected in Q4. Capex for FY25 is estimated at Rs 1.5bn-2bn. The company has identified capex propositions of Rs 5bn in total, of which Rs 2bn pertains to the grinding media plant (to be commissioned towards the end of FY25), Rs 2bn toward debottlenecking efforts and Rs 1bn towards renewables. AIAE maintains a high net cash balance of Rs 31bn as it remains open to potential acquisition opportunities. Working capital cycle was fairly stable during the quarter.

Red Sea conflict to have marginal impact: Management believes the impact of the Red Sea crisis will push up freight costs in coming quarters but sees only marginal impact on its operations as most of these costs are likely to be passed through to customers.

Cut to HOLD on high valuations, order uncertainty: We cut our FY25/FY26 EPS estimates by ~6% each considering the lower incremental volumes expected in FY25. Following the rollover of valuations to Dec’25E, we arrive at a revised TP of Rs 4,000 (Rs 4,200), wherein we value the stock on an unchanged 30x P/E multiple. Given the ~20% run-up in stock price over the last quarter, we find risk-reward unfavourable and downgrade our rating from BUY to HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	AIAE IN/Rs 4,129
Market cap	US\$ 4.7bn
Free float	42%
3M ADV	US\$ 4.0mn
52wk high/low	Rs 4,630/Rs 2,620
Promoter/FPI/DII	59%/18%/21%

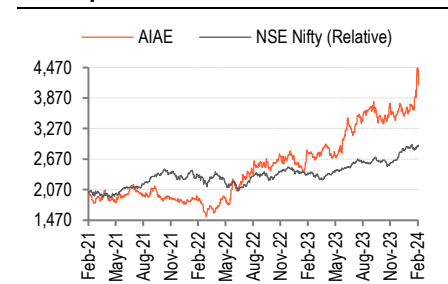
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	49,088	52,304	54,177
EBITDA (Rs mn)	12,406	14,005	14,466
Adj. net profit (Rs mn)	10,559	11,534	11,960
Adj. EPS (Rs)	112.0	122.3	126.8
Consensus EPS (Rs)	112.0	118.8	128.5
Adj. ROAE (%)	20.2	18.7	16.8
Adj. P/E (x)	36.9	33.8	32.6
EV/EBITDA (x)	31.4	27.5	26.6
Adj. EPS growth (%)	70.4	9.2	3.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

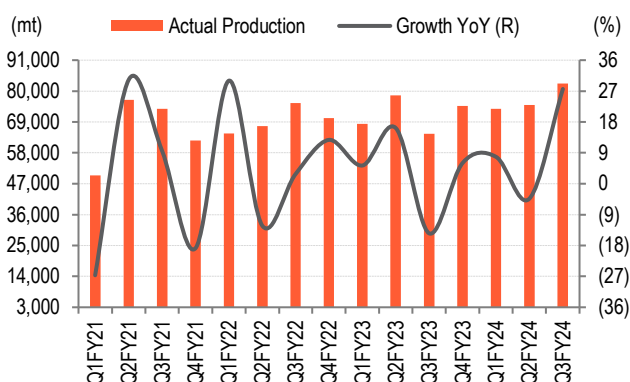


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	11,692	12,269	(4.7)	12,948	(9.7)	37,035	36,352	1.9
EBITDA	3,112	3,657	(14.9)	3,821	(18.6)	10,363	9,249	12.0
EBITDA Margin (%)	26.6	29.8	(320bps)	29.5	(290bps)	28.0	25.4	250bps
Depreciation	270	244	10.4	245	10.1	757	698	8.5
Interest	71	52	34.9	74	(4.6)	220	102	115.4
Other Income	831	1,180	(29.5)	623	33.3	2,050	1,707	20.1
PBT	3,603	4,540	(20.6)	4,125	(12.7)	11,436	10,156	12.6
Tax	811	1,015	(20.1)	884	(8.3)	2,678	2,268	18.1
Adjusted PAT	2,796	3,525	(20.7)	3,231	(13.5)	8,758	7,888	11.0
Exceptional item	0	0		0		0	0	
Reported PAT	2,796	3,525	(20.7)	3,231	(13.5)	8,750	7,877	11.1
Adj. PAT Margin (%)	23.9	28.7	(481.3)	25.0	(103.6)	23.6	21.7	194.7
EPS (Rs)	29.6	37.4	(20.8)	34.4	(13.9)	92.9	283.0	(67.2)

