

CMP: ₹ 2640

Target: ₹ 3135 (19%) Target Period: 12–15 months

January 30, 2023

BUY

Strong growth trajectory...

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

Q3FY23 Results: AIA reported a strong set of Q3FY23 numbers.

- Revenue was at ₹ 1226.9 crore, up 44.7% YoY and above our estimates
- EBITDA was at ₹ 365.1 crore, up 126.5% YoY. EBITDA margins came in at 29.8%, expanding 1075 bps YoY
- Consequently, PAT came in at ₹ 351.8 crore, up 154% YoY
- Sales volumes were at 71439 tonnes in Q3FY23, up 22.9% 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 ₹ 3135 i.e. 32x 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 ~20.5%, 30.5%, respectively, in FY22-25E aided by sustained margins in range of 22-23%
- Strong balance sheet, double digit returns ratios

Alternate Stock Idea: We also like L&T in our coverage.

- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios. Strong b/s, controlled working capital and strong cash generation
- BUY with a target price of ₹ 2355



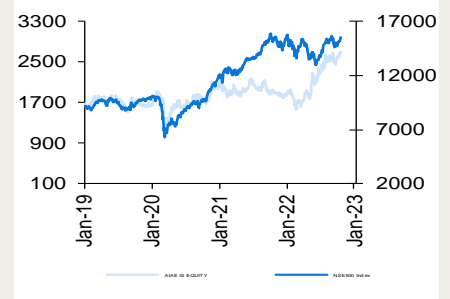
Particulars

Particular	Amount
Market Capitalization	₹24513.9 Crore
Total Debt (FY22)	₹2.8 Crore
Cash and Inv. (FY22)	₹1401.8 Crore
EV	₹23115 Crore
52 week H/L	₹2875/ 1475
Equity capital	₹18.9 Crore
Face value	₹2

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promote	58.5	58.5	58.5	58.5
FII	18.1	18.1	18.0	17.8
DII	20.8	20.7	20.7	21.0
Others	2.7	2.7	2.8	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)	FY21	FY22	FY23E	5 Year CAGR (FY17-FY22)	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
Net Sales	2,881.5	3,566.5	4,885.7	10.2%	4,598.7	5,182.1	20.5%
EBITDA	655.3	720.9	1,187.5	2.6%	1,111.4	1,228.2	30.5%
EBITDA Margin (%)	22.7	20.2	24.3		24.2	23.7	
Net Profit	563.5	609.2	1,011.6	5.9%	923.1	1,009.6	28.7%
EPS (₹)	59.7	64.6	107.3		97.9	107.0	
P/E (x)	43.5	40.2	24.2		26.6	24.3	
RoNW (%)	13.3	13.2	18.5		14.9	14.3	
RoCE (%)	16.4	16.5	23.5		18.6	18.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results

- AIA Engineering reported consolidated revenues at ₹ 1226.9 crore (above our estimate of ₹ 1139.9 crore), up 44.7% YoY
- Absolute EBITDA came in at ₹ 365.1 crore, up 126.5% YoY (above our estimates of ₹ 256.5 crore). EBITDA margins expanded 1075 bps YoY to 29.8% (above our estimate of 22.5%), and gross margins came in at 63.8% (vs. 62.2% in Q3FY22). Key driver for gross margins were a sharp decline in raw material costs, down ~30% QoQ
- AIA reported PAT at ₹ 351.8 crore (above our estimate of ₹ 204.4 crore), up 154% YoY supported by other income. It has grown 179% YoY to ₹ 118 crore

