

AIA Engineering Ltd.

No. of shares (m)	94.3
Mkt cap (Rs crs/\$m)	17280/2329.5
Current price (Rs/\$)	1832/24.7
Price target (Rs/\$)	2089/28.2
52 W H/L (Rs.)	2224/1751
Book Value (Rs/\$)	469/6.3
Beta	0.3
Daily volume NSE (avg. monthly)	21280
P/BV (FY22e/23e)	3.8/3.3
EV/EBITDA (FY22e/23e)	19.0/15.8
P/E (FY22e/23e)	31.1/26.3
EPS growth (FY21/22e/23e)	-3.7/-2.3/18.4
OPM (FY21/22e/23e)	22.9/20.8/22.0
ROE (FY21/22e/23e)	14.5/12.7/13.5
ROCE(FY21/22e/23e)	14.1/12.3/13.0
D/E ratio (FY21/22e/23e)	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	19.9
FPIs	18.8
Govt. Holding	0.3
Public & Others	2.5
Total	100.0

As on Dec 31, 2021

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 and thermal power generation.

Highlights

- With easing of some travel restrictions and lifting of consumer sentiment, AIA Engineering saw improvement in volumes which grew by 14.5% to 69064 tons in Q2 when compared 60318 tons in Q1; though yoy growth flat lined (growth a shade under 1%). Mining business accounted for much of this rise (up +30.7%) while other businesses slackened. Propelled by price hikes - accentuated by high raw material prices - revenues grew by 19.2% to Rs 885.17 crs in Q2 compared to Rs 742.32 crs in the same quarter a year ago.
- Yet sharp increase in raw materials and freight costs played spoilsport for OPMs declined to a several quarter low of 18.3% from 25.6% in the same quarter last fiscal and 23.2% in Q1FY22, resulting in 14.9% decline in operating profit. But higher other income and lower depreciation costs save blushes for post tax earnings declined by just 6.3%. Attempts will be made to pass on high raw material increases over the next few quarters.
- With easing of travel in Q2, AIA reported improved of take from India, Africa and some South American nations though volumes from South Africa and Canada sharply declined - cumulative volumes from these two places stood at just 2000 tons from 11000 tons in Q2 of last fiscal. Much of the decline in South African shipments has come due to imposition of 15% custom duty on import of high chrome grinding media in South Africa from all countries except European Union and UK and under FTAs.
- The stock currently trades at 31.1x FY22e EPS of Rs 58.83 and 26.3x FY23e EPS of Rs 69.64. AIA's continuous efforts to tap higher market share in high chrome grinding solutions through process & design improvements, investment in new alloys and automation would lend no small competitive advantage, partially reflected in increased pricing power. Yet business scaling has been impeded by Covid -19 travel restrictions and scarcely faster migration to high chrome grinding solutions - AIA's annual mining volumes have grown a shade under 10% in four years ending FY21. Balancing odds, we assign accumulate rating on the stock with revised target of Rs 2089 (previous target: Rs 2295) based on 30x FY23e earnings.

(Figures in Rs crs)	FY19	FY20	FY21	FY22e	FY23e
Income from operations	3069.50	2980.88	2881.49	3040.31	3437.50
Other Income	120.92	141.91	172.20	175.44	211.34
EBITDA (other income included)	784.37	826.67	831.33	806.46	967.59
Profit after EO	511.07	589.89	567.80	554.85	656.87
EPS (Rs)	54.18	62.54	60.20	58.83	69.64
EPS growth (%)	15.3	15.4	-3.7	-2.3	18.4

Outlook & Recommendation

High Chrome Mill Internals - Outlook

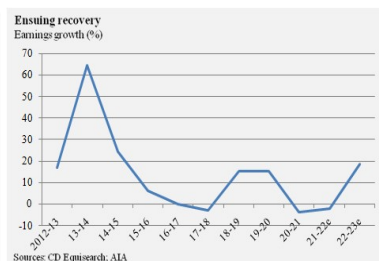
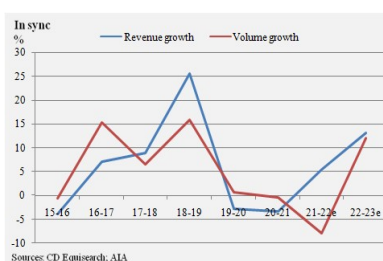
According to a recent study by Prudour, renowned players in global high chrome mill internals market are stepping up efforts to expand their business operations in emerging regions. Major companies in this industry are boosting investments and eying M&A to step up product innovation and expand their product portfolios. The study further contends that global high chrome mill internals market, like so many others, has been affected by the outbreak of Covid 19. Further, the study states, high costs associated with the installation and maintenance of these machines is also a factor that can impair the revenue growth of global high chrome mill internals market over the next few years.

