

Steady performance...

About the stock: AIA Engineering (AIA) is India's largest manufacturer and supplier of high chrome wear, corrosion and abrasion resistance castings used in cement, mining and thermal power plants (or mills).

- Products include tube mill internals (grinding media, shell liners, diaphragm), HRCS castings & crusher parts for cement, mining and power
- The company is the second largest hi-chrome producer in the world

Q1FY23 Results: AIA reported a strong set of Q1FY23 numbers.

- Revenue was at ₹ 1079.7 crore, up 45.9% YoY and above our estimates
- EBITDA was at ₹ 246.6 crore, up 43.5% YoY. EBITDA margins at 22.8% marginally declined by 39 bps YoY
- Consequently, PAT came in at ₹ 190.9 crore, up 28% YoY
- Sales volumes were at 67898 tonnes in Q1FY23, up 12.6% YoY

What should investors do? Overall, AIA's strong balance sheet, decent cash flows, efficient working capital management are expected to support long term growth.

- We remain long term positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value AIA at ₹ 3010 i.e. 35x P/E on FY24E EPS

Key triggers for future price performance:

- New mining customer acquisition is expected to pick up as the travel situation has started to normalise and will allow AIA to gain incremental volume growth in coming years despite likely base volume impact due to anti-dumping in Canada, South Africa
- We expect revenue, EBITDA to grow at a CAGR of ~11.2%, 16.5%, respectively, in FY22-24E aided by sustained margins in range of 20-22%
- Strong balance sheet, double digit returns ratios

Alternate Stock Idea: We also like Thermax in our coverage.

- Strong balance sheet, prudent working capital management, recent technological tie-ups, are expected to support growth
- BUY with a target price of ₹ 2405



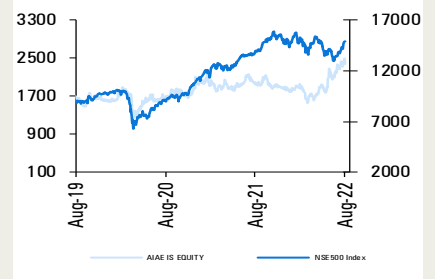
Particulars

Particular	Amount
Market Capitalization	₹ 24523.3 Crore
Total Debt (FY22)	₹ 2.8 Crore
Cash and Inv. (FY22)	₹ 1401.8 Crore
EV	₹ 23124.4 Crore
52 week H/L	₹ 2508.5/ 1475
Equity capital	₹ 18.9 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	58.5	58.5	58.5	58.5
FII	19.1	18.8	18.1	18.1
DII	19.8	20.2	20.8	20.7
Others	2.7	2.6	2.7	2.7

Price Performance



Recent Events & Key risks

- **Key Risks:** (i) Unfavourable decisions on anti-dumping duty in more international geographies

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Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY16-FY21)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	2,980.9	2,881.5	3,566.5	6.5%	4,181.2	4,414.1	11.2%
EBITDA	680.3	655.3	720.9	1.5%	916.9	979.2	16.5%
EBITDA Margin (%)	22.8	22.7	20.2		21.9	22.2	
Net Profit	590.3	563.5	609.2	4.3%	753.1	811.5	15.4%
EPS (₹)	62.6	59.7	64.6		79.8	86.0	
P/E (x)	41.5	43.5	40.3		32.6	30.2	
RoNW (%)	15.9	13.3	13.2		14.3	13.6	
RoCE (%)	18.7	16.4	16.5		17.9	17.1	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results

- AIA Engineering reported consolidated revenues at ₹ 1079.7 crore (above our estimate of ₹ 1049.4 crore), up 45.9% on a YoY basis
- EBITDA came at ₹ 246.6 crore, up 43.5% YoY (above our estimate of ₹ 219.3 crore). EBITDA margins declined marginally by 39 bps YoY to 22.8% (above our estimate of 20.9%) despite a decline in gross margins to 56.5% (vs. 61.8% in Q1FY22)
- AIA reported PAT at ₹ 190.9 crore (above our estimate of ₹ 184 crore), up by 28% YoY though other income has declined 47.8% YoY to ₹ 20.6 crore