Q3FY23 Earnings Conference Call highlights

- Sales volumes came in at 71439 tonnes in Q3FY23 up 22.9% YoY. Mining segment volumes increased 7.6% YoY to 44284 tonnes and cement & others segment volumes up 60.1% YoY to 27155 tonnes
- Net realisation per tonne increased 18.1% to ₹ 169 per kg YoY and was marginally up 1.4% QoQ owing to better product mix and price increases taken earlier. On account of the same, there was a rise in realisations on a YoY and QoQ basis
- In Q3FY23, ferrochrome prices were down ~10-12% and same with scrap prices. Also, freight cost and container cost are coming down. This has benefited AIA, to a large extent. Also, they gained treasury income and forex gains on weakness in the rupee. This has resulted in a very sharp rise in EBITDA and margins. However, this may be called one off and the management has guided at maintaining EBITDA margin to the tune of ~22-23%, going forward
- The management has also guided that realisations peaked at this level and will see it coming down from here on as prices, shipping costs start their downward journey. Price reduction will happen with a lag of a quarter like input cost pass through
- The order book of the company was at ₹ 683 crore as on Q3FY23 (vs. ₹ 784 crore as on Q2FY23). The company's focus is currently on growth. It will maintain ~20% dividend payout ratio for the next one year
- As per the management, every year incremental 30,000 tonnes volumes are expected to come for the next few years. It is visible from this quarter's numbers that volume growth started coming from new mill lining capacity. Additionally, the company is going for 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. The total capacity is expected to become 520000 TPA
- Capex – AIA has planned a capex of ~₹ 200 crore including maintenance capex for FY23E. Out of that ~₹ 133 crore has been done in 9MFY23 and the remaining will take place in Q4FY23. For FY24, the company has planned a capex for ~₹ 300 crore

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22 (oY (Chg %)	Q2FY23	QoQ (Chg %)	Comments	
Sales	1,226.9	906.5	848.1	44.7	1,328.7	-7.7	Cement & others segment volumes grew by 60.1% YoY to 27155 tonnes
Other Income	118.0	40.8	42.3	178.8	32.1	267.0	
Raw Materials Expenses	443.5	368.9	320.7	38.3	574.8	-22.8	
Employee Cost	37.8	36.3	35.5	6.7	37.4	1.2	
Other Expenditure	379.7	310.9	330.7	14.8	404.5	-6.1	
EBITDA	365.1	190.4	161.2	126.5	311.4	17.2	
EBITDA Margin (%)	29.8	21.0	19.0	1075 bps	23.4	632 bps	
Depreciation	24.4	24.5	24.9	-1.9	24.6	-0.5	
Interest	5.2	0.9	2.5	108.9	3.9	35.4	
PBT	453.4	205.8	176.1	157.5	315.1	43.9	
Taxes	101.5	44.2	37.6	170.3	70.8	43.4	
PAT	351.8	161.5	138.5	154.0	244.3	44.0	Aided by other income
Key Metrics							
Volume (in tonnes)	71,439	70,306	58,111	22.9	78,500	-9.0	
Net Realisation (₹/tonne)	1,69,368	1,60,000	1,43,354	18.1	1,67,082	1.4	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

(₹C core)	FY23E			FY24E			FY25E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	4,736.9	4,885.7	3.1	4,647.3	4,598.7	-1.0	-	5,182.1	-
EBITDA	1,042.7	1,187.5	13.9	1,047.5	1,111.4	6.1	-	1,228.2	-
EBITDA Margin (%)	22.0	24.3	231 bps	22.5	24.2	167 bps	-	23.7	-
PAT	846.6	1,011.6	19.5	872.8	923.1	5.8	-	1,009.6	-
EPS (₹)	89.8	107.3	19.4	92.5	97.9	5.8	-	107.0	-

Source: Company, ICICI Direct Research

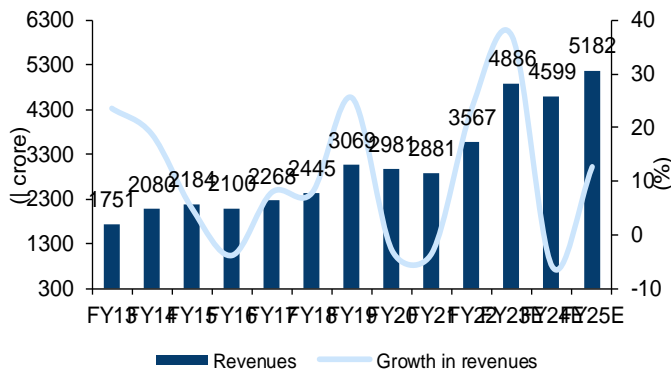
Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY22	FY23	FY24E	FY25E	FY23E	FY24E	
Overall Volumes (tonnes)	2,60,469	2,99,539	3,38,479	3,75,712	2,91,725	3,29,650	Revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	1,81,542	2,15,088	2,48,116	2,79,024	2,07,274	2,39,287	
Capacity	3,90,000	3,90,000	4,40,000	5,20,000	4,40,000	4,40,000	
Net Realisations	1,34,928	1,60,638	1,33,500	1,35,000	1,59,905	1,38,550	