According to report by Global Info Research, the global high chrome mill internals (HCMI) market size is estimated to be worth US\$ 1523.1 million in 2021 and is forecast to a readjusted size of USD 2715.7 million by 2028 with a CAGR of 8.6% during review period. It lists Magotteaux, AIA Engineering, Anhui Fengxing, Ningguo Dongfang, and TOYO Grinding Ball, etc as some of the large manufacturers of the high chrome mill internals (HCMI).

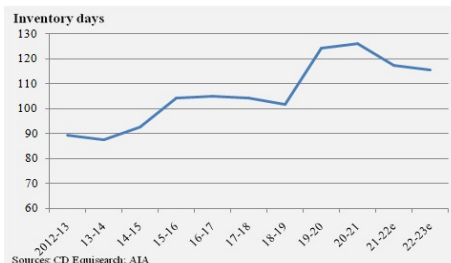
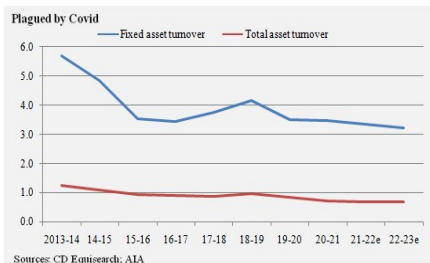
Financials & Valuation

Pending deferment of groundbreaking of 50000 mt grinding media greenfield capacity at Ahmedabad due to demand uncertainties brought by Covid-19, AIA is setting up a 50000 mt mill lining project with an investment of over Rs 200 crs which is expected to be commission by fourth quarter of current fiscal. With this expansion AIA's total installed capacity would increase to 4.4 lakh tons.

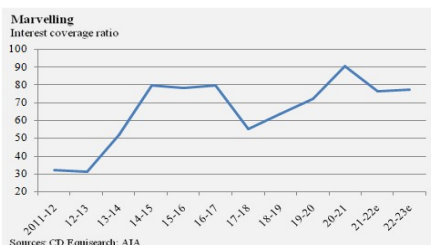
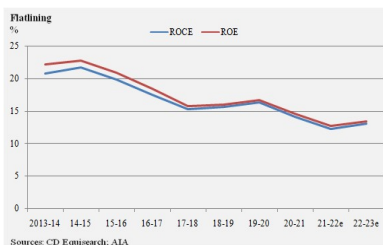
Covid -19 related demand unpredictability aside, AIA has remained hardly unaffected by adverse trade orders from a couple of overseas nations in the last few months. First, the Canadian International Trade Tribunal as part of the Canada Border Service Agency (CBSA) initiated investigations with respect to alleged dumping and subsidizing of certain grinding media from India to Canada, had decided that a duty of 22% on certain grades of grinding media (except for grinding media supplied to cement industry) will continue to be levied as was earlier determined by CBSA. Second, South Africa recently imposed 15% duty on all imports of high chrome grinding media in South Africa from all countries except European Union and UK and under FTAs.



With AIA generally managing 40000-45000 tons from these two geographies before these adverse orders, volume uptick next year (12% estimated) would barely escape resolute efforts to bring volumes from newer customers; though surge of Covid -19 infections could jeopardize this plan. Much of the growth in high chrome grinding media would rest on speedier conversion of prospects from forged solutions to high chrome solutions as replacement cycle of grinding products is not too short.