Q1FY23 Earnings Conference Call highlights

- Net realisation per tonne increased 29.5% to ₹ 156.8 per kg YoY and 6% QoQ, owing to product mix and price increases to pass through higher input cost. The company was able to successfully pass on the rise in input costs and shipping cost to clients. On account of the same, there was a rise in realisations on a QoQ and YoY basis
- Sales volume came in at 67898 tonnes in Q1FY23, up 12.6% YoY. Mining segment volumes increased 23.7% to 45710 tonnes while cement & others segment volumes declined 5% to 22188 tonnes YoY
- The order book of the company was at ₹ 700 crore as on Q1FY23 (vs. ₹ 502 crore as on Q4FY22). The company's focus is currently on growth. It will maintain ~20% payout ratio for the next one year
- **Expansion:** Mill lining capacity addition of 50000 MT is almost ready and is expected to get commissioned by August or September this year. Post this expansion, total capacity will become 440000 TPA. Also, the company has decided to go ahead with its brownfield capacity expansion of grinding media. It plans to add ~80,000 MT of capacity at an estimated capex of ₹ 200 crore and commission it by the end of FY24
- AIA's management is confident that every year additional 30000 tonnes for FY23E and incremental 25000-35000 tonnes volumes may come, going forward, for the next few years
- **Capex** – AIA has planned a capex for the next two years of ~₹ 400 crore including maintenance capex. Out of that ~₹ 250 crore for this year while the remaining will be executed next year

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (Chg %)	Q4FY22	QoQ (Chg %)	Comments
Sales	1,079.7	1,049.4	739.9	45.9	1,093.3	-1.2	Mining segment volumes increased by 23.7% YoY and 3% QoQ
Other Income	20.6	46.6	39.5	-47.8	38.7	-46.7	
Raw Materials Expenses	469.8	440.7	282.8	66.1	473.6	-0.8	
Employee Cost	36.7	37.8	33.8	8.5	35.8	2.6	
Other Expenditure	326.0	351.5	251.4	29.7	358.0	-8.9	
EBITDA	246.6	219.3	171.9	43.5	225.4	9.4	
EBITDA Margin (%)	22.8	20.9	23.2	-39 bps	20.6	223 bps	
Depreciation	20.8	31.5	24.2	-13.9	21.3	-2.3	
Interest	1.1	1.5	0.7	48.8	-0.2	-623.3	
PBT	245.4	233.0	186.5	31.6	243.0	1.0	
Taxes	54.5	48.9	37.4	45.6	49.6	9.9	
PAT	190.9	184.0	149.1	28.0	193.5	-1.3	
	22%	21%	20%		20%		
Key Metrics							
Volume (in tonnes)	67,898	71,473	60,318	12.6	72,976	-7.0	
Net Realisation (₹/tonne)	1,56,804	1,45,000	1,21,079	29.5	1,47,993	6.0	Net realisation increased owing to product mix and price increases to pass through higher input cost

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	4,081.6	4,181.2	2.4	4,607.6	4,414.1	-4.2
EBITDA	849.2	916.9	8.0	976.0	979.2	0.3
EBITDA Margin (%)	20.8	21.9	112 bps	21.2	22.2	100 bps
PAT	719.9	753.1	4.6	808.1	811.5	0.4
EPS (₹)	76.3	79.8	4.7	85.7	86.0	0.4

