

HOLD

TP: Rs 4,000 | ▲ 6%

AIA ENGINEERING

Capital Goods

14 May 2024

Uneventful quarter; capacities lined up

- Q4 revenue down 9.7% YoY with gross margin expanding 160bps and EBITDA margin 220bps
- FY24 volume largely in line at 297,345t, capacity expansion of 56,000t expected in FY25 with capex of Rs 2bn
- We adjust FY25E/FY26E EPS by 1.1%/1.8% to factor in Q4 and management commentary; TP unchanged at Rs 4,000

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Topline contracts, margins fair: AIAE reported a decline in topline by 9.7% YoY to Rs 11.5bn in Q4FY24. Topline for FY24 declined 1.1% YoY to Rs 48.5bn. Gross margin, however, expanded 160bps YoY to 56.2% in Q4, albeit contracting in FY24 by 60bps to 57.3%. EBITDA margin expanded 110bps YoY to 25.9% in Q4 and 220bps YoY to 27.5% in FY24. This is largely due to reduction in other expenses during the year. The order book stood at Rs 5.6bn at the end of FY24, a 27.5% increase over FY23 and a 16% decline over Dec'23.

FY25 volume may be in line: AIAE achieved sales volumes of 297,345t during FY24, growing 2.6% over FY23. Management had guided for volume growth of 30,000t at the end of FY23, when it achieved production of 291,342t. However, this was reduced to a total volume expectation of 300,000t during the last quarter, which has been missed slightly. For FY25, management aims to achieve incremental volumes of 30,000t, but no formal guidance was given.

Capacity expansion in near pipeline: AIAE expects to incur Rs 2bn in capex during FY25. Of this, Rs 900mn is expected to be incurred on brownfield capacity expansion of 36,000t. AIAE had earlier planned to add 80,000t, but plans to commission 36,000t in FY25 and defer the balance capacities indefinitely. It expects to add 60MW of captive renewable power capacities in FY25 with an estimated capex of Rs 350mn. The remaining Rs 750mn is expected to be incurred on debottlenecking efforts, and AIAE has added 20,000t of capacity after FY24 till date.

Anti-dumping duties in America: The International Commission has initiated the preliminary phase of antidumping duty for the import of high chrome grinding media (HCGM) from India during Q4, where AIAE achieved a sales volume of 27,000t in CY23. AIAE expects to defend and co-operate with the authorities as proceedings take their course.

Maintain HOLD: Baking in Q4 and management commentary, we adjust our FY25E/FY26E EPS by 1.1%/1.8%. Upon the rollover to Mar'26E, we maintain our TP at Rs 4,000 based on an unchanged target P/E of 30x.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	AIAE IN/Rs 3,775
Market cap	US\$ 4.3bn
Free float	42%
3M ADV	US\$ 3.7mn
52wk high/low	Rs 4,630/Rs 2,712
Promoter/FPI/DII	59%/18%/21%

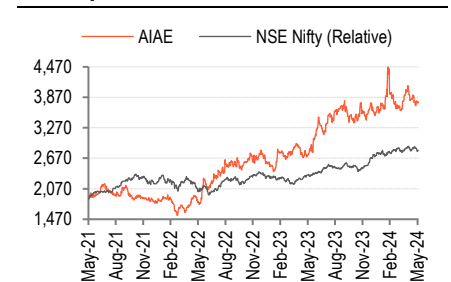
Source: NSE | Price as of 14 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	48,538	53,075	54,761
EBITDA (Rs mn)	13,338	14,106	14,502
Adj. net profit (Rs mn)	11,356	11,824	12,307
Adj. EPS (Rs)	120.4	125.4	130.5
Consensus EPS (Rs)	120.4	126.4	139.2
Adj. ROAE (%)	18.4	16.5	15.0
Adj. P/E (x)	31.4	30.1	28.9
EV/EBITDA (x)	26.3	24.9	24.2
Adj. EPS growth (%)	7.5	4.1	4.1