The stock currently trades at 31.1x FY22e EPS of Rs 58.83 and 26.3x FY23e EPS of Rs 69.64. Projected earnings for the current fiscal would fall short of earlier projections by 12.8% as margins will fall short of expectations due to higher raw material prices and freight costs – OPM for FY22 now at 20.8% Vs 24.3% earlier. Yet post tax earnings would rise by 18.4% next fiscal as high volumes would be attended by higher margins, though higher other income would have a role to play. Still return on equity would barely rise (13.5% in FY23 Vs 14.5% in FY21) not least due to barely robust capacity utilization and scarcely small stock of liquid assets. Weighing odds, we assign accumulate rating on the stock with revise target of Rs 2089 (previous target: Rs 2295) based on 30x FY23e earnings over a period of 6-9 months. For more info refer to our March 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	1832	17280	3184	579	21.4	18.2	104.4	13.8	5.4	29.9	3.9
Mahindra CIE	379	225	8534	3206	127	13.7	4.0	25.9	3.2	2.7	67.1	2.1
MM Forgings	24	718	1733	1003	97	18.0	9.6	4.7	18.9	1.7	17.9	3.1

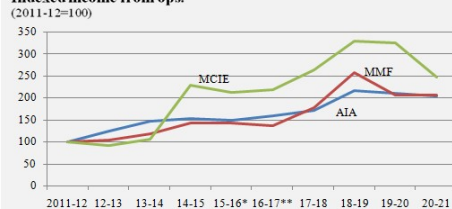
*figures in crores; calculations on ttm basis

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

Helped by recovery in the automotive sector, MM Forgings posted nearly 124% growth in revenues in the first half of current fiscal with post tax earnings rising to Rs 51.56 crs when compared to just Rs 1.46 crs ; though Q1 of last fiscal was ravaged by national lockdown due to Covid -19. MM Forgings has earmarked capex of Rs 75 cr this fiscal and another Rs. 50 cr next fiscal. Much of this capex would be parked in to machining while a part would be utilized for boosting productivity, though production capacity will remain unaffected. It has recently acquired CAFOMA Autoparts Pvt. Ltd, a major supplier of machined crankshafts to the tractor and industrial sectors with a capacity to produce 15,000 crankshafts per month.

Despite recovery in its Indian operations last quarter, Mahindra CIE saw revenue decline in its European operations due to global shortage of semiconductors. Overall revenues for the first nine months improved by 54.5% while operating margins inched higher. Recently, Metalcastello, a subsidiary company, has secured a large size order for EV parts worth€20 million per annum from an American customer. Another subsidiary, BillForge, has also secured orders of a similar quantum for driveline parts. Such order wins have the potential to improve Mahindra CIE's product mix.

Indexed income from ops.



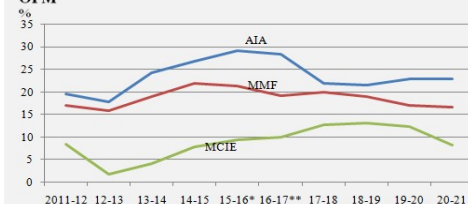
*Apr-Dec 2015 for MCIE; ** CY16 for MCIE
Sources: CD Equisearch; AIA

Indexed operating profit



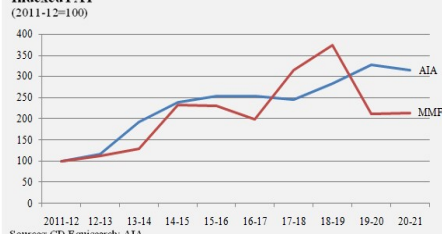
*Apr-Dec 2015 for MCIE; ** CY16 for MCIE
Sources: CD Equisearch; AIA

OPM



*Apr-Dec 2015 for MCIE; ** CY16 for MCIE
Sources: CD Equisearch; AIA

Indexed PAT



Sources: CD Equisearch; AIA

Financials

Quarterly Results

Figures in Rs crs

	Q2FY22	Q2FY21	% chg.	H1FY22	H1FY21	% chg.
Income from operations	885.17	742.32	19.2	1625.11	1322.67	22.9
Other Income	35.72	24.77	44.2	75.24	99.52	-24.4
Total Income	920.90	767.09	20.1	1700.35	1422.20	19.6
Total Expenditure	723.24	555.74	30.1	1291.28	1012.60	27.5
EBIDTA (other income incl.)	197.65	211.35	-6.5	409.07	409.59	-0.1
Interest	0.81	1.25	-35.3	1.54	2.66	-41.9
Depreciation	21.75	23.32	-6.7	45.92	48.43	-5.2
PBT	175.09	186.79	-6.3	361.60	358.51	0.9
Tax	37.10	43.34	-14.4	74.52	85.73	-13.1
Net Profit	137.99	143.45	-3.8	287.08	272.78	5.2
MI	0.39	-0.52	-175.8	0.16	-0.46	-136.2
Profit after MI	137.59	143.97	-4.4	286.92	273.23	5.0
Extraordinary Item	0.00	-2.93	-100.0	0.00	-2.93	-100.0
Adjusted Net Profit	137.59	146.90	-6.3	286.92	276.16	3.9
EPS	14.59	15.57	-6.3	30.42	29.28	3.9

