CD Equisearch Pvt Ltd

CHANGING DIMENSIONS

July 27, 2023

AIA Engineering Ltd.	
No. of shares (m)	94.3
Mkt cap (Rs crs/$m)	32841/4005.6
Current price (Rs/$)	3482/42.5
Price target (Rs/$)	3869/47.2
52 W H/L (Rs.)	3618/2325
Book Value (Rs/$)	585/7.1
Beta	0.4
Daily volume NSE (avg. monthly)	82750
P/BV (FY24e/25e)	5.1/4.3
EV/EBITDA (FY24e/25e)	19.1/16.8
P/E (FY24e/25e)	29.0/25.2
EPS growth (FY23/24e/25e)	70.4/7.4/14.9
OPM (FY23/24e/25e)	25.3/24.0/23.0
ROE (FY23/24e/25e)	20.8/18.9/18.5
ROCE(FY23/24e/25e)	20.1/17.8/17.5
D/E ratio (FY23/24e/25e)	0.1/0.1/0.1
BSE Code	532683
NSE Code	AIAENG
Bloomberg	AIAE IN
Reuters	AIAE.NS

Shareholding pattern	%
Promoters	58.5
MFs / Banks / FIs/Others	20.9
FPIs	18.1
Govt. Holding	-
Public & Others	2.5
Total	**100.0**

As on 30th June 2023

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

- Strengthened by increased of take of mining wares - 8.7% volume growth in Q4 at a time when overall volumes flat lined all thanks to 11.6% decline in volumes of non-mining wares- AIA reported revenue growth of 16.5% (y-o-y) in Q4FY23. Galvanized by better product mix - though marginally offset by high raw material prices - helped pushed operating margins higher - 24.8% Vs 20.7% in Q4FY23 and thus resulted in all but 40% growth in operating profit; though OPMs in Q4 tumbled discernibly from 29.8% in the third quarter of previous fiscal.
- Other income surged too not least due to higher investment income. Foreign exchange gain though tumbled from some Rs 21.51 crs in Q4 of FY22 to Rs 15.28 crs in Q4 of previous fiscal. Despite some increase in interest expense, PBT advanced by a spiritedly 42.2% and post tax earnings by 37.8% on y-o-y basis.
- After commissioning mill liners plant of 50000 mt, plans are afoot to set up a brown field capacity of grinding media of 80000 mt with an investment of Rs 200 crs. The said plant is expected to be operational by end of current fiscal, though some delay in commissioning cannot be ruled out. Besides, AIA has drawn up plans to set up a non-grinding media capacity of 20000 mt.
- The stock currently trades at 29x FY24e EPS of Rs 120.21 and 25.2x FY25e EPS of Rs 138.17. Notwithstanding friction in demand of high chrome grinding media emanating from long gestation period in courting new clients to cyclicality in mining output to acceptance of product designs, AIA's would manage to post double digit volume growth over the next two years on stable margins. Yet its ROE would barely reflect that optimism - ROE estimated to decline to 18.9% this fiscal from 20.8% in FY23- for it continues to hold little diminishing pools of "liquid" capital which gets invested at puny rates. The current valuation little scope of price appreciation. Weighing odds, we retain our accumulate rating on the stock with revised target of Rs 3869 (previous target: Rs 2976) based on 28x FY25e earnings over a period of 9-12 months.

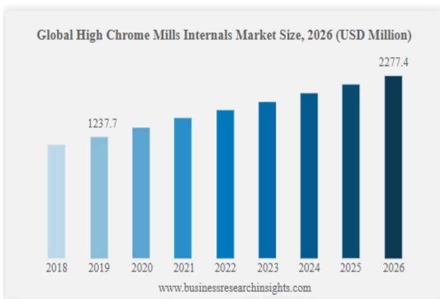
(Figures in Rs crs)	FY21	FY22	FY23	FY24e	FY25e
Income from operations	2881.49	3566.55	4908.77	5427.50	6372.39
Other Income	172.20	156.29	234.54	281.00	341.64
EBITDA (other income included)	831.33	881.89	1475.18	1583.60	1807.29
Profit after EO	567.80	619.80	1055.93	1133.80	1303.23
EPS (Rs)	60.20	65.71	111.95	120.21	138.17
EPS growth (%)	-3.7	9.2	70.4	7.4	14.9

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 rising demand for excellent building materials and energy resources. Thanks to ability of HCMI to reduce time consumption and improve quality of minerals and cement, it may find higher of take all thanks to emergence of several construction projects. Further, the rising demand for HCMI from power plants is expected to buoy sales. Its adoption would also hold key to increasing government investments in infrastructure building or social schemes.