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

Stock performance



Source: NSE

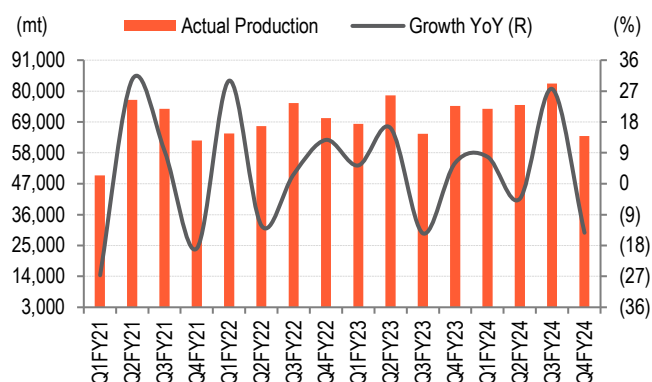


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	11,502	12,736	(9.7)	11,692	(1.6)	48,538	49,088	(1.1)
EBITDA	2,974	3,157	(5.8)	3,112	(4.4)	13,338	12,406	7.5
EBITDA Margin (%)	25.9	24.8	110bps	26.6	(80bps)	27.5	25.3	220bps
Depreciation	245	232	5.5	270	(9.1)	1,003	930	7.8
Interest	64	99	(35.4)	71	(9.7)	284	201	41.2
Other Income	765	638	19.8	831	(8.0)	2,814	2,345	20.0
PBT	3,430	3,464	(1.0)	3,603	(4.8)	14,865	13,620	9.1
Tax	832	788	5.7	811	2.6	3,510	3,055	14.9
Adjusted PAT	2,605	2,682	(2.9)	2,796	(6.8)	11,355	10,565	7.5
Exceptional item	0	0		0		0	0	
Reported PAT	2,605	2,682	(2.9)	2,796	(6.8)	11,356	10,559	7.5
Adj. PAT Margin (%)	22.7	21.1	159.3	23.9	(126.5)	23.4	21.5	187.1
EPS (Rs)	27.5	28.4	(3.0)	29.6	(7.0)	120.4	112.0	7.5