Consolidated Income Statement

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Income from operations	3069.50	2980.88	2881.49	3040.31	3437.50
Growth (%)	25.5	-2.9	-3.3	5.5	13.1
Other Income	120.92	141.91	172.20	175.44	211.34
Total Income	3190.42	3122.79	3053.69	3215.75	3648.84
Total Expenditure	2406.05	2296.12	2222.35	2409.29	2681.25
EBIDTA (other income incl.)	784.37	826.67	831.33	806.46	967.59
Interest	11.13	10.07	8.19	9.34	11.04
EBDT	773.25	816.60	823.15	797.12	956.55
Depreciation	78.85	97.88	93.50	94.39	113.89
PBT	694.40	718.72	729.65	702.72	842.66
Tax	182.96	128.40	163.94	147.57	185.38
Net Profit	511.44	590.32	565.71	555.15	657.27
MI	0.61	-0.04	-0.42	0.30	0.40
Profit after MI	510.83	590.36	566.12	554.85	656.87
Extraordinary Item	-0.24	0.47	-1.68	-	-
Adjusted Net Profit	511.07	589.89	567.80	554.85	656.87
EPS	54.18	62.54	60.20	58.83	69.64

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
SOURCES OF FUNDS					
Share Capital	18.86	18.86	18.86	18.86	18.86
Reserves	3494.84	3682.42	4225.45	4690.42	5257.40
Total Shareholders Funds	3513.71	3701.29	4244.32	4709.28	5276.26
Minority interest	9.30	9.25	8.82	9.12	9.52
Long term debt	15.00	10.57	5.77	4.69	4.50
Total Liabilities	3538.00	3721.11	4258.91	4723.08	5290.28
APPLICATION OF FUNDS					
Gross Block	1155.31	1,292.94	1,282.94	1607.94	1807.94
Less: Accumulated Depreciation	310.66	403.29	471.51	565.91	679.80
Net Block	844.65	889.66	811.43	1042.04	1128.14
Capital Work in Progress	59.81	32.35	160.95	80.00	30.00
Investments	1144.58	1418.49	808.58	1064.17	1314.17
Current Assets, Loans & Advances					
Inventory	785.92	778.12	754.78	796.56	900.63
Sundry Debtors	706.38	648.19	638.47	668.87	756.25
Cash and Bank	216.32	154.82	1395.45	1394.75	1477.88
Loans and Advances	204.45	145.41	119.13	176.32	183.09
Total CA & LA	1913.06	1726.54	2907.83	3036.50	3317.85
Current Liabilities	379.88	338.40	429.42	511.15	510.94
Provisions	18.68	24.25	15.17	16.18	17.97
Total Current Liabilities	398.56	362.65	444.59	527.33	528.90
Net Current Assets	1514.51	1363.89	2463.23	2509.17	2788.94
Net Deferred Tax	-86.99	-66.70	-46.80	-51.83	-54.83
Other Assets (Net Of Liabilities)	61.45	83.42	61.52	79.54	83.86
Total Assets	3538.00	3721.11	4258.91	4723.08	5290.28