Source: Company, ICICI Direct Research

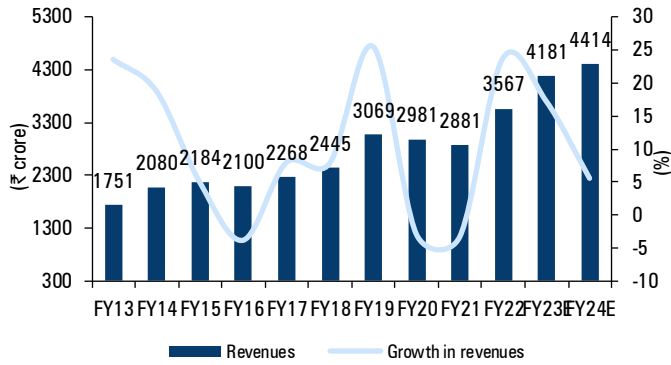
Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Overall Volumes (tonnes)	2,66,302	2,60,469	2,91,725	3,26,732	2,91,725	3,41,319	Revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	1,92,539	1,81,542	2,07,274	2,36,369	2,07,274	2,50,956	
Capacity	3,90,000	3,90,000	4,40,000	4,40,000	4,40,000	4,40,000	
Net Realisations	1,05,849	1,34,928	1,40,996	1,32,650	1,37,650	1,32,650	

Source: Company, ICICI Direct Research

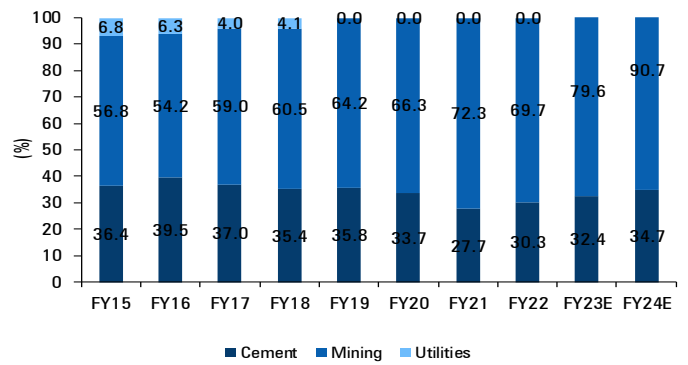
Financial story in charts

Exhibit 4: Trend in revenues...



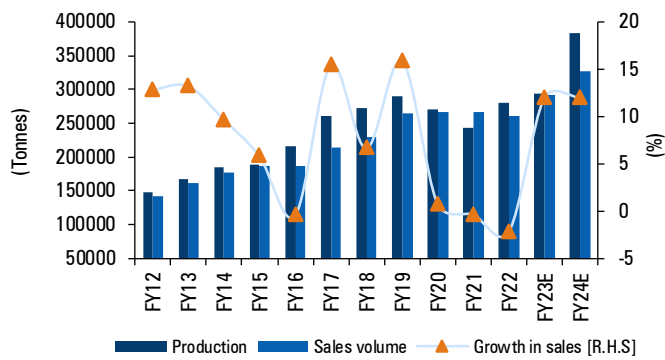
Source: ICICI Direct Research, Company

Exhibit 5: Share of mining segment to rise gradually...



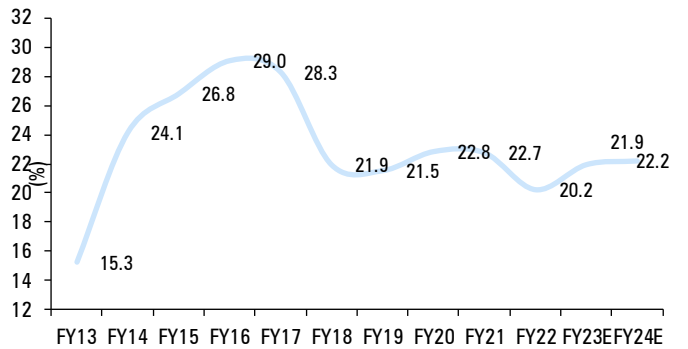
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



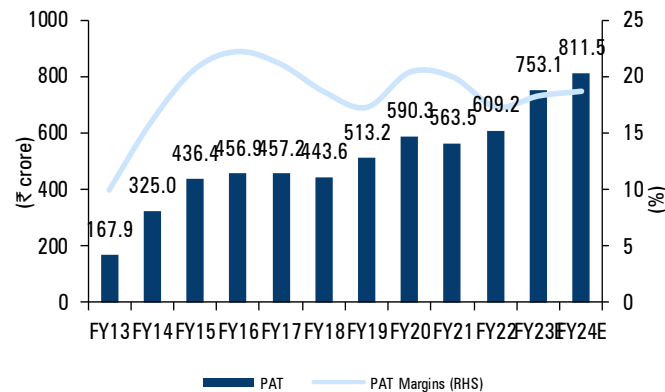
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margin...



