

Strong volume trajectory...

About the stock: AIA Engineering (AIA) is India's largest manufacturer and supplier of high chrome wear, corrosion and abrasion resistant 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

Q4FY23 Results: AIA reported a decent set of Q4FY23 numbers.

- Revenue was at ₹ 1273.6 crore, up 16.5% YoY in line with our estimates
- EBITDA was at ₹ 315.7 crore, up 39.8% YoY. EBITDA margins came in at 24.8%, expanding 413 bps YoY
- Consequently, PAT came in at ₹ 267.7 crore, up 38% YoY
- Sales volumes were at 73,505 tonnes in Q4FY23, up 0.7% 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 ₹ 3700 i.e. 32x P/E on FY25E 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 ~12.3%, 5.9%, 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 ₹ 2650



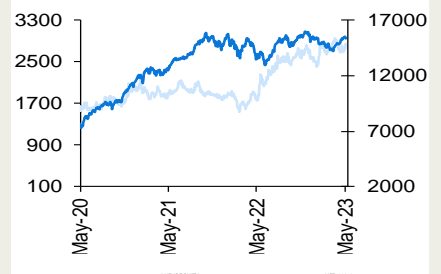
Particulars

Particular	Amount
Market Capitalization	₹26796.5 Crore
Total Debt (FY23)	₹496 Crore
Cash and Inv. (FY23)	₹3037.6 Crore
EV	₹24254.9 Crore
52 week H/L	₹2988/1801
Equity capital	₹18.9 Crore
Face value	₹2

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promot	58.5	58.5	58.5	58.5
FII	18.1	18.0	17.8	18.0
DII	20.7	20.7	21.0	21.0
Others	2.7	2.8	2.7	2.5

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	FY23	5 Year CAGR (FY18-FY23)	FY24E	FY25E	2 Year CAGR (FY23-FY25E)
Net Sales	2,881.5	3,566.5	4,908.8	15.3%	5,559.8	6,190.8	12.3%
EBITDA	655.3	720.9	1,240.6	18.3%	1,294.7	1,391.2	5.9%
EBITDA Margin (%)	22.7	20.2	25.3		23.3	22.5	
Net Profit	563.5	623.4	1,047.6	18.8%	1,020.4	1,090.3	2.0%
EPS (₹)	59.7	66.1	111.1		108.2	115.6	
P/E (x)	43.5	39.3	23.4		24.0	22.5	
RoNW (%)	13.3	13.4	19.0		16.0	14.9	
RoCE (%)	16.4	16.7	22.6		18.9	17.7	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results

- AIA Engineering reported consolidated revenues at ₹ 1273.6 crore (slightly below our estimate of ₹ 1340.6 crore), up 16.5% YoY. In FY23, consolidated revenues came in at ₹ 4908.8 crore, up 37.6% YoY
- Absolute EBITDA came in at ₹ 315.7 crore, up 39.8% YoY (in line with our estimates of ₹ 315.7 crore). In FY23, EBITDA came in at ₹ 1240 crore and grew 72.1% with margins of 25.6% vs. 20.5% in FY22. In Q4FY23, EBITDA margins expanded 413 bps YoY to 24.8% (in line with our estimate of 25.1%) and gross margins came in at 54.6% (vs. 56.7% in Q4FY22) and (63.8% in Q3FY23)
- AIA reported PAT at ₹ 267.7 crore (in line with estimate of ₹ 270.8 crore), up 38%YoY supported by other income. It has grown 64.7% YoY to ₹ 63.8 crore. In FY23, PAT came in at ₹ 1056.5 crore, up 70.5% on a YoY basis

Q4FY23 Earnings Conference Call highlights

- In Q4FY23, sales volumes remains flat on a YoY basis at 73,505 tonnes while for FY23 it came in at 2,91,342 tonnes, which grew 11.9% YoY. Mining segment volumes increased 8.7% YoY to 44,284 tonnes in Q4FY23 and 1,92,352 tonnes in FY23, which grew 12.6%. For cement & others segment, volumes de-grew 11.6% YoY to 25,256 tonnes in Q4FY23 while in FY23 it came in at 98,990, up 10.4% YoY
- For Q4FY23, net realisation per tonne increased 15.1% to ₹ 170.3 per kg YoY and was marginally up 0.6% QoQ owing to a better product mix and price increases taken earlier. In FY23, it came in at ₹ 166 per kg vs. ₹ 134.9 per kg in FY22, up 23.1%. Q4FY23 realisation reflects the product mix change, with a little more of casting vs. grinding media. In its absence, realisation may be lower by ~3-4%. The management has guided in FY24 it will remain in the range of ₹ 160-170 per kg
- In Q3FY23, there was a one off other income on account of forex gains on weakness in the rupee, which was not there in Q4FY23 and some negative pass-through came that impacted EBITDA ~10% sequentially
- AIA Engineering is doing some restructuring of their non-grinding media plant like, automation, upgradation, debottlenecking, increasing warehouses, extra moulding line, etc, which will increase their non-grinding capacity by 20,000 tonnes by December 2023 for which the company is doing capex of ~₹ 200 crore in FY24. 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 ₹ 150 crore and commission it by the end of FY24. Total capacity is expected to become 520000 TPA. Another ₹ 50 crore capex is planned on renewable energy, which will be utilised as captive consumption
- The order book of the company was at ₹ 770 crore as on Q4FY23 (vs. ₹ 683 crore as on Q3FY23). The company's focus is currently on growth. The Board has recommended a dividend of ~16/per equity share (800%) for FY23 subject to the approval of shareholders of the company