The report also posits that the increasing population in developing countries is expected to boost demand for production of high quality building components. Further, the adoption of the product in several mining sectors enhances the extraction process and reduces time and resource consumption. These factors are expected to fuel demand for HCMI.



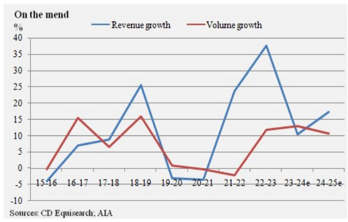
Source: businessresearchinsights.com Source: businessresearchinsights.com

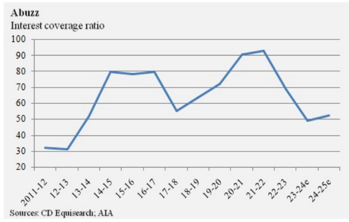
Asia Pacific is estimated to dominate the market share of HCMI not least due to rapid urbanization, increasing population and infrastructure development. Europe is the second largest market thanks to a developed manufacturing sector. North American market for HCMI would get a boost not least due to emergence of several construction projects and significant investments in infrastructure development.

For India, which generates over half of its power from thermal energy, HCMI play a pivotal role. HCMI's are black balls that are used to crush coal evenly and boost the production of thermal power plants. With India's reliance on thermal energy barely expected to wane in coming years, HCMI demand in India would play a critical role in reshaping dynamics of its global supply.

Financials & Valuation

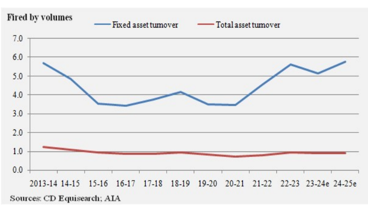
With an aim to buttress its operational wherewithal and production efficiencies, besides others, AIA Engineering plans to incur a capex of Rs 400 crs over the next two years. This plan would include outlay for unveiling a 20000 mt non-grinding media capacity, brown field expansion of grinding media capacity of 80000 mt with investment of Rs 200 crs, setting up of warehouses and increased automation. Upswing in demand from mining sector over the last few quarters - lifting of travel restrictions seems to have stirred this ebullience - has pushed AIA's average capacity utilization to some 65%, thus invoking need for higher capacities in an industry where boosting utilization beyond 80% is no less than an ordeal.

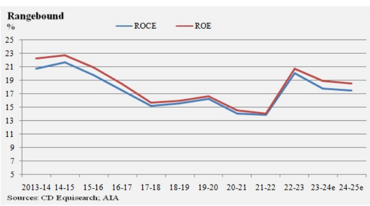




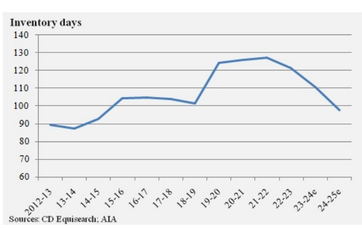
Boosting operating efficiencies and ensuring supply of critical raw materials have become cornerstones of AIA's growth strategy post Covid19 pandemic. This has spurred it to enter in to agreement with SAL Steel Ltd for supply of ferro chrome for three years and to acquire 26% stake in Clean Max Meridius Private Ltd for procuring electricity from their renewable energy projects. Yet these bold endeavors does not seem to alleviate risk of unpredictability of demand from mining sector and of imposition of import duties on high chrome grinding media as was seen in South Africa and Canada in last few years.

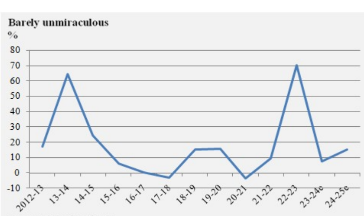
Much of AIA's business scaling over the next few years depend on its ability to create new frontiers for high chrome grinding media for the mining sector where high chrome grinding media accounts for just 15-20% of 3 mn tons total grinding media industry. Courting new clients and generating repeat sales from existing clients are all but essential ingredients for business scaling. Yet cyclicality in mining output and long gestation period in getting orders from 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.





The stock currently trades at 29x FY24e EPS of Rs 120.21 and 25.2x FY25e EPS of Rs 138.17. AIA's revenue growth over the next two years would largely toe a line with its double digit volume growth followed by slight suppression in margins - reversion to mean - as an unusually favorable pricing environment which prevailed much of last fiscal may be difficult to emulate this fiscal. Following healthy product pricing for AIA's wares, earning estimates for current fiscal have been upped by over 21%. Still, the current valuation leaves little room for error for it implies terminal growth rate of 8% for discounting free cash flows to perpetuity. Weighing odds, we retain our accumulate rating on the stock with revised target of Rs 3869 (previous target: Rs 2976) based on 28x FY25e earnings over a period of 9-12 months. For more info refer to our November report.





