

AIA Engineering Ltd.

No. of shares (m)	94.3
Mkt cap (Rs crs/\$m)	34654/4158.8
Current price (Rs/\$)	3674/44.1
Price target (Rs/\$)	3460/41.5
52 W H/L (Rs.)	4625/2789
Book Value (Rs/\$)	688/8.3
Beta	0.6
Daily volume NSE (avg. monthly)	119500
P/BV (FY24e/25e)	4.6/3.9
EV/EBITDA (FY25e/26e)	18.1/16.7
P/E (FY25e/26e)	27.7/25.5
EPS growth (FY24/25e/26e)	7.6/10.4/8.5
OPM (FY24/25e/26e)	27.5/26.5/26.0
ROE (FY24/25e/26e)	18.9/17.8/16.6
ROCE(FY24/25e/26e)	17.8/17.0/15.9
D/E ratio (FY24/25e/26e)	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	20.5
FPIs	18.2
Govt. Holding	-
Public & Others	2.8
Total	100.0

As on 31st March 2024

Recommendation

HOLD

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

- With mining volumes taking a blip (a decline of 6.9%), overall volumes slid by 2.8% to 71433 tons in Q4FY24 when compared with 73505 tons in the same quarter a year ago, thus barely belying the trends observed for the full year when overall volumes rose by a dismal 2.1% and mining volumes advanced by hardly splendid 5.9%. Poor showing of volumes did not help save blushes for operating profit declined by 5.8% to Rs 297.41 crs, thus undercutting the positive impact of higher margins - which expanded by all but 100 bps.
- Rise in other income coupled with discernible fall in interest costs helped contained PBT fall to 1% and post-tax earnings to a shade under 3%. After incurring capex of some Rs 211 crs last fiscal, the company is all geared up to expand its capacity by some 56000 tons (debottlenecking included) in the current fiscal which along with capex on other projects would entail an investment of Rs 200 crs. Apart from capex, the company managed to acquire 43% equity of MPS at a cost of Rs 64 crs last fiscal.
- In an unfortunate development, Magotteaux has recently filed a petition before International Trade Administration, United States Department of Commerce and United States International Trade Commission, USA seeking imposition of antidumping and countervailing duties on certain high chrome cast iron grinding media imported from India. This is triggered by injury caused by the industry in USA due to import of grinding media from India at a subsidized price.
- The stock currently trades at 27.7x FY25e EPS of Rs 132.88 and 25.5x FY26e EPS of Rs 144.17. Thanks to shortfall in revenues, the earnings for the current fiscal has been cut by some 4%. Slower than expected conversion to high chrome mill internals would prevent AIA's business scaling. Cost optimization measures coupled with specialization in processing the raw material would prevent in sharp erosion of operating margins. Despite its competitive advantage in manufacturing and distribution, ROE would struggle to head past 20% mark in the next two years. Weighing odds, we assign "hold" rating on the stock with revised target of Rs 3460 (previous target" Rs 3869) based on 24x FY26e earnings.

(Figures in Rs crs)	FY22	FY23	FY24	FY25e	FY26e
Income from operations	3566.55	4908.77	4853.76	5481.05	5854.17
Other Income	156.29	234.54	281.40	288.42	366.35
EBITDA (other income included)	881.89	1479.91	1615.16	1740.90	1888.43
Profit after EO	619.80	1055.80	1135.57	1253.28	1391.71
EPS (Rs)	65.71	111.94	120.40	132.88	144.17
EPS growth (%)	9.2	70.3	7.6	10.4	8.5

Outlook & Recommendation

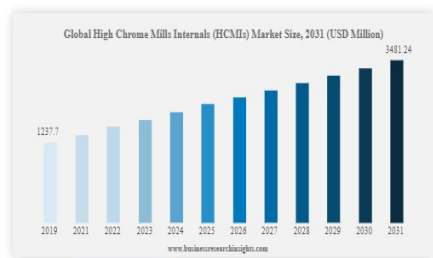
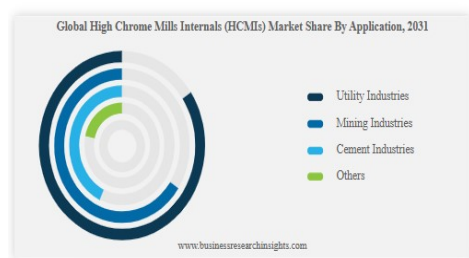
High Chrome Mill Internals - Outlook

According to one of the industry reports, the global high chrome mill internals (HCMIs) market size is estimated to grow at a CAGR of 9% during 2019 and 2031. Rising demand for HCMIs from cement production facilities and power plants is estimated to buoy sales. In other words, the increasing adoption of the material in construction and mining sector is expected to bolster market growth. Emergence of several construction processes and increasing government incentives is expected to fan its adoption.