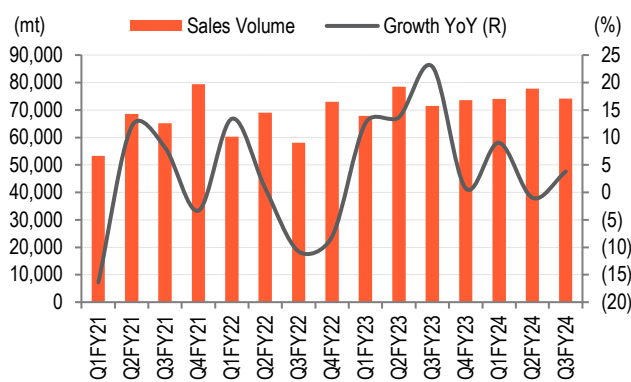
Source: Company, BOBCAPS Research

Fig 2 – Production volumes



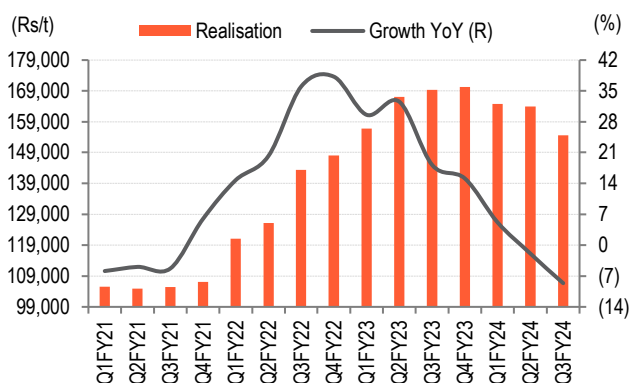
Source: Company, BOBCAPS Research

Fig 3 – Sales volume



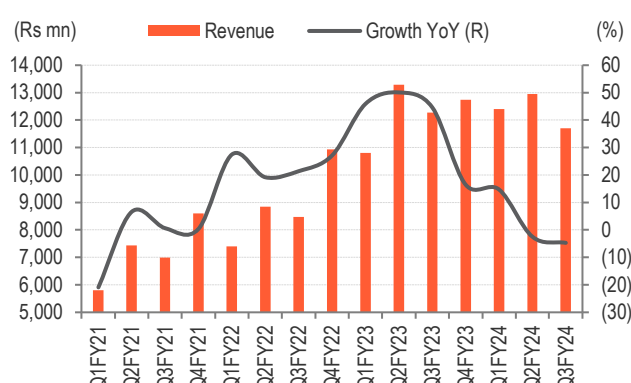
Source: Company, BOBCAPS Research

Fig 4 – Realisations



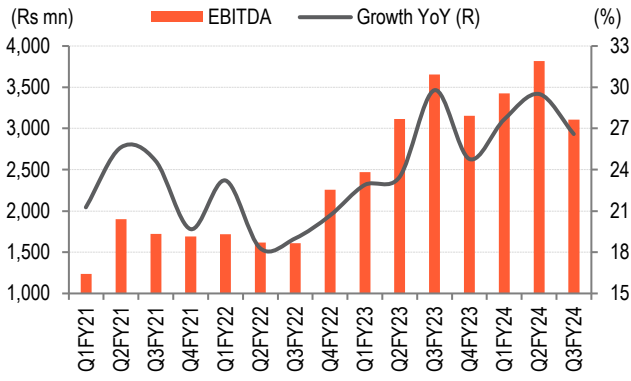
Source: Company, BOBCAPS Research

Fig 5 – Revenue growth



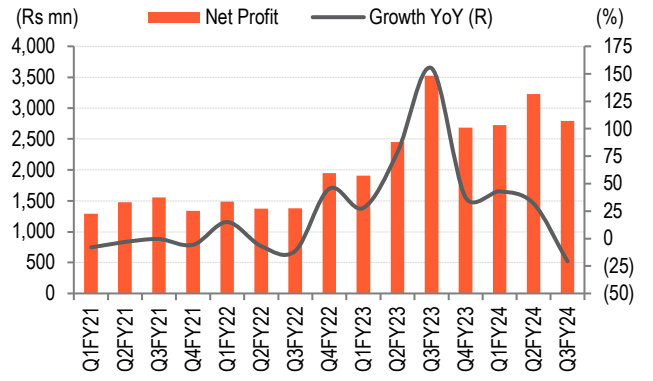
Source: Company, BOBCAPS Research

Fig 6 – EBITDA growth



Source: Company, BOBCAPS Research

Fig 7 – Profit growth



Source: Company, BOBCAPS Research

Valuation methodology

We cut our FY25/FY26 EPS estimates by ~6% each considering the lower incremental volumes expected in FY25. Following the rollover of valuations to Dec'25E, we arrive at a revised TP of Rs 4,000 (Rs 4,200), wherein we value the stock on an unchanged 30x P/E multiple. Given the ~20% run-up in stock price over the last quarter, we find risk-reward unfavourable and downgrade our rating from BUY to HOLD.

Fig 8 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	52,304	54,177	56,282	52,304	57,393	59,729	0.0	(5.6)	(5.8)
EBITDA	14,005	14,466	14,990	14,081	15,511	16,110	(0.5)	(6.7)	(6.9)
PAT	11,534	11,960	12,528	11,639	12,770	13,398	(0.9)	(6.3)	(6.5)
EPS (Rs)	122.3	126.8	132.8	123.4	135.4	142.0	(0.9)	(6.3)	(6.5)
EBITDA Margin (%)	26.8	26.7	26.6	26.9	27.0	27.0	(10bps)	(30bps)	(30bps)

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	11.8	4,575	4,700	HOLD
AIA Engineering	AIAE IN	4.7	4,129	4,000	HOLD
Hitachi Energy	POWERIND IN	3.2	6,253	4,200	SELL
KEC International	KECI IN	2.0	653	700	HOLD
Larsen & Toubro	LT IN	58.0	3,395	4,200	BUY
Thermax	TMX IN	4.8	3,285	3,000	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	35,665	49,088	52,304	54,177	56,282
EBITDA	7,209	12,406	14,005	14,466	14,990
Depreciation	921	930	977	1,127	1,177
EBIT	6,288	11,476	13,029	13,339	13,814