Cross Sectional Analysis

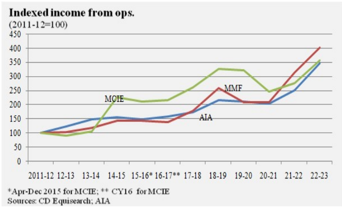
	Equity (Rs crs)	CMP (Rs)	Mcap* (Rs crs)	Sales (Rs crs)	NP (Rs crs)	OPM (%)	NPM (%)	Int. cov	ROE (%)	Mcap/sales	P/E	P/BV
AIA Engg.	19	3482	32841	4909	1056	25.3	21.5	68.7	20.8	6.7	31.1	5.9
Mahindra CIE	379	478	18120	9237	767	14.5	8.3	16.9	33.3	2.0	23.6	6.5
MM Forgings	24	970	2341	1409	126	18.1	8.9	7.0	19.8	1.7	18.6	3.4

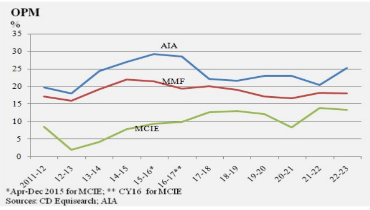
*figures in crores; calculations on ttm basis

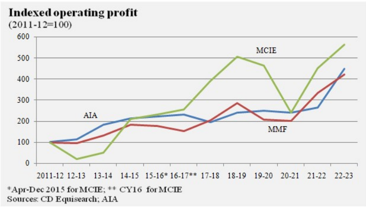
Book value adjusted for goodwill and revaluation reserves where applicable; companies given in exhibit not exactly comparable.

In order to strengthen its focus on Indian market, CIE has decided to divest its German truck forgings operations. Much of this move has been prompted by growing challenges in its forgings vertical operating out of Spain and Lithuania which is witnessing a rapid transition to electric mobility. Increasing adoption of electrification of power trains both in Europe and India has not only enabled CIE to garner good orders in EV segment but also developing links with European and Indian OEMs in EV space. To boost its EV productive ability, CIE is setting up a gears plant in Pune and funds are being channelized into robotic welding at its stamping vertical. Further to cater to EV transmission a part, a new forging and machining line was installed by Bill Forge at Bengaluru.

With increased focus on value addition and EV, MM Forgings plans to invest Rs 250 crs each in the current fiscal and next. Much of these funds would be channelized in building machining capabilities which would be margin-accretive. Its total capex also includes installation of EV related capacities in Oragadam, Tamil Nadu through Abhinava Rizel Private Limited (ARPL), an enterprise MM Forgings acquired last fiscal. Increased transition to machining would elevate MMFL from being a forging supplier to a component supplier, thus lending some sort of competitive advantage - increased value addition to help overcome deterrence in scaling from long replacement cycle of forging products. Enhancement of forgings capacity by some 20000 tons by first quarter of next fiscal will help prop up operating leverage.







Financials

Quarterly Results

Figures in Rs crs

	Q4FY23	Q4FY22	% chg.	FY23	FY22	% chg.
Income from operations	**1273.56**	**1093.34**	**16.5**	**4908.77**	**3566.55**	**37.6**
Other Income	63.81	38.75	64.7	234.54	156.29	50.1
Total Income	**1337.37**	**1132.08**	**18.1**	**5143.31**	**3722.84**	**38.2**
Total Expenditure	957.82	867.41	10.4	3668.13	2840.95	29.1
EBIDTA (other income incl.)	**379.55**	**264.67**	**43.4**	**1475.18**	**881.89**	**67.3**
Interest	9.89	-0.21	-4824.6	20.10	8.50	136.5
Depreciation	23.25	21.29	9.2	93.04	92.12	1.0
PBT	**346.41**	**243.60**	**42.2**	**1362.04**	**781.27**	**74.3**
Tax	78.75	49.57	58.9	305.54	161.65	89.0
Net Profit	**267.66**	**194.02**	**38.0**	**1056.50**	**619.62**	**70.5**
MI	-0.53	-0.59	-9.1	0.57	-0.06	-1008.4
Profit after MI	**268.19**	**194.61**	**37.8**	**1055.93**	**619.68**	**70.4**
Extraordinary Item	-	-	-	0.00	-0.12	-100.0
Adjusted Net Profit	**268.19**	**194.61**	**37.8**	**1055.93**	**619.80**	**70.4**
EPS	28.43	20.63	37.8	111.95	65.71	70.4