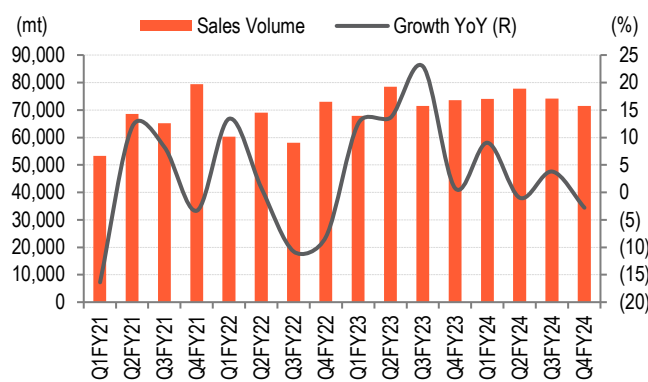
Source: Company, BOBCAPS Research

Fig 2 – Production volumes



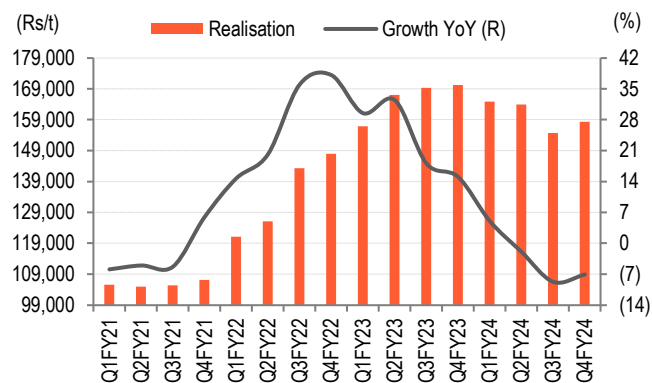
Source: Company, BOBCAPS Research

Fig 3 – Sales volume



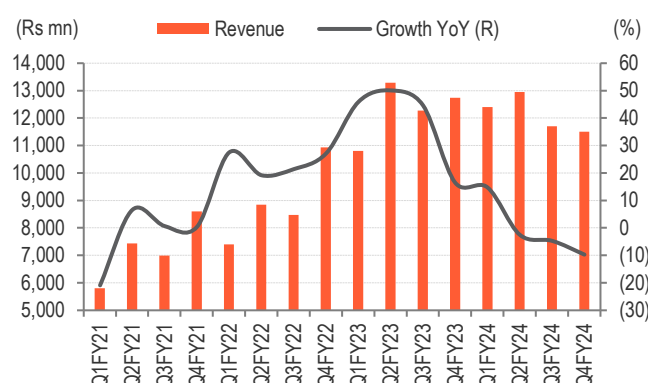
Source: Company, BOBCAPS Research

Fig 4 – Realisations



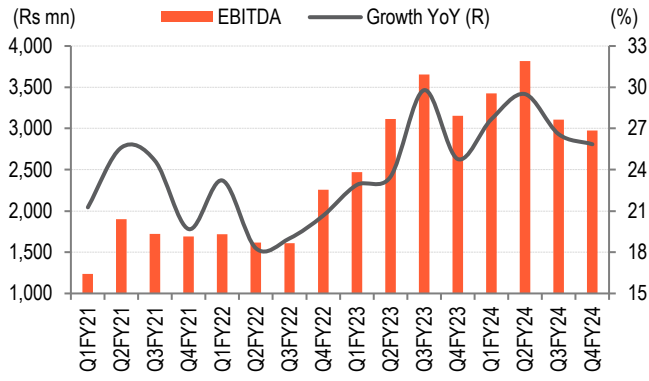
Source: Company, BOBCAPS Research

Fig 5 – Revenue growth



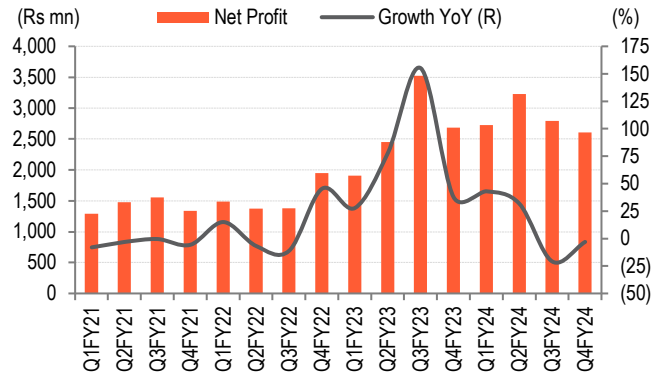
Source: Company, BOBCAPS Research

Fig 6 – EBITDA growth



Source: Company, BOBCAPS Research

Fig 7 – Profit growth



Source: Company, BOBCAPS Research

Valuation methodology

AIAE's strategy is to serve as a complete solutions 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 mining industry's conversion trend from forged media to high chrome mill internals, AIAE plans to expand capacity from 440,000mt to 496,000mt by FY25, through brownfield capex of Rs 2bn. The company has a healthy balance sheet (net cash of Rs 20.9bn) with negligible leverage and strong free cash flow generation.

Baking in Q4 and management commentary, we adjust our FY25E/FY26E EPS by 1.1%/1.8%. Upon the rollover to Mar'26E, we maintain our TP at Rs 4,000 based on an unchanged target P/E of 30x.

Fig 8 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	53,075	54,761	54,177	56,282	(2.0)	(2.7)
EBITDA	14,106	14,502	14,466	14,990	(2.5)	(3.3)
PAT	11,824	12,307	11,960	12,528	(1.1)	(1.8)
EPS (Rs)	125.4	130.5	126.8	132.8	(1.1)	(1.8)
EBITDA Margin (%)	26.6	26.5	26.7	26.6	(10bps)	(20bps)

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- Higher-than-expected volume pick-up, and
- faster commissioning of newer capacities.

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	20.8	8,081	7,600	HOLD
AIA Engineering	AIAE IN	4.3	3,775	4,000	HOLD
Hitachi Energy	POWERIND IN	5.0	9,787	4,200	SELL
KEC International	KECI IN	2.3	720	860	BUY
Larsen & Toubro	LT IN	57.8	3,379	4,200	BUY

Source: BOBCAPS Research, NSE | Price as of 14 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	35,665	49,088	48,538	53,075	54,761
EBITDA	7,209	12,406	13,338	14,106	14,502
Depreciation	921	930	1,003	1,071	1,122
EBIT	6,288	11,476	12,335	13,035	13,380
Net interest inc./(exp.)	39	201	284	310	320
Other inc./(exp.)	1,563	2,345	2,814	3,095	3,405
Exceptional items	0	0	0	0	0
EBT	7,813	13,620	14,865	15,820	16,465
Income taxes	1,617	3,055	3,510	3,982	4,144
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(6)	1	(14)	(14)
Reported net profit	6,196	10,559	11,356	11,824	12,307
Adjustments	0	0	0	0	0
Adjusted net profit	6,196	10,559	11,356	11,824	12,307

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	1,967	2,614	1,786	2,908	3,001
Other current liabilities	1,057	1,176	1,153	2,181	2,250
Provisions	0	0	0	0	0
Debt funds	28	4,960	4,546	4,971	5,129
Other liabilities	654	649	888	976	1,018
Equity capital	189	189	189	189	189
Reserves & surplus	47,361	56,725	66,389	76,439	86,900
Shareholders' fund	47,550	56,913	66,577	76,628	87,088
Total liab. and equities	51,256	66,312	74,952	87,664	98,486
Cash and cash eq.	15,610	30,595	35,302	44,855	54,766
Accounts receivables	8,001	8,608	8,803	11,633	12,002
Inventories	12,260	12,180	12,047	13,087	13,503
Other current assets	1,395	1,741	3,834	2,763	2,851
Investments	5	8	665	727	750
Net fixed assets	8,000	10,027	10,352	10,282	10,159
CWIP	2,102	1,074	922	1,008	1,040
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	3,882	2,077	3,026	3,309	3,414
Total assets	51,256	66,312	74,952	87,664	98,486