Source: Company, ICICI Direct Research

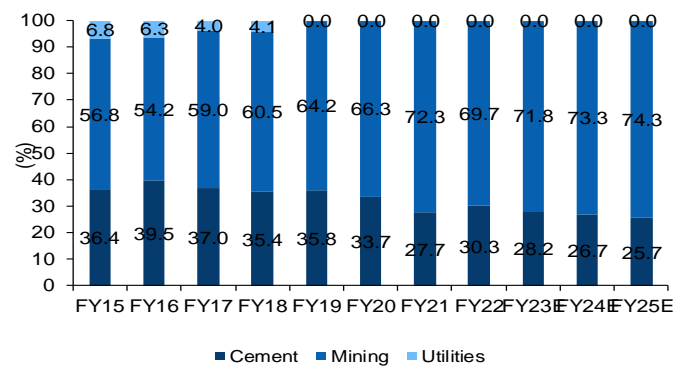
Financial story in charts

Exhibit 4: Trend in revenues...



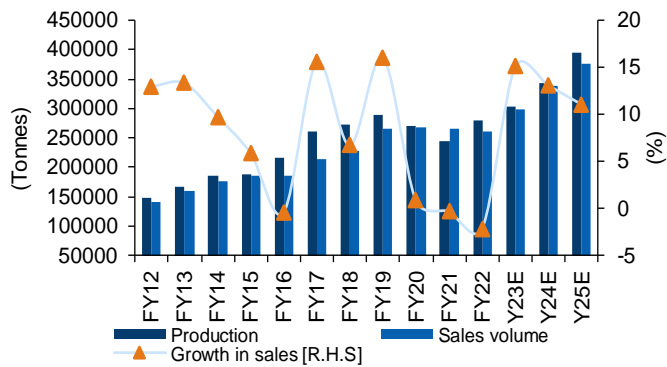
Source: ICICI Direct Research, Company

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



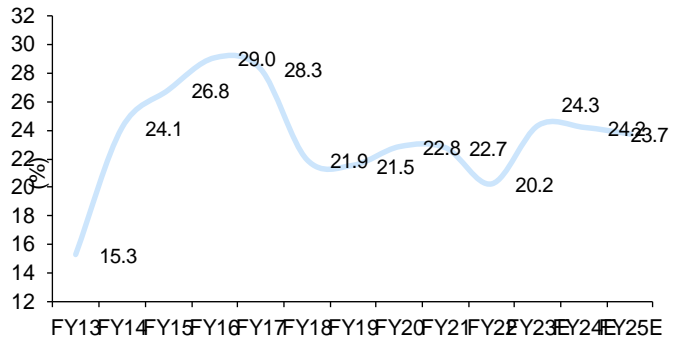
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



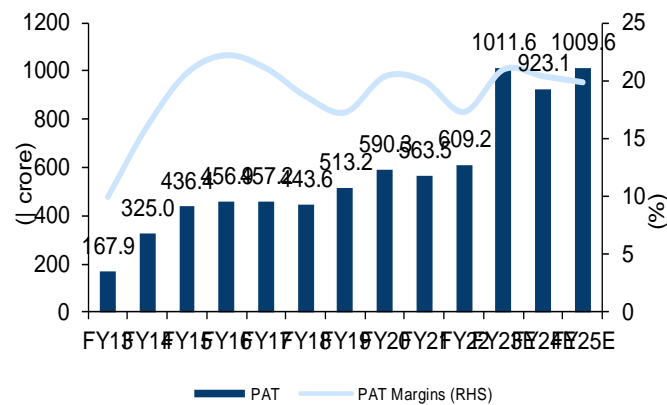
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margin...