Consolidated Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income from operations	**2881.49**	**3566.55**	**4908.77**	**5427.50**	**6372.39**
Growth (%)	-3.3	23.8	37.6	10.6	17.4
Other Income	172.20	156.29	234.54	281.00	341.64
Total Income	**3053.69**	**3722.84**	**5143.31**	**5708.50**	**6714.03**
Total Expenditure	2222.35	2840.95	3668.13	4124.90	4906.74
EBIDTA (other income incl.)	**831.33**	**881.89**	**1475.18**	**1583.60**	**1807.29**
Interest	8.19	8.50	20.10	30.14	32.68
EBDT	**823.15**	**873.38**	**1455.08**	**1553.46**	**1774.61**
Depreciation	93.50	92.12	93.04	99.23	103.16
PBT	**729.65**	**781.27**	**1362.04**	**1454.23**	**1671.45**
Tax	163.94	161.65	305.54	319.93	367.72
Net Profit	**565.71**	**619.62**	**1056.50**	**1134.30**	**1303.73**
MI	-0.42	-0.06	0.57	0.50	0.50
Profit after MI	**566.12**	**619.68**	**1055.93**	**1133.80**	**1303.23**
Extraordinary Item	-1.68	-0.12	-	-	-
Adjusted Net Profit	**567.80**	**619.80**	**1055.93**	**1133.80**	**1303.23**
EPS	60.20	65.71	111.95	120.21	138.17

Consolidated Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
SOURCES OF FUNDS					
Share Capital	18.86	18.86	18.86	18.86	18.86
Reserves	4225.45	4736.10	5672.46	6655.34	7788.79
Total Shareholders Funds	**4244.31**	**4754.96**	**5691.33**	**6674.21**	**7807.66**
Minority interest	8.82	8.48	8.94	9.44	9.94
Long term debt	5.77	4.69	3.00	3.00	3.00
Total Liabilities	**4258.90**	**4768.13**	**5703.26**	**6686.64**	**7820.59**
APPLICATION OF FUNDS					
Gross Block	1,282.94	1352.20	1657.99	1907.99	1957.99
Less: Accumulated Depreciation	471.51	562.20	655.24	754.47	857.63
Net Block	**811.43**	**790.00**	**1002.75**	**1153.52**	**1100.36**
Capital Work in Progress	160.95	210.23	107.44	157.44	207.44
Investments	808.58	1055.41	2254.32	3000.80	4000.80
Current Assets, Loans & Advances					
Inventory	754.78	1226.01	1218.02	1278.92	1342.87
Sundry Debtors	638.47	800.15	860.84	946.92	1041.61
Cash and Bank	1395.45	506.10	805.99	711.43	749.21
Loans and Advances	119.13	139.53	174.10	193.22	215.07
Total CA & LA	**2907.83**	**2671.78**	**3058.94**	**3130.49**	**3348.77**
Current Liabilities	429.42	297.50	866.91	903.14	987.90
Provisions	6.50	6.47	8.08	9.26	10.48
Total Current Liabilities	**435.92**	**303.98**	**874.99**	**912.40**	**998.38**
Net Current Assets	2471.91	2367.80	2183.95	2218.09	2350.39
Net Deferred Tax	-46.80	-38.70	-39.13	-39.27	-40.27
Other Assets (Net Of Liabilities)	52.84	383.38	193.93	196.05	201.87
Total Assets	**4258.90**	**4768.13**	**5703.26**	**6686.64**	**7820.59**

