

AIA Engineering Ltd.

No. of shares (m)	94.3
Mkt cap (Rs crs/\$m)	24900/3054.1
Current price (Rs/\$)	2640/32.4
Price target (Rs/\$)	2976/36.5
52 W H/L (Rs.)	2821/1475
Book Value (Rs/\$)	538/6.6
Beta	0.5
Daily volume NSE (avg. monthly)	60320
P/BV (FY23e/24e)	4.6/4.0
EV/EBITDA (FY23e/24e)	19.1/17.6
P/E (FY23e/24e)	28.8/26.6
EPS growth (FY22/23e/24e)	9.2/39.6/8.1
OPM (FY22/23e/24e)	20.3/22.9/22.3
ROE (FY22/23e/24e)	14.1/17.2/16.0
ROCE (FY22/23e/24e)	13.9/17.0/15.8
D/E ratio (FY22/23e/24e)	0.0/0.0/0.0
BSE Code	532683
NSE Code	AIAENG
Bloomberg	AIAE IN
Reuters	AIAE.NS

Shareholding pattern

	%
Promoters	58.5
MFs / Banks / FIs/Others	20.4
FPIs	18.0
Govt. Holding	0.3
Public & Others	2.8
Total	100.0

As on Dec Sep, 2022

Recommendation

ACCUMULATE

Analyst

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Company Brief

AIA Engineering is engaged in designing, development and manufacturing of grinding media, liners, diaphragms and vertical mill parts which finds application in grinding and crushing operations in mining, cement etc.

Highlights

- Driven by mining business AIA's overall sales volumes in Q2 leapfrogged by 13.7% to 78500 mt when compared to 69064 tons in the same quarter a year ago. - for H1, mining sales volumes advanced by 17%. Of take from new mining clients accounts for much of this buoyancy as travel restrictions post Covid have now all but lifted. In view of renewed optimism in global mining industry, AIA is pulling out all stops to gain market share in high chrome grinding media sector.
- With easing of material prices and fall in shipping costs, realizations for its wares seem to have all but peaked. Firm product realizations - partly due to price increases undertaken to avoid adverse effect of higher raw material costs - helped pushed OPMs to well-nigh record levels, thus precipitating some 93% growth in operating profit and 77.9% growth in post tax earnings to Rs 244.81 crs as against Rs 137.59 crs.
- With little scope of conversion to high chrome products, AIA's cement business has barely shown any vivacity for its sales volumes in the first of current fiscal has jumped by a little pleasing 5.7% to 46579 tons as against 44082 tons in the same period a year ago. Further, AIA's cement business has anything but seen capacity enhancement in recent past.
- To secure long term supplies of ferro chrome and avoid large capex at the same time, AIA Engineering has entered into supply agreement with SAL Steel for supply of ferro chrome on non-exclusive basis. To fund the supplier's working capital/repay loan, AIA has provided a secured inter-corporate deposit of Rs 125 crs.
- The stock currently trades at 28.8x FY23e EPS of Rs 91.75 and 26.6x FY24e EPS of Rs 99.21. Prodded by a no undramatic change in landscape of high chrome grinding media industry in last few quarters, AIA has seen a miracle of sorts as projected earnings for current fiscal has seen no timid upward revisions (over 30% for us). Yet momentum has barely being confined to margins for both mining volumes and product realizations have shown little signs of let up. Yet chance of import restrictions on the material, as seen in Canada and South Africa, can hardly be undermined. Weighing odds, we maintain accumulate rating on the stock with revised target of Rs 2976 (previous target: Rs 2089) based on 30x FY24e earnings.

(Figures in Rs crs)	FY20	FY21	FY22	FY23e	FY24e
Income from operations	2980.88	2881.49	3566.55	4702.36	5124.07
Other Income	141.91	172.20	156.29	141.79	177.37
EBITDA (other income included)	826.67	831.33	881.89	1217.11	1317.48
Profit after EO	589.89	567.80	619.80	865.41	935.71
EPS (Rs)	62.54	60.20	65.71	91.75	99.21
EPS growth (%)	15.4	-3.7	9.2	39.6	8.1

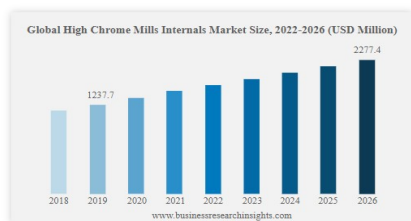
Outlook & Recommendation

High Chrome Mill Internals - Outlook

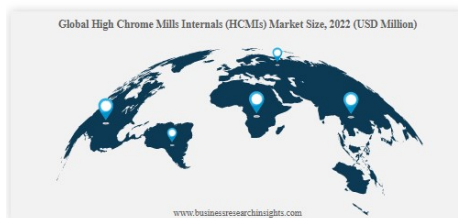
According to an industry report, the global high chrome mill internals market is estimated to grow by 9% CAGR during 2019-2026 period, driven by renewed demand for the products as the effect of pandemic starts to get over. Emergence of several construction processes and increasing investments by governments is expected to increase its adoption. Further demand for high chrome wares from cement production facilities and power plants is hardly expected to wane.