Demand for the material will also get a boost from evolving consumer preferences and adoption of advanced housing facilities. HCMIs produce excellent materials that are free of impurities, which, in turn, increase its demand from the construction industry. Increasing investments in the construction of green buildings are expected to boost the product's demand. The demand for the material will also be influenced by increasing population in developing countries and adoption of the product in several mining sectors - which would enhance the extraction process and reduce time and resource consumption.

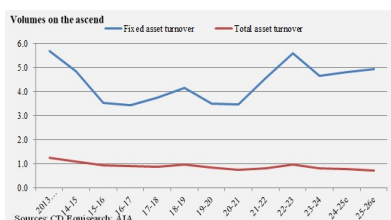
As HCMIs possess excellent strength and completes the extraction process with efficiency, increasing demand for steel, aluminum, and other materials from industries is projected to propel the demand for the product dramatically. Further, its longer shelf-life and excellent properties prevent damages and improve safety during extraction processes.

Asia Pacific is expected to dominate the high chrome mill internals (HCMIs) market share because of its increasing demand from the construction sector. Rapid urbanization, increasing population, and infrastructure development would support demand. The emergence of several cement manufacturers and significant investments in the creation of renewable energy will help increase demand for the material.



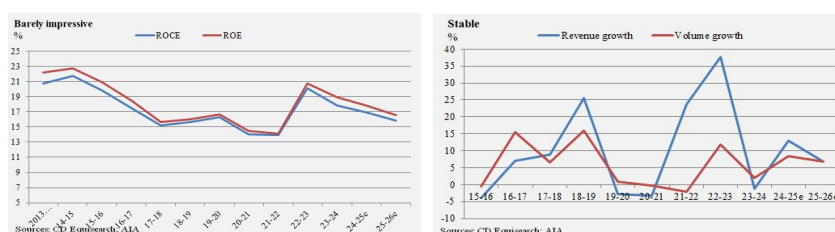
Financials & Valuation

Current capacity utilization of a shade under 70% has prodded AIA from garnering higher conversion volumes of high chrome mill internals where industry (mining) wide demand opportunity of 1.5mn to 2 mn tons exists. Subdued capacity utilization has not deterred it from hiking capacity by some 56000 tons through a mix of debottlenecking and other expansions. Capex of Rs 200 crs planned for current fiscal would include investment of Rs 35 crs for power plant beside Rs 90 crs for grinding media capacity of 36000 tons.



Challenges abound for Magotteaux has filed a petition before US Government authorities for imposition of antidumping and countervailing duties on certain high chrome cast iron grinding media imported from India. This could impact well-nigh 10% of the volumes of AIA, much like the impact on volumes felt when antidumping duties were imposed in Canada, Brazil and South Africa. This unfavorable event would keep annual overall volume growth to well below 10% over the next two years.

Margins which peaked last fiscal at some 27.5% last fiscal could see moderation of some sort not least due to subdued growth in overall volumes. Though US imposing anti-dumping duty may have an immediate impact, revival in volumes from Canada could offset some of the injury. Thence, OPMs are estimated to fall by some 150 bps over a two year period; although a sharper fall in margins cannot be ruled out. Impaired by barely vivacious earnings growth, ROE would trudge at sub 18% over the next two years - FY26s ROE estimated at a barely noteworthy 16.6%.