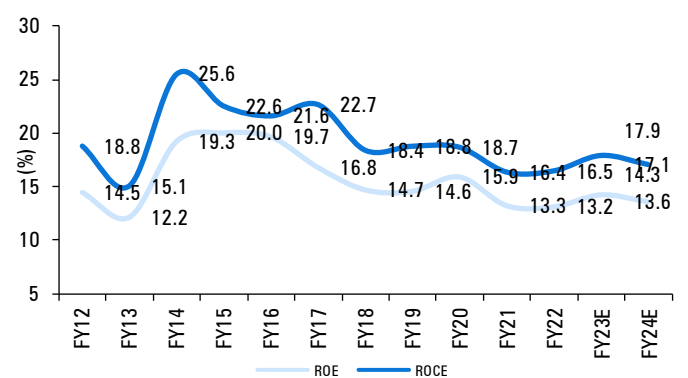
Source: Company, ICICI Direct Research

Exhibit 8: Volume, margin recovery key for PAT...



Source: Company, ICICI Direct Research

Exhibit 9: RoE, RoCE trend...



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	2,881.5	3,566.5	4,181.2	4,414.1
Growth (%)	-3.3	23.8	17.2	5.6
Raw Material Expenses	1,121.0	1,471.1	1,651.4	1,620.2
Employee Expenses	133.5	139.4	160.8	176.6
Other expenses	971.7	1,235.1	1,452.1	1,638.2
Total Operating Expenditure	2,226.2	2,845.6	3,264.4	3,434.9
EBITDA	655.3	720.9	916.9	979.2
Growth (%)	-3.7	10.0	27.2	6.8
Depreciation	93.5	106.3	113.5	126.8
Interest	6.8	0.1	0.1	0.1
Other Income	172.2	156.3	152.2	173.4
PBT	727.2	770.8	955.6	1,025.7
Others	0.0	0.0	0.0	0.0
Total Tax	163.7	161.7	202.4	214.2
PAT	563.5	609.2	753.1	811.5
Growth (%)	-4.5	8.1	23.6	7.7
EPS (₹)	59.7	64.6	79.8	86.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	563.5	609.2	753.1	811.5
Add: Depreciation	93.5	106.3	113.5	126.8
(Inc)/dec in Current Assets	59.3	-653.3	86.7	-206.3
Inc/(dec) in CL and Provisions	-5.6	42.3	61.1	-1.5
Others	3.3	3.0	5.0	5.0
CF from operating activities	710.7	104.5	1,014.4	730.4
(Inc)/dec in Investments	-256.4	256.7	-256.7	0.0
(Inc)/dec in Fixed Assets	-143.9	-169.1	-270.0	-27.3
Others	0.0	0.0	0.0	0.0
CF from investing activities	-464.2	-63.0	-700.6	-275.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	87.5	-181.6	-1.3	0.0
Dividend paid & dividend tax	-84.9	-103.8	-113.2	-141.5
Inc/(dec) in Sec. premium	-0.1	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	67.2	-406.3	-109.5	-136.5
Net Cash flow	313.8	-364.8	204.3	318.2
Opening Cash	148.5	462.2	97.5	301.8
Closing Cash	462.2	97.5	301.8	620.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	4,225.4	4,610.0	5,254.9	5,929.9
Total Shareholders funds	4,244.3	4,628.8	5,273.8	5,948.8
Total Debt	184.5	2.8	1.6	1.6
Deferred Tax Liability	47.0	39.0	47.0	47.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,498.1	4,697.0	5,353.1	6,033.1
Assets				
Gross Block	1,252.8	1,462.8	1,602.8	1,830.1
Less: Acc Depreciation	464.3	569.7	682.3	808.2
Net Block	788.5	893.1	920.5	1,021.9
Capital WIP	160.9	120.0	250.0	50.0
Total Fixed Assets	949.5	1,013.1	1,170.5	1,071.9
Investments	1,484.6	1,304.3	1,784.6	2,034.6
Inventory	754.8	1,226.0	982.7	1,154.6
Debtors	638.5	800.1	957.9	997.4
Loans and Advances	3.2	1.9	4.8	6.8
Other Current Assets	116.0	137.6	133.6	126.4
Cash	462.2	97.5	301.8	620.0
Total Current Assets	1,974.6	2,263.1	2,380.7	2,905.2
Creditors	165.8	196.7	219.7	231.5
Provisions	15.2	6.5	40.7	42.8
Total Current Liabilities	260.1	302.4	363.5	362.0
Net Current Assets	1,714.5	1,960.7	2,017.3	2,543.2
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	4,498.1	4,697.0	5,353.1	6,033.1