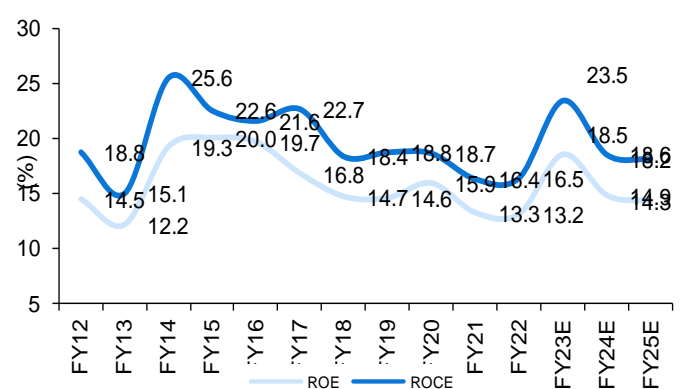
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Total operating income	3,566.5	4,885.7	4,598.7	5,182.1
Growth (%)	23.8	37.0	-5.9	12.7
Raw Material Expenses	1,471.1	1,975.8	1,701.5	1,917.4
Employee Expenses	139.4	162.0	152.8	171.0
Other expenses	1,235.1	1,560.4	1,633.0	1,865.6
Total Operating Expendit	2,845.6	3,698.2	3,487.3	3,954.0
EBITDA	720.9	1,187.5	1,111.4	1,228.2
Growth (%)	10.0	64.7	-6.4	10.5
Depreciation	106.3	112.7	126.8	141.8
Interest	0.1	0.1	0.1	0.0
Other Income	156.3	219.8	180.7	202.9
PBT	770.8	1,294.5	1,165.3	1,289.3
Others	0.0	0.0	0.0	0.0
Total Tax	161.7	282.9	242.2	279.7
PAT	609.2	1,011.6	923.1	1,009.6
Growth (%)	8.1	66.1	-8.7	9.4
EPS (₹)	64.6	107.3	97.9	107.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	4,610.0	5,437.9	6,196.2	7,022.2
Total Shareholders funds	4,628.8	5,456.8	6,215.1	7,041.0
Total Debt	2.8	1.6	1.6	1.6
Deferred Tax Liability	39.0	47.0	47.0	47.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,697.0	5,536.1	6,299.5	7,130.4
Assets				
Gross Block	1,462.8	1,582.8	1,850.2	2,000.2
Less: Acc Depreciation	569.7	681.5	807.4	948.3
Net Block	893.1	901.3	1,042.8	1,051.9
Capital WIP	120.0	200.0	100.0	150.0
Total Fixed Assets	1,013.1	1,101.3	1,142.8	1,201.9
Investments	1,304.3	1,684.6	2,384.6	3,084.6
Inventory	1,226.0	1,278.7	1,246.8	1,421.3
Debtors	800.1	1,120.5	1,052.3	1,181.2
Loans and Advances	1.9	6.6	5.4	8.1
Other Current Assets	137.6	175.5	231.1	225.3
Cash	97.5	219.2	265.8	72.0
Total Current Assets	2,263.1	2,800.7	2,801.5	2,907.9
Creditors	196.7	257.1	241.4	271.0
Provisions	6.5	47.6	44.7	50.1
Total Current Liabilities	302.4	387.5	383.9	426.2
Net Current Assets	1,960.7	2,413.1	2,417.6	2,481.8
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	4,697.0	5,536.1	6,299.5	7,130.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	609.2	1,011.6	923.1	1,009.6
Add: Depreciation	106.3	112.7	126.8	141.8
(Inc)/dec in Current Assets	-653.3	-415.7	45.8	-300.2
Inc/(dec) in CL and Provisior	42.3	85.1	-3.6	42.3
Others	3.3	3.0	5.0	5.0
CF from operating activitie	104.5	793.7	1,092.0	893.4
(Inc)/dec in Investments	256.7	-256.7	0.0	0.0
(Inc)/dec in Fixed Assets	-169.1	-200.0	-167.4	-200.0
Others	0.0	0.0	0.0	0.0
CF from investing activitie	-63.0	-487.0	-880.7	-903.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-181.6	-1.3	0.0	0.0
Dividend paid & dividend ta	-103.8	-188.6	-169.8	-188.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activitie	-406.3	-184.9	-164.8	-183.6
Net Cash flow	-364.8	121.8	46.6	-193.8
Opening Cash	462.2	97.5	219.2	265.8
Closing Cash	97.5	219.2	265.8	72.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	64.6	107.3	97.9	107.0
Cash EPS	75.9	119.2	111.3	122.1
BV	490.8	578.5	658.9	746.5
DPS	11.0	20.0	18.0	20.0
Cash Per Share	10.3	23.2	28.2	7.6
Operating Ratios (%)				
EBITDA Margin	20.2	24.3	24.2	23.7
PBT / Total Operating incom	21.9	26.9	25.8	25.4
PAT Margin	17.3	21.0	20.4	19.9
Inventory days	127.3	97.0	100.7	102.3
Debtor days	83.1	85.0	85.0	85.0
Creditor days	20.4	19.5	19.5	19.5
Return Ratios (%)				
RoE	13.2	18.5	14.9	14.3
RoCE	16.5	23.5	18.6	18.2
RoIC	22.3	32.1	28.5	29.2
Valuation Ratios (x)				
P/E	40.2	24.2	26.6	24.3
EV / EBITDA	32.1	19.0	19.7	17.4
EV / Net Sales	6.6	4.7	4.8	4.2
Market Cap / Sales	7.0	5.1	5.4	4.8
Price to Book Value	5.3	4.5	3.9	3.5
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	7.2	6.7	6.6	6.7
Quick Ratio	3.1	3.4	3.4	3.3