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	(392)	8,677	9,027	12,260	12,732
Capital expenditures	(1,253)	(1,924)	(2,095)	(1,000)	(1,000)
Change in investments	1,490	(10,746)	(7,902)	(148)	(55)
Other investing cash flows	762	587	1,813	(209)	(78)
Cash flow from investing	999	(12,083)	(8,185)	(1,358)	(1,133)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,816)	4,932	(741)	425	158
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(859)	(982)	(1,369)	(1,774)	(1,846)
Cash flow from financing	(2,676)	3,950	(2,110)	(1,349)	(1,688)
Chg in cash & cash eq.	(2,069)	544	(1,268)	9,553	9,911
Closing cash & cash eq.	15,610	30,595	35,302	44,855	54,766

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	65.7	112.0	120.4	125.4	130.5
Adjusted EPS	65.7	112.0	120.4	125.4	130.5
Dividend per share	9.0	16.0	16.0	18.8	19.6
Book value per share	504.1	603.4	705.9	812.4	923.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	9.9	7.3	7.2	6.6	6.4
EV/EBITDA	49.1	28.7	26.3	24.9	24.2
Adjusted P/E	57.5	33.7	31.4	30.1	28.9
P/BV	7.5	6.3	5.3	4.6	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	79.3	77.5	76.4	74.7	74.7
Interest burden (PBT/EBIT)	124.2	118.7	120.5	121.4	123.1
EBIT margin (EBIT/Revenue)	17.6	23.4	25.4	24.6	24.4
Asset turnover (Rev./Avg TA)	72.2	83.5	68.7	65.3	58.8
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	13.8	20.2	18.4	16.5	15.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	23.8	37.6	(1.1)	9.3	3.2
EBITDA	10.0	72.1	7.5	5.8	2.8
Adjusted EPS	9.4	70.4	7.5	4.1	4.1
Profitability & Return ratios (%)					
EBITDA margin	20.2	25.3	27.5	26.6	26.5
EBIT margin	17.6	23.4	25.4	24.6	24.4
Adjusted profit margin	17.4	21.5	23.4	22.3	22.5
Adjusted ROAE	13.8	20.2	18.4	16.5	15.0
ROCE	13.0	19.9	18.3	16.8	15.2
Working capital days (days)					
Receivables	82	64	66	80	80
Inventory	125	91	91	90	90
Payables	20	19	13	20	20
Ratios (x)					
Gross asset turnover	2.2	2.7	2.4	2.5	2.4
Current ratio	12.3	6.1	8.0	7.2	8.0
Net interest coverage ratio	163.3	57.1	43.5	42.0	41.8
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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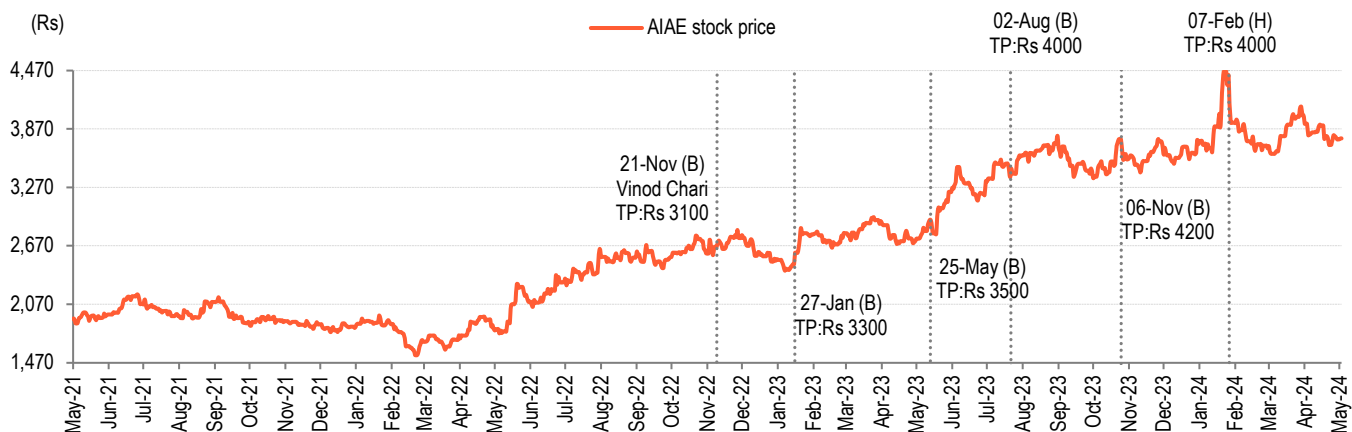
HOLD – Expected return from -6% to +15%

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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