As per the report, demand for wares is expected to get a leg up from rising demand for steel, aluminum and other materials from industries. It is further reckoned that its longer shelf life and excellent properties prevent damages and improve safety during extraction processes. Also investments in mineral investments are expected to rise which in turn is expected to harden demand for high chrome mill internals.

Asia Pacific is projected to dominate the high chrome mill internals global market share not least due to rapid urbanization, increasing population and infrastructure development. The emergence of several cement manufacturers and significant investments in creation of renewable energy is expected to increase high chrome mill internals demand. Improvement in energy extraction process and reduction in time consumption is expected to aid adoption of HCMIs in mining sector.



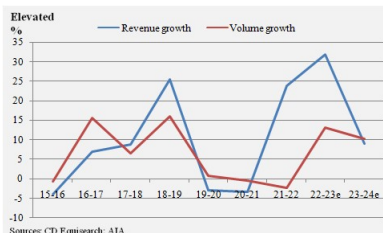
Source: businessresearchinsights.com



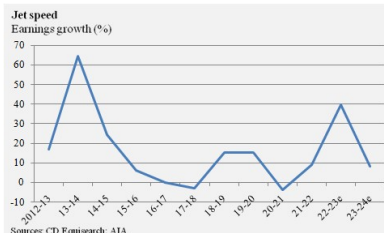
Source: businessresearchinsights.com

Financials & Valuation

All thanks to increasing scope of conversion to high chrome grinding media from forged grinding media in the mining sector, AIA stands no diminished chance to gain market share not least due to perceptible cost advantages from the swap. By some estimate, the share of such products to overall mining sector grinding media market stands at less than 15%, thus implying no small demand potential. Yet cyclicality in mining output and long gestation period in courting new clients undoubtedly hinders business scaling, more so when replacement cycle for some products like mill liners and vertical mills (used in cement industry) hardly resembles that of FMCG industry.



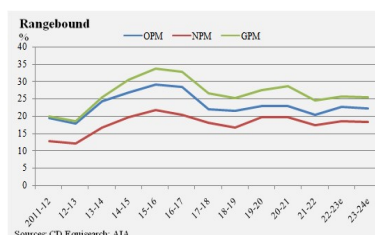
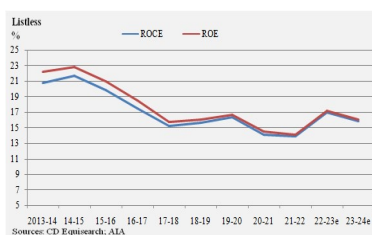
Source: CD Equisearch, AIA



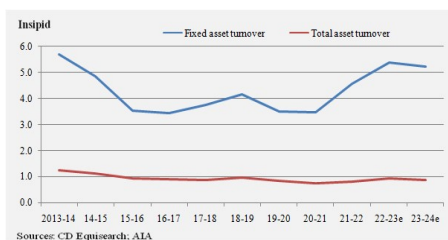
Source: CD Equisearch, AIA

Despite adverse import duties imposed by Canada and South Africa on import of high chrome grinding media during the Covid 19 period - which resulted in loss of some 40000 tons of volumes of grinding media for AIA, the company still managed to post 6% growth in its mining business volumes not least due to successful courting of new clients. Notwithstanding commencement of 50000 tons mill liners plant recently, much of the mid-teen growth (annual) in AIA's mining business over the next two years would largely accrue from new client orders.

Improvement of client sentiment in global mining sector prodded AIA to go ahead with brownfield expansion of grinding media of Rs 200 crs with capacity of 80000 tons. The plant expected to commission by end of next fiscal would take its all product total capacity to 5.2 lakh tons. The mill lining capacity (greenfield) of 50000 tons which recently commenced commercial production would see gradual ramp up with little scope of massive volume contribution in initial years of operation. Yet overall capacity utilization in the next fiscal would barely digress perceptibly from historical mean of some 70-75%.