The stock currently trades at 27.7x FY25e EPS of Rs 132.88 and 25.5x FY26e EPS of Rs 144.17. With revenue booking barely showing "acceleration" of any significant scale, post-tax earnings would grow at 9.4% CAGR over the next few years. Its competitive advantage in high chrome mill internals have scarcely come to rescue when foreign governments have imposed trade restrictions on its wares - as a measure of that, its overall volumes have grown at a CAGR of just 2.3% in the last five years. Weighing odds, we assign "hold" rating on the stock with revised target of Rs 3460 (previous target: Rs 3869) based on 24x FY26e earnings. For more info, refer to our July 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	3674	34654	4854	1136	27.5	23.4	53.4	18.9	7.1	30.5	5.3
CIE Automotive	379	539	20455	9267	808	15.1	8.7	11.3	28.6	2.2	25.3	6.5
MM Forgings	24	1269	3064	1527	145	18.9	9.5	5.7	19.2	2.0	21.2	3.8

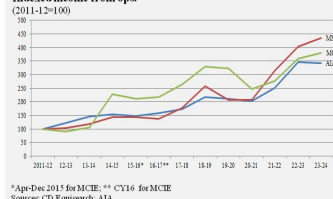
*figures in crores; calculations on ttm basis

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

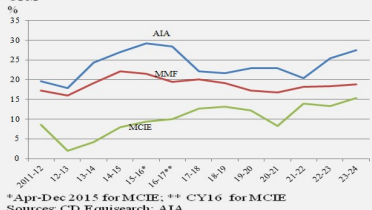
CIE expects to benefit from emerging trends in automotive industry which would include light weighting, safety, premiumisation and transition to EVs. These trends could lead to more opportunities in India which the company expects to tap with its enviable bouquet of products for EVs: shafts & gears for transmission; housings for motors & electronics; battery trays and parts for the cooling & auxiliary systems of batteries. To grow its order book in India, the company has laid increased focus on improving new product development. Cost escalation continues to plague CIE's European operations and as a defense mechanism it is developing aluminum forgings as an alternative to crankshafts.

Operating profit of MM Forgings in Q4FY24 grew by 17.6% to Rs 75.26 crs (Rs 64.01 crs) riding on 4.1% rise in revenues. Softening of raw material presumably explains much of the expansion in operating margins by some 230 bps to 19.4%. PBT rose by 16.4% and post-tax earnings advanced by 34.3% to Rs 38.04 crs as compared to Rs 28.33 crs in the same quarter a year ago. Exports, which grew by some 15% during the last fiscal, constituted some 37% of total revenues.

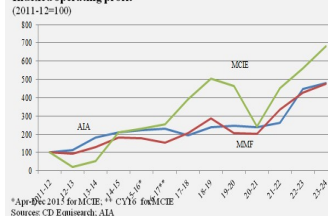
Indexed income from ops.



OPM



Indexed operating profit



Indexed PAT



Financials

Quarterly Results

Figures in Rs crs

	Q4FY24	Q4FY23	% chg.	FY24	FY23	% chg.
Income from operations	1150.22	1273.56	-9.7	4853.76	4908.77	-1.1
Other Income	76.46	63.81	19.8	281.40	234.54	20.0
Total Income	1226.68	1337.37	-8.3	5135.16	5143.31	-0.2
Total Expenditure	852.81	957.82	-11.0	3520.01	3663.40	-3.9
EBIDTA (other income incl.)	373.87	379.55	-1.5	1615.16	1479.91	9.1
Interest	6.39	9.89	-35.4	28.38	24.84	14.3
Depreciation	24.53	23.25	5.5	100.27	93.04	7.8
PBT	342.96	346.41	-1.0	1486.51	1362.04	9.1
Tax	83.24	78.75	5.7	351.03	305.54	14.9
Net Profit	259.72	267.66	-3.0	1135.48	1056.50	7.5
MI	-0.06	-0.53	-88.1	1.42	0.57	148.4
Profit after MI	259.78	268.19	-3.1	1134.06	1055.93	7.4
Extraordinary Item	-	-	-	-	0.13	-100.0
Adjusted Net Profit	259.78	268.19	-3.1	1134.06	1055.80	7.4
EPS	0.00	28.43	-100.0	120.40	111.94	7.6

