

AIA Engineering | BUY

Volume miss a dampener; strong margins offset impact

AIA Engineering (AIAE) reported miss on revenue though PAT was ahead of estimates due to higher margins and higher other income. Net sales declined by 3% YoY to INR 12.9bn (JMFe: INR14bn) with volumes being flat YoY at 77,725MT. EBITDA grew by 23% YoY (JMFe: INR3.5bn) to INR3.8bn with EBITDA margin higher by 600bp YoY at 29.5% (JMFe: 25%) led by favourable mix and lower RM costs & freight rates. PAT grew 32%YoY at INR3.2bn (JMFe: INR 2.9bn). AIAE lowered its incremental volume guidance in FY24 to 10-15k MT from 30k MT (FY23: 291k MT) given slower pace of new customer conversion. The shortfall could be made up in FY25 leading to stronger volumes but there was no specific guidance on the same. EBITDA margins are likely to normalise to 22-24% range as the pass-through of cost savings happen in coming quarters. We estimate a modest 7.2% CAGR in EPS over FY23-26E though AIAE offers the optionality of incremental EPS/ROE growth through acquisitions and/or increased distributions. We maintain BUY with TP of INR3,910 (30x Sept'25E EPS).

- Flat volumes led to muted revenue growth:** Net sales were down 3%YoY to INR12.9bn, as volume growth was flat YoY to 77,725. Mining volumes reported decline of 4% YoY, while non-mining volumes grew by 5% YoY, given decent demand from sectors like cement and power utilities. AIAE highlighted that though the demand environment remained stable, targeted conversion of customers (from forged to high chrome media) was delayed leading to lower volumes. Focus geographies like Africa, Brazil and Latin American countries remained unimpacted by recent geopolitical events.
- Elevated margins to normalise in coming quarters:** EBITDA margin improved by 600bps YoY to 29.5% and EBITDA grew 23% YoY despite weak revenue growth. Margin improvement was led by lower RM & freight costs and a favourable sales mix (higher proportion of large castings). Going forward, the benefit of lower RM & freight is likely to get passed on to customers and the sales mix should also revert in favour of grinding media. As a result, EBITDA margins should moderate with guidance of 22-24%. Other income was up 94% YoY, due to higher treasury yields resulting in PAT growth of 32% YoY to INR 3.2bn.
- FY24 volume shortfall may be bridged in FY25; capacity expansion on track:** AIA reduced the incremental volume guidance from 25-30k MT to 10-15k MT in FY24. It however indicated that this shortfall may be made up in FY25 though it would wait to give a specific outlook. Capacity expansion plan of INR5bn is on track which will increase capacity from 440k MT currently to 540k MT by FY25.
- Maintain BUY with TP of INR3,910:** We estimate 9%/7% revenue/EPS CAGR over FY23-26E. Notwithstanding a moderate earnings outlook, AIA offers the possibility of incremental growth through acquisitions given its strong cash reserves. Alternatively, it may consider returning cash to the investors as has been articulated by the management. We see both options being EPS/ROE accretive. Maintain BUY with TP of INR3,910, based on 30x Sept'25E EPS. Key risk: sharp rise in RM prices and incremental anti-dumping measures in target markets.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	35,665	49,088	49,785	56,349	62,682
Sales Growth (%)	23.8	37.6	1.4	13.2	11.2
EBITDA	7,210	12,407	13,679	13,543	15,064
EBITDA Margin (%)	20.2	25.3	27.5	24.0	24.0
Adjusted Net Profit	6,196	10,559	11,263	11,585	12,993
Diluted EPS (INR)	65.7	111.9	119.4	122.8	137.8
Diluted EPS Growth (%)	9.4	70.4	6.7	2.9	12.2
ROIC (%)	18.3	28.1	29.1	26.2	27.2
ROE (%)	13.8	20.2	18.3	16.4	16.3
P/E (x)	29.1	21.9	29.7	28.9	25.8
P/B (x)	3.8	4.1	5.1	4.5	3.9
EV/EBITDA (x)	24.3	18.4	23.8	23.6	20.7
Dividend Yield (%)	0.3	0.5	0.7	0.8	0.9

Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2023



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,910
Upside/(Downside)	10.1%
Previous Price Target	4,015
Change	-2.6%

Key Data – AIAE IN

Current Market Price	INR3,552
Market cap (bn)	INR335.0/US\$4.0
Free Float	41%
Shares in issue (mn)	94.3
Diluted share (mn)	94.3
3-mon avg daily val (mn)	INR280.2/US\$3.4
52-week range	3,840/2,384
Sensex/Nifty	64,942/19,407
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	3.3	29.3	30.8
Relative*	4.9	21.5	23.2

* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Volumes projection over FY23-26E (MT)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Mining Volumes	138,037	170,224	177,274	180,844	170,842	192,352	203,893	236,516	268,446
YoY%	9.1	23.3	4.1	2.0	-5.5	12.6	6.0	16.0	13.5
Non Mining Volumes	89983	94950	89955	85458	89627	98990	100969.8	103446	105983
YoY%	2.3	5.5	-5.3	-5.0	4.9	10.4	2.0	2.5	2.5
Total	228,020	265,174	267,229	266,302	260,469	291,342	304,863	339,962	374,428