The stock currently trades at 28.8x FY23e EPS of Rs 91.75 and 26.6x FY24e EPS of Rs 99.21. Motley of factors ranging from high capacity utilization to higher product realizations to higher margins would fructify this fiscal to support post tax earnings growth of well-nigh 40%, though on not higher base. Yet earnings would lack support of robust catalysts to galvanize return on equity (ROE estimated at 17.2% for current fiscal vs 14.1% in the year before) which has being dreadfully weighed down by growing pile of liquid assets. Delectable change in operation margins is unlikely not least due to no puny competitive intensity. Weighing odds, we maintain accumulate rating on the stock with revised target of Rs 2976 (previous target: Rs 2089) based on 30x FY24e earnings. For more info, refer to our January report.



Cross Sectional Analysis

	Equity (Rs crs)	CMP (Rs)	Mcap* (Rs crs)	Sales (Rs crs)	NP (Rs crs)	OPM (%)	NPM (%)	Int. cov	ROE (%)	Mcap/sales	P/E	P/BV
AIA Engg.	19	2640	24900	4350	768	21.9	17.7	83.3	16.2	5.7	32.4	4.9
Mahindra CIE	379	291	11048	10065	610	11.0	6.0	20.2	36.4	1.1	18.1	5.7
MM Forgings	24	868	2095	1279	102	18.3	7.9	6.6	17.1	1.6	20.6	3.3

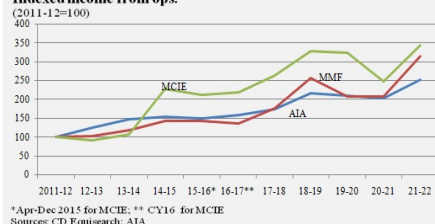
*figures in crores; calculations on ttm basis

Book value adjusted for goodwill and revaluation reserves where applicable; companies given in exhibit not exactly comparable.

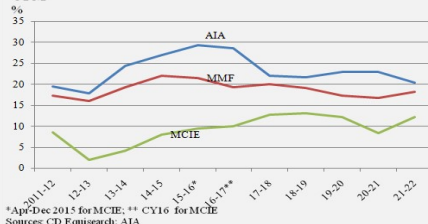
To build its expertise in EV industry, MM Forgings has planned to invest some Rs 200 crs for acquiring 88% stake in Abhinava Rizel Pvt Ltd, a company working on developing EV motor and powertrain technologies. With this investment, MM Forgings expects to provide technical and managerial expertise to accelerate Abhinava Rizel's growth prospects. With MM's investment, Abhinava Rizel would establish its initial manufacturing facility in Oragadam, Tamil Nadu, and while at the same time partner with automotive manufacturers in India. Incorporation of Abhinava Rizel's patented innovations in design yields (by some estimate) around 15% improved overall drive cycle efficiency over conventional traction motors.

On the back of over 30% growth in revenues, Mahindra CIE posted some 18% growth in operating profits but attended with lower operating margins. Its European business did experience lower margins not least due to huge increase in energy prices during summer months and increase in commodity prices in general. Its European business is also expected to face some disruption due to gas shortage arising from Ukrainian war. Mahindra CIE's Indian business reported stable results despite no small volatility in raw material prices. However, its two wheeler business in India has not yet shown signs of perceptible recovery.

Indexed income from ops.



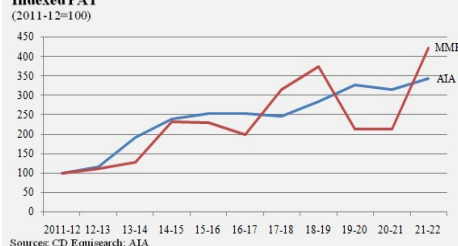
OPM



Indexed operating profit



Indexed PAT



Financials

Quarterly Results

Figures in Rs crs

	Q2FY23	Q2FY22	% chg.	H1FY23	H1FY22	% chg.
Income from operations	1328.66	885.17	50.1	2408.36	1625.11	48.2
Other Income	32.14	35.72	-10.0	52.78	75.24	-29.9
Total Income	1360.80	920.90	47.8	2461.14	1700.35	44.7
Total Expenditure	1016.67	723.24	40.6	1849.18	1291.28	43.2
EBIDTA (other income incl.)	344.13	197.65	74.1	611.95	409.07	49.6
Interest	3.87	0.81	379.5	4.97	1.54	221.9
Depreciation	24.56	21.75	12.9	45.36	45.92	-1.2
PBT	315.70	175.09	80.3	561.63	361.60	55.3
Tax	70.79	37.10	90.8	125.26	74.52	68.1
Net Profit	244.91	137.99	77.5	436.38	287.08	52.0
MI	0.11	0.39	-73.3	1.10	0.16	567.5
Profit after MI	244.81	137.59	77.9	435.28	286.92	51.7
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	244.81	137.59	77.9	435.28	286.92	51.7
EPS	25.95	14.59	77.9	46.15	30.42	51.7