Consolidated Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24	FY25e	FY26e
Income from operations	2881.49	3566.55	4908.77	4853.76	5481.05	5854.17
Growth (%)	-3.3	23.8	37.6	-1.1	12.9	6.8
Other Income	172.20	156.29	234.54	281.40	288.42	366.35
Total Income	3053.69	3722.84	5143.31	5135.16	5769.47	6220.52
Total Expenditure	2222.35	2840.95	3663.40	3520.01	4028.57	4332.09
EBIDTA (other income incl.)	831.33	881.89	1479.91	1615.16	1740.90	1888.43
Interest	8.19	8.50	24.84	28.38	32.64	35.40
EBDT	823.15	873.38	1455.08	1586.78	1708.26	1853.03
Depreciation	93.50	92.12	93.04	100.27	104.05	112.30
PBT	729.65	781.27	1362.04	1486.51	1604.21	1740.74
Tax	163.94	161.65	305.54	351.03	352.93	351.03
Net Profit	565.71	619.62	1056.50	1135.48	1251.28	1389.71
MI	-0.42	-0.06	0.5714	1.42	1.00	1.00
JV Profit	-	-	-	1.51	3.00	3.00
Profit after MI	566.12	619.68	1055.93	1135.57	1253.28	1391.71
Extraordinary Item	-1.68	-0.12	0.13	-	-	-
Adjusted Net Profit	567.80	619.80	1055.80	1135.57	1253.28	1391.71
EPS	60.20	65.71	111.94	120.40	132.88	144.17

Consolidated Balance Sheet

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
SOURCES OF FUNDS					
Share Capital	18.86	18.86	18.86	18.86	18.86
Reserves	4736.10	5672.46	6638.88	7741.25	8950.11
Total Shareholders Funds	4754.96	5691.33	6657.74	7760.11	8968.98
Minority interest	8.48	8.94	10.29	11.29	12.29
Long term debt	4.69	3.00	3.41	3.50	3.75
Total Liabilities	4768.13	5703.26	6671.44	7774.90	8985.02
APPLICATION OF FUNDS					
Gross Block	1352.20	1655.97	1863.79	2063.79	2163.79
Less: Accumulated Depreciation	562.20	653.22	753.49	857.54	969.84
Net Block	790.00	1002.75	1110.29	1206.25	1193.95
Capital Work in Progress	210.23	107.44	92.17	80.00	75.00
Investments	1055.41	2254.32	3043.11	3866.49	4766.49
Current Assets, Loans & Advances					
Inventory	1226.01	1218.02	1204.66	1264.89	1290.19
Sundry Debtors	800.15	860.84	880.31	986.59	1053.75
Cash and Bank	506.10	805.99	553.60	636.64	920.17
Loans and Advances	139.53	174.10	383.43	412.42	441.97
Total CA & LA	2671.78	3058.94	3022.00	3300.54	3706.08
Current Liabilities	297.50	866.91	741.37	808.56	882.36
Provisions	6.47	8.08	7.21	7.57	7.94
Total Current Liabilities	303.98	874.99	748.57	816.12	890.31
Net Current Assets	2367.80	2183.95	2273.43	2484.41	2815.77
Net Deferred Tax	-38.70	-39.13	-57.10	-64.01	-69.01
Other Assets (Net Of Liabilities)	383.38	193.93	209.53	201.75	202.80
Total Assets	4768.13	5703.26	6671.44	7774.90	8985.02

Key Financial Ratios

	FY22	FY23	FY24	FY25e	FY26e
Growth Ratios (%)					
Revenue	23.8	37.6	-1.1	12.9	6.8
EBIDTA	5.8	67.8	9.2	7.8	8.5
Net Profit	9.2	70.3	7.6	10.4	8.5
EPS	9.2	70.3	7.6	10.4	8.5
Margins (%)					
Operating Profit Margin	20.3	25.4	27.5	26.5	26.0
Gross Profit Margin	24.5	29.6	32.7	31.2	31.7
Net Profit Margin	17.4	21.5	23.4	22.8	23.2
Return (%)					
ROCE	13.9	20.1	17.8	17.0	15.9
ROE	14.1	20.8	18.9	17.8	16.6
Valuations					
Market Cap / Sales	4.3	5.6	7.6	6.3	5.9
EV/EBIDTA	15.2	16.8	21.0	18.1	16.7
P/E	24.7	25.9	32.5	27.7	25.5
P/BV	3.3	5.0	5.7	4.6	3.9
Other Ratios					
Interest Coverage	92.9	55.8	53.4	50.1	50.2
Debt-Equity Ratio	0.0	0.1	0.1	0.1	0.1
Current Ratio ^a	9.6	5.2	6.7	7.3	7.9
Turnover Ratios					
Fixed Asset Turnover	4.6	5.6	4.7	4.8	5.0
Total Asset Turnover	0.8	1.0	0.8	0.8	0.7
Debtors Turnover	5.0	5.9	5.6	5.9	5.7
Inventory Turnover	2.9	3.0	2.9	3.3	3.4
Creditors Turnover	15.7	16.0	16.0	21.5	21.0
WC Ratios					
Debtor days	73.6	61.8	65.5	62.2	63.6
Inventory days	127.3	121.8	125.6	111.9	107.6
Creditor days	23.3	22.8	22.8	17.0	17.4
Cash conversion cycle	177.6	160.7	168.3	157.0	153.9