Net interest inc./(exp.)	39	201	305	316	328
Other inc./(exp.)	1,563	2,345	2,697	2,967	3,264
Exceptional items	0	0	0	0	0
EBT	7,813	13,620	15,421	15,991	16,750
Income taxes	1,617	3,055	3,882	4,025	4,216
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(6)	(6)	(6)	(6)
Reported net profit	6,196	10,559	11,534	11,960	12,528
Adjustments	0	0	0	0	0
Adjusted net profit	6,196	10,559	11,534	11,960	12,528

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,967	2,614	2,866	2,969	3,084
Other current liabilities	1,057	1,176	2,149	2,226	2,313
Provisions	0	0	0	0	0
Debt funds	28	4,960	5,285	5,474	5,687
Other liabilities	654	649	691	718	748
Equity capital	189	189	189	189	189
Reserves & surplus	47,361	56,725	66,182	75,990	86,263
Shareholders' fund	47,550	56,913	66,371	76,178	86,451
Total liab. and equities	51,256	66,312	77,363	87,566	98,283
Cash and cash eq.	15,610	30,595	34,861	44,101	53,769
Accounts receivables	8,001	8,608	11,464	11,874	12,336
Inventories	12,260	12,180	12,897	13,359	13,878
Other current assets	1,395	1,741	2,723	2,820	2,930
Investments	5	8	9	9	9
Net fixed assets	8,000	10,027	12,051	11,924	11,748
CWIP	2,102	1,074	1,145	1,186	1,232
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	3,882	2,077	2,214	2,293	2,382
Total assets	51,256	66,312	77,363	87,566	98,283

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	(392)	8,677	9,188	12,302	12,822
Capital expenditures	(1,253)	(1,924)	(3,000)	(1,000)	(1,000)
Change in investments	1,490	(10,746)	(71)	(41)	(46)
Other investing cash flows	762	587	(99)	(58)	(65)
Cash flow from investing	999	(12,083)	(3,170)	(1,099)	(1,112)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,816)	4,932	325	189	213
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(859)	(982)	(2,076)	(2,153)	(2,255)
Cash flow from financing	(2,676)	3,950	(1,751)	(1,964)	(2,042)
Chg in cash & cash eq.	(2,069)	544	4,266	9,239	9,668
Closing cash & cash eq.	15,610	30,595	34,861	44,101	53,769