Consolidated Income Statement

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
Income from operations	2980.88	2881.49	3566.55	4702.36	5124.07
Growth (%)	-2.9	-3.3	23.8	31.8	9.0
Other Income	141.91	172.20	156.29	141.79	177.37
Total Income	3122.79	3053.69	3722.84	4844.14	5301.44
Total Expenditure	2296.12	2222.35	2840.95	3627.03	3983.96
EBIDTA (other income incl.)	826.67	831.33	881.89	1217.11	1317.48
Interest	10.07	8.19	8.50	10.32	12.80
EBDT	816.60	823.15	873.38	1206.79	1304.67
Depreciation	97.88	93.50	92.12	95.36	103.12
PBT	718.72	729.65	781.27	1111.43	1201.55
Tax	128.40	163.94	161.65	244.51	264.34
Net Profit	590.32	565.71	619.62	866.91	937.21
MI	-0.04	-0.42	-0.06	1.50	1.50
Profit after MI	590.36	566.12	619.68	865.41	935.71
Extraordinary Item	0.47	-1.68	-0.12	-	-
Adjusted Net Profit	589.89	567.80	619.80	865.41	935.71
EPS	62.54	60.20	65.71	91.75	99.21

Consolidated Balance Sheet

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
SOURCES OF FUNDS					
Share Capital	18.86	18.86	18.86	18.86	18.86
Reserves	3682.42	4225.45	4736.10	5516.62	6358.01
Total Shareholders Funds	3701.29	4244.31	4754.96	5535.48	6376.88
Minority interest	9.25	8.82	8.48	9.98	11.48
Long term debt	10.57	5.77	4.69	4.00	3.00
Total Liabilities	3721.11	4258.90	4768.13	5549.46	6391.35
APPLICATION OF FUNDS					
Gross Block	1,292.94	1,282.94	1352.20	1652.20	1762.20
Less: Accumulated Depreciation	403.29	471.51	562.20	657.56	760.68
Net Block	889.66	811.43	790.00	994.64	1001.52
Capital Work in Progress	32.35	160.95	210.23	125.00	200.00
Investments	1418.49	808.58	1055.41	1700.49	2000.49
Current Assets, Loans & Advances					
Inventory	778.12	754.78	1226.01	1269.64	1357.88
Sundry Debtors	648.19	638.47	800.15	893.45	973.57
Cash and Bank	154.82	1395.45	506.10	447.12	588.65
Loans and Advances	145.41	119.13	139.53	160.94	174.91
Total CA & LA	1726.54	2907.83	2671.78	2771.14	3095.01
Current Liabilities	338.40	429.42	297.50	552.24	478.15
Provisions	24.25	6.50	6.47	8.11	8.86
Total Current Liabilities	362.65	435.92	303.98	560.35	487.01
Net Current Assets	1363.89	2471.91	2367.80	2210.79	2608.00
Net Deferred Tax	-66.70	-46.80	-38.70	-28.76	-18.76
Other Assets (Net Of Liabilities)	83.42	52.84	383.38	547.30	600.10
Total Assets	3721.11	4258.90	4768.13	5549.46	6391.35