AIA Engineer - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	2.6	2.6	2.9
Social	4.6	7.4	7.4
Governance	83.6	83.6	83.6
Overall ESG Score	30.3	31.2	31.4

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22 (oY (Chg %)	Q3FY23	QoQ (Chg %)	Comments	
Sales	1,273.6	1,340.6	1,093.3	16.5	1,226.9	3.8	
Other Income	63.8	52.6	38.7	64.7	118.0	-45.9	
Raw Materials Expenses	577.7	522.8	473.6	22.0	443.5	30.3	
Employee Cost	39.9	38.9	35.8	11.6	37.8	5.5	
Other Expenditure	340.2	442.4	358.0	-5.0	379.7	-10.4	
EBITDA	315.7	335.9	225.9	39.8	365.7	-13.7	
EBITDA Margin (%)	24.8	25.1	20.7	413 bps	29.8	-502 bps	Margins to remain in range of 22-23%
Depreciation	23.2	34.9	21.3	9.2	24.4	-4.9	
Interest	9.9	5.0	-0.2	-4,833.5	5.2	88.7	
PBT	346.4	348.6	243.6	42.2	454.0	-23.7	
Taxes	78.8	77.7	49.6	58.9	101.5	-22.4	
PAT	267.7	270.8	194.0	38.0	352.5	-24.1	
Key Metrics							
Volume (in tonnes)	73,505	82,223	72,976	0.7	71,439	2.9	
Net Realisation (₹/tonne)	170,303	160,000	147,993	15.1	169,368	0.6	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)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	4,598.7	5,559.8	20.9	5,182.1	6,190.8	19.5
EBITDA	1,111.4	1,294.7	16.5	1,228.2	1,391.2	13.3
EBITDA Margin (%)	24.2	23.3	-91 bps	23.7	22.5	-123 bps
PAT	923.1	1,020.4	10.5	1,009.6	1,090.3	8.0
EPS (₹)	97.9	108.2	10.5	107.0	115.6	8.0

Source: Company, ICICI Direct Research

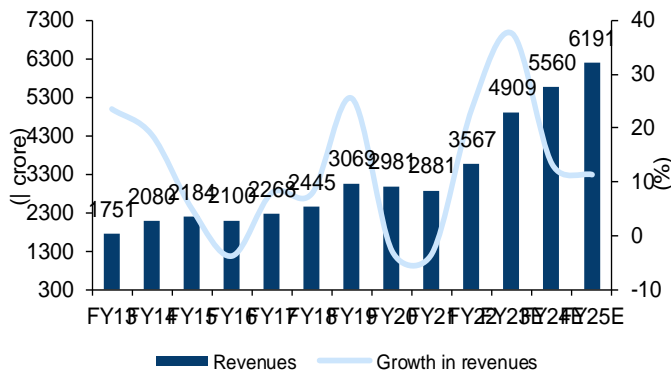
Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY22	FY23	FY24E	FY25E	FY24E	FY25E	
Overall Volumes (tonnes)	260,469	291,342	329,216	365,430	338,479	375,712	Revised volume estimates in line with economic conditions
Mining Volumes (tonnes)	181,542	206,891	238,853	268,742	248,116	279,024	
Capacity	390,000	390,000	440,000	520,000	440,000	520,000	
Net Realisations	134,928	166,060	166,450	166,400	133,500	135,000	

Source: Company, ICICI Direct Research

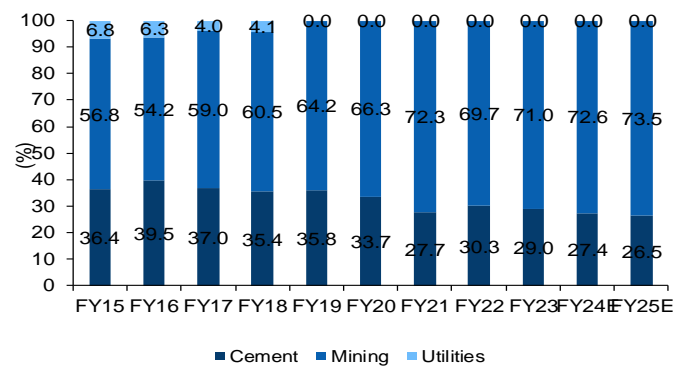
Financial story in charts

Exhibit 4: Trend in revenues...