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	65.7	112.0	122.3	126.8	132.8
Adjusted EPS	65.7	112.0	122.3	126.8	132.8
Dividend per share	9.0	16.0	22.0	22.8	23.9
Book value per share	504.1	603.4	703.7	807.7	916.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	10.9	7.9	7.4	7.1	6.8
EV/EBITDA	53.8	31.4	27.5	26.6	25.6
Adjusted P/E	62.9	36.9	33.8	32.6	31.1
P/BV	8.2	6.8	5.9	5.1	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	79.3	77.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	124.2	118.7	118.4	119.9	121.3
EBIT margin (EBIT/Revenue)	17.6	23.4	24.9	24.6	24.5
Asset turnover (Rev./Avg TA)	72.2	83.5	72.8	65.7	60.6
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.2	1.2	1.1
Adjusted ROAE	13.8	20.2	18.7	16.8	15.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	23.8	37.6	6.6	3.6	3.9
EBITDA	10.0	72.1	12.9	3.3	3.6
Adjusted EPS	9.4	70.4	9.2	3.7	4.7
Profitability & Return ratios (%)					
EBITDA margin	20.2	25.3	26.8	26.7	26.6
EBIT margin	17.6	23.4	24.9	24.6	24.5
Adjusted profit margin	17.4	21.5	22.1	22.1	22.3
Adjusted ROAE	13.8	20.2	18.7	16.8	15.4
ROCE	13.0	19.9	19.4	17.3	15.8
Working capital days (days)					
Receivables	82	64	80	80	80
Inventory	125	91	90	90	90
Payables	20	19	20	20	20
Ratios (x)					
Gross asset turnover	2.2	2.7	2.5	2.4	2.3
Current ratio	12.3	6.1	6.0	6.8	7.5
Net interest coverage ratio	163.3	57.1	42.8	42.3	42.1
Adjusted debt/equity	0.0	0.0	0.1	0.1	0.1

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

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BUY – Expected return >+15%

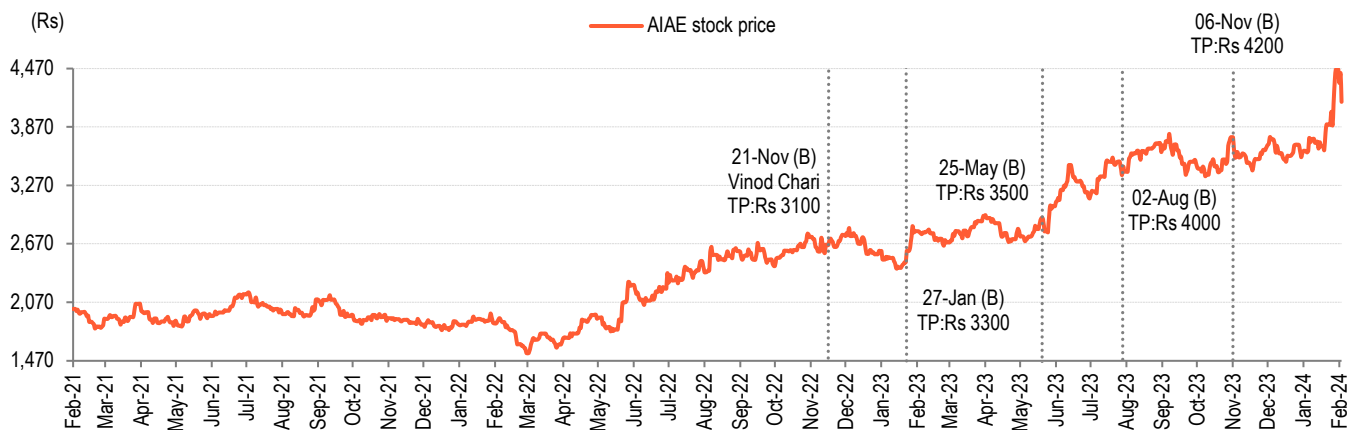
HOLD – Expected return from -6% to +15%

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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