Key Financial Ratios

	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios (%)					
Revenue	25.5	-2.9	-3.3	5.5	13.1
EBIDTA	18.7	5.3	0.9	-3.2	20.0
Net Profit	15.3	15.4	-3.7	-2.3	18.4
EPS	15.3	15.4	-3.7	-2.3	18.4
Margins (%)					
Operating Profit Margin	21.6	23.0	22.9	20.8	22.0
Gross Profit Margin	25.2	27.4	28.6	26.2	27.8
Net Profit Margin	16.7	19.8	19.7	18.3	19.1
Return (%)					
ROCE	15.6	16.3	14.1	12.3	13.0
ROE	16.0	16.7	14.5	12.7	13.5
Valuations					
Market Cap / Sales	5.5	4.4	6.7	5.7	5.0
EV/EBIDTA	19.9	14.0	20.8	19.0	15.8
P/E	33.0	22.1	34.1	31.1	26.3
P/BV	5.0	3.5	4.7	3.8	3.3
Other Ratios					
Interest Coverage	63.4	72.3	90.4	76.2	77.4
Debt-Equity Ratio	0.0	0.0	0.0	0.0	0.0
Current Ratio ^a	6.1	8.7	7.0	6.7	7.4
Turnover Ratios					
Fixed Asset Turnover	4.2	3.5	3.5	3.4	3.2
Total Asset Turnover	1.0	0.8	0.7	0.7	0.7
Debtors Turnover	4.7	4.4	4.5	4.7	4.8
Inventory Turnover	3.6	2.9	2.9	3.1	3.2
Creditors Turnover	14.5	14.8	14.7	13.2	12.8
WC Ratios					
Debtor days	77.7	82.9	81.5	78.5	75.7
Inventory days	101.6	124.3	126.0	117.5	115.5
Creditor days	25.1	24.6	24.8	27.6	28.4
Cash conversion cycle	154.1	182.6	182.7	168.4	162.7

Cumulative Financial Data

Figures in Rs crs	FY15-17	FY18-20	FY21-23e
Income from operations	6528	8496	9359
Operating profit	1841	1888	2049
EBIT	1922	2030	2306
PBT	1897	1998	2277
PAT	1345	1544	1780
Production (mt)	622886	790754	783351
Sale volumes (mt)	586921	761127	786684
OPM (%)	28.2	22.2	21.9
NPM (%)	20.6	18.2	19.0
Interest coverage	79.1	63.4	80.7
ROE (%)	20.5	16.3	13.4
ROCE (%)	19.5	15.8	13.1
Fixed asset turnover	4.3	3.7	3.2
Debtors turnover	4.7	5.0	4.4
Inventory turnover	3.5	3.4	2.9
Creditors turnover	11.6	16.1	13.7
Debtors days	77.7	73.7	82.2
Inventory days	103.4	108.7	125.7
Creditor days	31.6	22.7	26.6
Cash conversion cycle	149.5	159.7	181.3

FY15-17 implies three years ending fiscal 17; *as on terminal year

Adverse impact of Covid -19 along with barely favorable orders in South Africa and Canada would scarcely buttress overall volumes (cumulative) of AIA for the same is estimated to rise by a measly 3% in FY21-23 period compared to some 30% in the preceding three year period (see table); though easing of travel restrictions as and when it happens next fiscal could propel offtake through increased conversion to high chrome products. With successive price hikes undertaken in the past few months, AIA's cumulative revenue growth though would outstrip underlying volume growth – 10.2% growth estimated.

Despite improved product mix, raw material price inflation would hardly support expansion in margins over the projected period - OPMs estimated to nearly flat line at 21.9%. Lower production of grinding media would do anything but propel asset turnover ratio - fixed asset turnover ratio estimated to decline to 3.2 in FY21-23 period from 3.7 in the previous three year period, thus taking a toll of return on capital. Helped by no small growth in other income, cumulative post tax earnings would advance by 15.2% in the projected period (see table).

Financial Summary – US dollar denominated

million \$	FY19	FY20	FY21	FY22e	FY23e
Equity capital	2.7	2.5	2.6	2.5	2.5
Equity shareholders' funds	490.7	488.3	563.2	620.7	695.9
Total debt	18.5	16.3	25.9	31.0	27.6
Net fixed assets (incl CWIP)	127.9	119.7	129.6	148.6	153.4
Investments	165.5	188.2	110.0	143.5	177.2
Net current assets	204.5	180.9	323.6	326.8	363.3
Total assets	494.2	491.0	565.2	622.6	697.8
Revenues	439.2	420.6	388.3	409.9	463.4
EBITDA	112.3	116.6	112.3	108.7	130.4
EBDT	110.7	115.1	111.2	107.5	128.9
PBT	99.4	101.3	98.6	94.7	113.6
PAT	73.1	83.2	76.5	74.8	88.6
EPS(\$)	0.78	0.88	0.81	0.79	0.94
Book value (\$)	5.20	5.18	5.97	6.58	7.38

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rate (\$74.18/\$)

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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
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

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.