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	59.7	64.6	79.8	86.0
Cash EPS	69.7	75.9	91.9	99.5
BV	450.0	490.8	559.1	630.7
DPS	9.0	11.0	12.0	15.0
Cash Per Share	49.0	10.3	32.0	65.7
Operating Ratios (%)				
EBITDA Margin	22.7	20.2	21.9	22.2
PBT / Total Operating income	25.8	21.9	23.2	23.7
PAT Margin	20.0	17.3	18.3	18.7
Inventory days	97.7	127.3	87.2	97.2
Debtor days	82.7	83.1	85.0	84.0
Creditor days	21.5	20.4	19.5	19.5
Return Ratios (%)				
RoE	13.3	13.2	14.3	13.6
RoCE	16.4	16.5	17.9	17.1
RoIC	24.4	22.3	27.8	26.6
Valuation Ratios (x)				
P/E	43.5	40.3	32.6	30.2
EV / EBITDA	34.7	32.1	24.5	22.3
EV / Net Sales	8.1	6.6	5.5	5.0
Market Cap / Sales	8.7	7.0	6.0	5.7
Price to Book Value	5.8	5.3	4.7	4.1
Solvency Ratios				
Debt/EBITDA	0.3	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.8	7.2	5.7	6.3
Quick Ratio	2.9	3.1	3.0	3.1

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,826	2,175	Buy	256224	56.8	65.0	76.7	32.2	28.1	23.8	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,818	3,040	Buy	100355	29.5	36.7	48.5	95.6	76.7	58.1	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,600	3,011	Buy	24523	64.6	79.8	86.0	40.3	32.6	30.2	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,104	2,405	Buy	25071	26.2	38.7	53.4	80.3	54.4	39.4	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	399	474	Hold	10258	12.9	15.5	29.6	30.9	25.7	13.5	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	163	179	Buy	3769	0.7	2.6	3.3	230.3	61.8	49.4	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	445	390	Buy	14102	5.7	6.6	8.7	77.9	67.5	51.2	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	284	315	Buy	69199	9.6	11.3	12.6	29.5	25.2	22.6	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	343	340	Hold	4512	42.9	38.6	42.3	8.0	8.9	8.1	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,393	4,920	Buy	21718	77.0	104.8	122.9	57.1	41.9	35.7	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,023	2,810	Buy	22739	43.5	54.8	62.5	101.0	80.2	70.3	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	142	220	Buy	1376	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	221	230	Buy	2632	9.8	11.5	13.6	22.6	19.2	16.3	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	833	900	Buy	4322	18.1	21.7	28.0	46.0	38.4	29.8	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,154	2,200	Buy	72028	151.9	123.6	137.4	14.2	17.4	15.7	27.4	29.7	30.5	26.3	22.5	23.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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