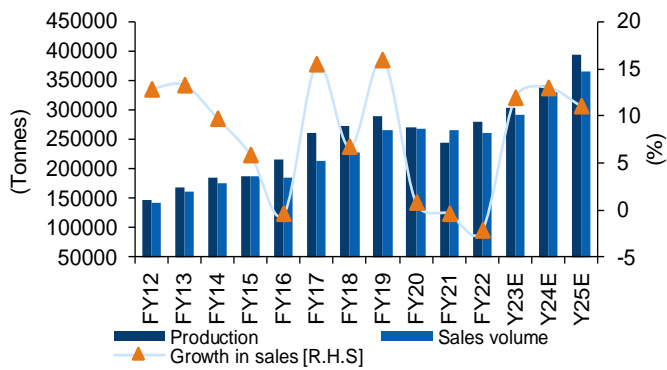
Source: ICICI Direct Research, Company

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



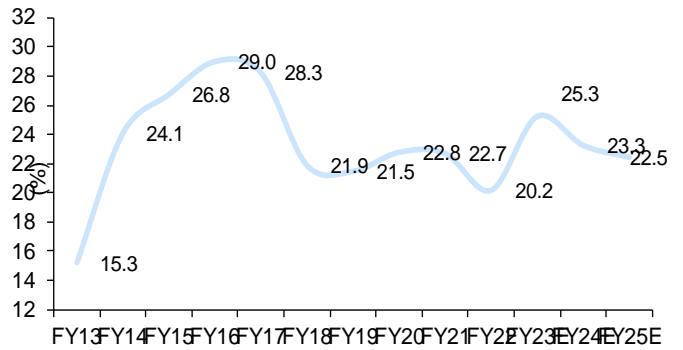
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



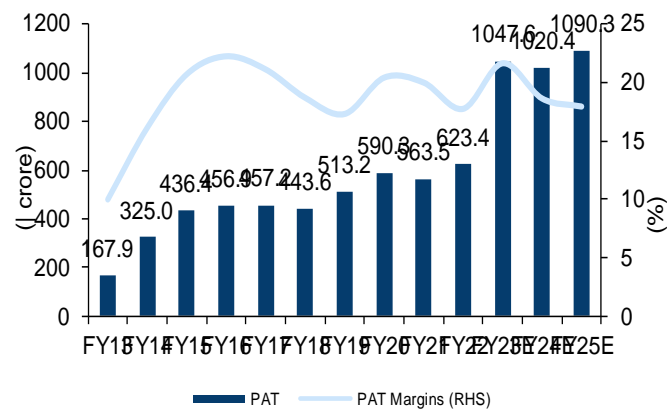
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margin...