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)	2,138	2,355	Buy	299997	56.8	66.1	76.7	37.6	32.3	27.9	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,941	3,630	Buy	104737	35.4	46.4	53.8	83.0	63.4	54.7	15.6	18.2	19.1	11.3	13.4	14.0
AIA Engineering (AIAENG)	2,633	3,132	Buy	24837	107.3	97.9	107.0	24.6	26.9	24.6	23.5	18.6	18.2	18.5	14.9	14.3
Thermax (THE RMA)	1,914	2,536	Hold	22806	36.5	51.7	61.0	52.4	37.0	31.4	14.6	18.3	18.7	11.4	14.3	14.4
KEC International (KECIN)	465	515	Buy	11965	12.9	15.4	30.3	36.0	30.2	15.4	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	142	209	Buy	3276	0.7	3.9	3.6	200.2	36.5	39.6	2.5	10.4	10.6	1.3	7.5	7.7
Elgi Equipment (ELGEQU)	361	520	Hold	11426	7.2	9.4	11.4	50.4	38.4	31.6	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	88	135	Buy	64070	3.2	3.8	4.5	27.4	23.1	19.5	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COC SHI)	478	745	Buy	6292	42.9	38.6	42.8	11.1	12.4	11.2	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,316	5,215	Buy	21338	77.0	108.7	130.3	56.1	39.7	33.1	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	3,032	3,560	Buy	22808	43.5	61.3	71.2	69.7	49.5	42.6	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	145	220	Buy	1409	7.8	9.2	12.1	18.6	15.8	12.0	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	319	385	Buy	3803	8.8	15.1	19.2	36.3	21.1	16.6	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1354	1,555	Buy	7025	18.1	22.0	30.4	74.8	61.6	44.6	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,476	3,300	Buy	82810	151.9	132.7	145.0	16.3	18.7	17.1	27.4	30.5	30.1	26.3	23.1	22.8
ABB (ABB)	2,833	3,275	Buy	60034	25.5	40.5	37.2	111.2	70.0	76.1	45.0	49.2	57.3	11.2	12.9	15.1
Ador Welding (ADOWEL)	792	1,014	Buy	1077	33.2	34.1	48.3	23.8	23.2	16.4	19.9	21.6	26.5	13.6	15.7	19.3
Bharat Dynamics (BHADYN)	942	1,200	Buy	17265	27.3	33.0	42.7	34.5	28.6	22.1	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	733	1,025	Hold	14781	30.3	39.8	46.6	24.2	18.4	15.7	20.0	22.9	23.5	16.1	18.2	18.5
Solar Industries India (SOLIN)	4,095	4,700	Buy	37054	48.8	76.6	99.7	84.0	53.5	41.1	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	1,017	1,080	Buy	1007	62.7	49.5	72.3	16.2	20.6	14.1	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	457	555	Buy	746	24.7	28.7	34.6	18.5	15.9	13.2	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,769	2,180	Buy	6155	43.7	50.0	62.2	40.5	35.4	28.4	15.7	16.0	18.3	14.7	14.9	15.9

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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