Cumulative Financial Data

Figures in Rs crs	FY18-20	FY21-23	FY24-26e
Income from operations	8496	11357	16189
Operating profit	1888	2632	4308
EBIT	2030	2917	4928
PBT	1998	2875	4831
PAT	1544	2243	3749
Production (mt)	790754	829647	962287
Sale volumes (mt)	761127	818113	964123
Mining volumes (mt)		544038	673677
Cement volumes (mt)		274075	290446
OPM (%)	22.2	23.2	26.6
NPM (%)	18.2	19.8	23.1
Interest coverage	63.4	70.2	51.1
ROE (%)	16.3	16.3	17.5
ROCE (%)	15.8	15.4	16.6
Fixed asset turnover	3.7	4.1	5.0
Debtors turnover	5.0	5.0	5.6
Inventory turnover	3.4	2.9	3.2
Creditors turnover	16.1	14.6	16.6
Debtors days	73.7	72.7	64.7
Inventory days	108.7	125.3	115.6
Creditor days	22.7	25.0	22.0
Cash conversion cycle	159.7	173.1	158.3

FY18-20 implies three years ending fiscal 20; *as on terminal year

Base effect may start to catch up as AIA's sales volumes (cumulative) from the mining sector would struggle to retain steam during FY24-26 period after the noteworthy rise in FY23 - the increase is estimated at some 24% over a three year period. With OPMs expected to stabilize at 26.6% - though softening of margins is not a distant possibility - earnings growth would better FY21-23's at 67.1% (see table). Yet ROE during the projected period would fall victim to the rising pile of liquid assets which has shown no signs of declining - estimated at 17.5% during FY24-26 as against 16.3%.

Yet fixed asset turnover would improve from 4.1 to 5.0 during FY24-26 period not least due to gradual rise in revenues largely backed by higher volumes, though mining sector would contribute much to the growth in volumes. Better management of receivables and inventory would help in shortening the cash conversion cycle to some 158 days during FY24-26 period from 173 days in the preceding three year period (see table). Interest coverage ratio would all but remain steady during the projected period.

Financial Summary – US dollar denominated

million \$	FY22	FY23	FY24	FY25e	FY26e
Equity capital	2.5	2.3	2.3	2.3	2.3
Equity shareholders' funds	613.4	671.5	778.1	910.8	1053.6
Total debt	0.8	60.7	54.9	60.4	66.5
Net fixed assets (incl CWIP)	129.3	132.6	141.8	152.0	149.9
Investments	139.2	274.2	365.0	464.0	572.0
Net current assets	301.1	247.3	254.6	280.0	0.0
Total assets	615.2	672.9	779.7	912.6	1055.5
Revenues	478.7	610.6	586.3	657.8	702.6
EBITDA	118.4	184.1	195.1	208.9	0.0
EBDT	117.2	181.0	191.7	205.0	0.0
PBT	104.9	169.4	179.5	192.5	0.0
PAT	83.2	131.3	137.2	150.4	167.0
EPS(\$)	0.88	1.39	1.45	1.59	1.73
Book value (\$)	6.50	7.12	8.25	9.66	11.17

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate (\$83.33/\$)

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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/\$	FY20	FY21	FY22	FY23	FY24
Average	70.88	74.20	74.51	80.39	82.79
Year end	75.39	73.50	75.81	82.22	83.37

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.