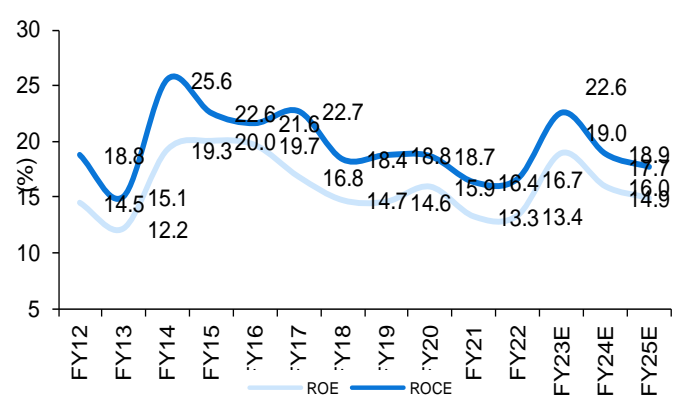
Source: Company, ICICI Direct Research

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	FY23	FY24E	FY25E
Total operating income	3,566.5	4,908.8	5,559.8	6,190.8
Growth (%)	23.8	37.6	13.3	11.3
Raw Material Expenses	1,471.1	2,065.8	2,138.6	2,366.6
Employee Expenses	139.4	151.9	171.7	204.3
Other expenses	1,235.1	1,450.4	1,954.8	2,228.7
Total Operating Expendit	2,845.6	3,668.1	4,265.1	4,799.6
EBITDA	720.9	1,240.6	1,294.7	1,391.2
Growth (%)	10.0	72.1	4.4	7.5
Depreciation	92.1	104.7	121.3	135.7
Interest	0.1	17.4	17.4	0.0
Other Income	156.3	234.5	137.0	137.2
PBT	785.0	1,353.1	1,293.0	1,392.8
Others	0.0	0.0	0.0	0.0
Total Tax	161.7	305.5	272.7	302.4
PAT	623.4	1,047.6	1,020.4	1,090.3
Growth (%)	10.6	68.1	-2.6	6.9
EPS (₹)	66.1	111.1	108.2	115.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	623.4	1,047.6	1,020.4	1,090.3
Add: Depreciation	92.1	104.7	121.3	135.7
(Inc)/dec in Current Assets	-653.3	-85.1	-791.1	229.6
Inc/(dec) in CL and Provisior	42.3	76.6	77.6	62.0
Others	3.3	3.0	5.0	5.0
CF from operating activitie	104.5	1,143.8	428.2	1,517.6
(Inc)/dec in Investments	256.7	-0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-120.0	-200.0	-148.6	-100.0
Others	0.0	0.0	0.0	0.0
CF from investing activitie	-13.9	-1,333.2	-446.7	-1,191.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-181.6	493.2	0.0	0.0
Dividend paid & dividend ta	-85.9	-150.9	-162.2	-176.4
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	-392.8	314.9	-157.2	-171.4
Net Cash flow	-302.2	125.5	-175.7	154.5
Opening Cash	462.2	160.0	285.6	109.8
Closing Cash	160.0	285.6	109.8	264.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	4,637.6	5,507.0	6,370.1	7,289.1
Total Shareholders funds	4,656.5	5,525.8	6,389.0	7,307.9
Total Debt	2.8	496.0	496.0	496.0
Deferred Tax Liability	39.0	39.9	39.9	39.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,724.7	6,086.7	6,955.2	7,879.2
Assets				
Gross Block	1,321.2	1,531.5	1,780.0	1,930.0
Less: Acc Depreciation	554.0	657.7	778.0	912.7
Net Block	767.3	873.8	1,002.0	1,017.3
Capital WIP	210.2	200.0	100.0	50.0
Total Fixed Assets	977.5	1,073.8	1,102.0	1,067.3
Investments	1,304.3	2,752.0	3,052.0	4,122.0
Inventory	1,226.0	1,218.0	1,550.4	1,181.8
Debtors	800.1	860.8	1,276.1	1,416.1
Loans and Advances	1.9	2.2	12.4	3.8
Other Current Assets	137.6	169.7	202.9	210.6
Cash	160.0	285.6	109.8	264.3
Total Current Assets	2,325.7	2,536.3	3,151.7	3,076.5
Creditors	196.7	261.4	292.8	324.9
Provisions	6.5	8.1	54.2	60.1
Total Current Liabilities	302.4	379.0	456.6	518.5
Net Current Assets	2,023.3	2,157.3	2,695.1	2,558.0
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	4,724.7	6,086.7	6,955.2	7,879.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	66.1	111.1	108.2	115.6
Cash EPS	75.9	122.2	121.0	130.0
BV	493.7	585.9	677.4	774.8
DPS	9.1	16.0	17.2	18.7
Cash Per Share	17.0	30.3	11.6	28.0
Operating Ratios (%)				
EBITDA Margin	20.2	25.3	23.3	22.5
PBT / Total Operating incom	22.3	28.0	23.6	22.9
PAT Margin	17.7	21.7	18.6	17.9
Inventory days	127.3	91.9	103.3	70.9
Debtor days	83.1	64.9	85.0	85.0
Creditor days	20.4	19.7	19.5	19.5
Return Ratios (%)				
RoE	13.4	19.0	16.0	14.9
RoCE	16.7	22.6	18.9	17.7
RoIC	23.9	41.4	32.7	37.9
Valuation Ratios (x)				
P/E	39.3	23.4	24.0	22.5
EV / EBITDA	32.0	17.7	16.9	14.8
EV / Net Sales	6.6	4.5	4.0	3.4
Market Cap / Sales	7.0	5.1	4.5	4.0
Price to Book Value	5.3	4.4	3.8	3.4
Solvency Ratios				
Debt/EBITDA	0.0	0.4	0.4	0.4
Debt/Equity	0.0	0.1	0.1	0.1
Current Ratio	7.2	5.9	6.7	5.4
Quick Ratio	3.1	2.7	3.3	3.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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