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Revenue	-3.3	23.8	37.6	10.6	17.4
EBIDTA	0.9	5.8	67.2	7.3	14.1
Net Profit	-3.7	9.2	70.4	7.4	14.9
EPS	-3.7	9.2	70.4	7.4	14.9
Margins (%)					
Operating Profit Margin	22.9	20.3	25.3	24.0	23.0
Gross Profit Margin	28.6	24.5	29.6	28.6	27.8
Net Profit Margin	19.7	17.4	21.5	20.9	20.5
Return (%)					
ROCE	14.1	13.9	20.1	17.8	17.5
ROE	14.5	14.1	20.8	18.9	18.5
Valuations					
Market Cap / Sales	6.7	4.3	5.6	6.1	5.2
EV/EBIDTA	20.8	15.2	16.8	19.1	16.8
P/E	34.1	24.7	25.9	29.0	25.2
P/BV	4.7	3.3	5.0	5.1	4.3
Other Ratios					
Interest Coverage	90.4	92.9	68.7	49.2	0.0
Debt-Equity Ratio	0.0	0.0	0.1	0.1	0.1
Current Ratio[a]	7.1	9.6	5.2	5.7	6.2
Turnover Ratios					
Fixed Asset Turnover	3.5	4.6	5.6	5.1	5.8
Total Asset Turnover	0.7	0.8	1.0	0.9	0.9
Debtors Turnover	4.5	5.0	5.9	6.0	6.4
Inventory Turnover	2.9	2.9	3.0	3.3	3.7
Creditors Turnover	14.7	15.7	16.0	15.0	16.3
WC Ratios					
Debtor days	81.5	73.6	61.8	60.8	56.9
Inventory days	126.0	127.3	121.6	110.5	97.5
Creditor days	24.8	23.3	22.8	24.3	22.5
Cash conversion cycle	182.7	177.6	160.6	147.0	132.0

Cumulative Financial Data

Figures in Rs crs	FY17-19	FY20-22	FY23-25e
Income from operations	7761	9429	16709
Operating profit	1842	2072	4009
EBIT	1972	2258	4571
PBT	1942	2231	4488
PAT	1411	1777	3493
Production (mt)	752602	812833	981164
Sale volumes (mt)	708375	794000	984418
Mining volumes (mt)		528960	672352
Cement volumes (mt)		265040	312066
OPM (%)	23.7	22.0	24.0
NPM (%)	18.2	18.8	20.9
Interest coverage	64.9	84.4	55.1
ROE (%)	16.5	14.7	19.0
ROCE (%)	15.9	14.6	18.5
Fixed asset turnover	3.5	3.9	6.0
Debtors turnover	4.6	4.2	6.0
Inventory turnover	3.4	2.4	3.3
Creditors turnover	14.5	13.2	16.5
Debtors days	80.2	87.5	60.3
Inventory days	108.7	149.7	110.7
Creditor days	25.2	27.6	22.1
Cash conversion cycle	163.8	209.6	149.0

FY17-19 implies three years ending fiscal 19; *as on terminal year

Bolstered by courting of new mining clients as well conversion from forged to high chrome for mining business, AIA would report cumulative revenue growth of over 77% during FY23-25e period, a far cry from the reading in the previous three year period (see table). Superior product mix coupled with increased sales "velocity" explains much of the spirited advance in cumulative operating profit over the projected period - estimated to rise by 93.5%. At a time when its cement grinding media business suffers from lack of growth catalysts, its mining business would take up the slack during the projected period by posting volume growth of 27.1% during the three year period.

Yet AIA's growing stock of "liquid assets" - which gets invested at sub-optimal rate of return - has the potential to impede surge in return on capital - though ROE estimated to rise to some 19% during FY23-25e period from 14.7% but it barely reflects the stellar effect generated by nearly doubling of post tax earnings during the projected period. Scarcely timid fixed asset turnover during the projected period - from 3.9 in FY20-22 to 6 in FY23-25 period - underscores dual affect of growing sales volumes (galvanized by superior product mix) and higher product realizations. Cash conversion cycle is also projected to perceptibly improve in the ensuing period (see table).

Financial Summary – US dollar denominated

million $	FY21	FY22	FY23	FY24e	FY25e
Equity capital	2.6	2.5	2.3	2.3	2.3
Equity shareholders' funds	563.2	613.4	671.5	790.9	926.9
Total debt	25.9	0.8	60.7	61.4	67.4
Net fixed assets (incl CWIP)	129.6	129.3	132.6	157.5	157.1
Investments	110.0	139.2	274.2	366.0	488.0
Net current assets	324.7	301.1	247.3	249.8	263.7
Total assets	565.2	615.2	672.9	792.4	928.4
Revenues	388.3	478.7	610.6	662.0	777.2
EBITDA	112.3	118.4	183.5	193.2	220.4
EBDT	111.2	117.2	181.0	189.5	216.4
PBT	98.6	104.9	169.4	177.4	203.9
PAT	76.5	83.2	131.3	138.3	159.0
EPS($)	0.81	0.88	1.39	1.47	1.69
Book value ($)	5.97	6.50	7.12	8.39	9.83

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate ($81.99/$)

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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/$	FY19	FY20	FY21	FY22	FY23
Average	69.89	70.88	74.20	74.51	80.39
Year end	69.17	75.39	73.50	75.81	82.22

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.