Key Financial Ratios

	FY20	FY21	FY22	FY23e	FY24e
Growth Ratios (%)					
Revenue	-2.9	-3.3	23.8	31.8	9.0
EBIDTA	5.3	0.9	5.8	38.0	8.2
Net Profit	15.4	-3.7	9.2	39.6	8.1
EPS	15.4	-3.7	9.2	39.6	8.1
Margins (%)					
Operating Profit Margin	23.0	22.9	20.3	22.9	22.3
Gross Profit Margin	27.4	28.6	24.5	25.7	25.5
Net Profit Margin	19.8	19.7	17.4	18.4	18.3
Return (%)					
ROCE	16.3	14.1	13.9	17.0	15.8
ROE	16.7	14.5	14.1	17.2	16.0
Valuations					
Market Cap / Sales	4.4	6.7	4.3	5.3	4.9
EV/EBIDTA	14.0	20.8	15.2	19.1	17.6
P/E	22.1	34.1	24.7	28.8	26.6
P/BV	3.5	4.7	3.3	4.6	4.0
Other Ratios					
Interest Coverage	72.3	90.4	92.9	108.7	94.9
Debt-Equity Ratio	0.0	0.0	0.0	0.0	0.0
Current Ratio ^a	8.7	7.1	9.6	6.8	8.8
Turnover Ratios					
Fixed Asset Turnover	3.5	3.5	4.6	5.4	5.2
Total Asset Turnover	0.8	0.7	0.8	0.9	0.9
Debtors Turnover	4.4	4.5	5.0	5.6	5.5
Inventory Turnover	2.9	2.9	2.9	2.9	3.0
Creditors Turnover	14.8	14.7	15.7	15.9	14.7
WC Ratios					
Debtor days	82.9	81.5	73.6	65.7	66.5
Inventory days	124.3	126.0	127.3	125.6	120.4
Creditor days	24.6	24.8	23.3	22.9	24.8
Cash conversion cycle	182.6	182.7	177.6	168.4	162.1

Cumulative Financial Data

	FY16-18	FY19-21	FY22-24e
Income from operations	6790	8932	13393
Operating profit	1792	2010	2941
EBIT	1915	2174	3126
PBT	1888	2145	3094
PAT	1357	1669	2421
Production (mt)	652385	823909	897296
Sale volumes (mt)	628989	798705	879175
OPM (%)	26.4	22.5	22.0
NPM (%)	20.0	18.7	18.1
Interest coverage	69.5	74.0	98.9
ROE (%)	17.9	15.6	15.5
ROCE (%)	17.3	15.1	15.2
Fixed asset turnover	3.8	4.1	5.0
Debtors turnover	4.6	4.8	5.5
Inventory turnover	3.3	3.5	3.3
Creditors turnover	12.0	14.3	15.6
Debtors days	80.2	75.9	65.9
Inventory days	111.0	103.5	110.7
Creditor days	30.3	25.6	23.4
Cash conversion cycle	160.8	153.8	153.1

FY16-18 implies three years ending fiscal 18; *as on terminal year

Bolstered by mining business, AIA Engineering is estimated to post 10.1% growth in cumulative volumes (overall) to 8.79 lakh tons during FY22-24e period as against 7.99 lakh tons in the preceding three year period. Mining business will remain mainstay for it would account for some 84% of the incremental volumes during FY22-24 period. Increased pricing power in high chrome products during last few quarters has barely helped suppress margins for OPM is projected to well-nigh flat line during the ensuing period - 22% vs 22.5% in FY19-21 period.

Though commencement of mining liners plant recently would help prop up volumes (though barely meaningfully) , yet large stock of liquid investments has little power to boost ROE - estimated to flat line to 15.5% despite 45.1% growth in cumulative post tax earnings during FY22-24e period (see table). In light of sub-optimal return on capital employed, fall in interest costs and increased momentum in earnings post lifting of Covid -19 restrictions barely give any impression of existence of "business catalysts" of pertinent type. With scarcely diminishing stock of liquid assets, flat lining of cash conversion cycle in the projected period has little significance whatsoever.

Financial Summary – US dollar denominated

million \$	FY20	FY21	FY22	FY23e	FY24e
Equity capital	2.5	2.6	2.5	2.3	2.3
Equity shareholders' funds	488.3	563.2	613.4	665.0	768.2
Total debt	16.3	25.9	0.8	25.0	12.6
Net fixed assets (incl CWIP)	119.7	129.6	129.3	134.9	144.9
Investments	188.2	110.0	139.2	208.6	245.4
Net current assets	180.9	324.7	301.1	259.6	308.3
Total assets	491.0	565.2	615.2	666.7	769.9
Revenues	420.6	388.3	478.7	576.8	628.5
EBITDA	116.6	112.3	118.4	149.3	161.6
EBDT	115.1	111.2	117.2	148.0	160.0
PBT	101.3	98.6	104.9	136.3	147.4
PAT	83.2	76.5	83.2	106.1	114.8
EPS(\$)	0.88	0.81	0.88	1.13	1.22
Book value (\$)	5.18	5.97	6.50	7.05	8.14

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate (\$81.53/\$)

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY18	FY19	FY20	FY21	FY22
Average	64.45	69.89	70.88	74.20	74.51
Year end	65.04	69.17	75.39	73.50	75.81

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.