Source: Company, JM Financial

Exhibit 2. Quarterly performance-Consolidated

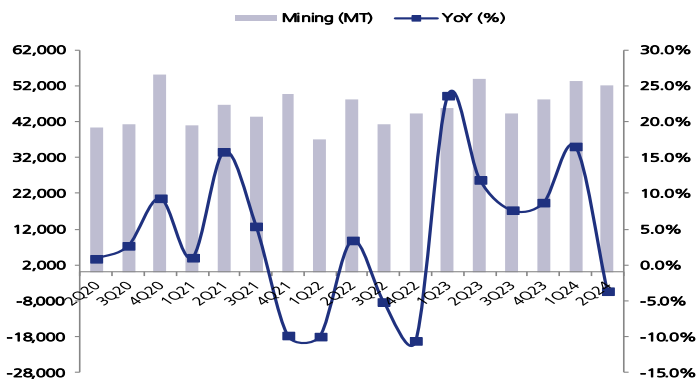
Y/E March (INR mn)	2QFY23	2QFY24	% YoY	1QFY24	% QoQ	2QFY24E	Var (%)	1HFY23	1HFY24	% YoY
Net Sales	13,287	12,948	-2.5	12,396	4.5	13,966	-7.3	24,084	25,344	5.2
Expenditure	10,167	9,127	-10.2	8,966	1.8	10,478	-12.9	18,492	18,093	-2.2
EBITDA	3,120	3,821	22.5	3,430	11.4	3,488	9.6	5,592	7,251	29.7
EBITDA (%)	23.5	29.5	600bps	27.7	180bps	25.0	450bps	23.2	28.6	540bps
Other income	321	623	93.9	595	4.7	650	-4.1	528	1,218	130.8
Depreciation	246	245	-0.2	242	1.1	260	-5.7	454	488	7.5
EBIT	3,196	4,199	31.4	3,783	11.0	3,878	8.3	5,666	7,982	40.9
Interest	39	74	91.5	75	-1.0	75	-1.1	50	149	200.3
PBT after Eol	3,157	4,125	30.7	3,708	11.2	3,803	8.5	5,616	7,833	39.5
Tax	708	884	24.9	983	-10.0	875	1.1	1,252	1,867	49.1
Tax rate (%)	22.4	21.4		26.5		23.0		22.3	23.8	
Adjusted PAT	2,448	3,231	32.0	2,723	18.6	2,926	10.4	4,353	5,954	36.8
Adjusted EPS (INR)	26.0	34.3	32.0	28.9	18.6	31.0	10.4	46.1	63.1	36.8

Source: Company, JM Financial

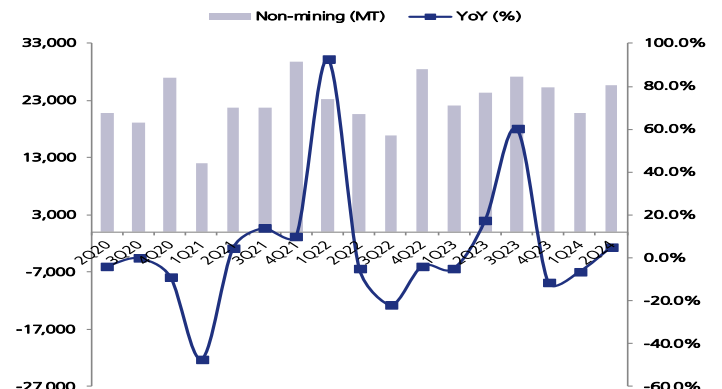
Exhibit 3. Cost break-up Consolidated

Y/E March	2QFY23	2QFY24	% YoY	1QFY24	% QoQ	2QFY24E	Var (%)	1HFY23	1HFY24	% YoY
COGS	5,748	5,470	-4.8	5,414	1.0	6,215	-12.0	6,768	10,445	54.3
as a % of sales	43.3	42.2	-100bps	43.7	-140bps	44.5	-230bps	28.1	41.2	1310bps
Staff Cost	374	433	15.9	406	6.7	423	2.6	681	741	8.9
as a % of sales	2.8	3.3	50bps	3.3	10bps	3.0	30bps	2.8	2.9	10bps
Other Expenditure	4,045	3,224	-20.3	3,145	2.5	3,841	-16.1	5,464	7,305	33.7
as a % of sales	30.4	24.9	-550bps	25.4	-50bps	27.5	-260bps	22.7	28.8	610bps

Source: Company, JM Financial

Exhibit 4. Mining volumes declined by 4% YoY

Source: Company, JM Financial

Exhibit 5. Non-mining volumes grew by 5% YoY

Source: Company, JM Financial

Key conference call takeaways

- **Volumes remained weak** due to slower than expected conversions of new customers in the mining segment. Total sales volume declined by 1% YoY to 77,725MT where mining volumes witnessed decline of 4% YoY to 52,093MT while non-mining witnessed growth of 5% YoY to 25,632MT.
- **Volume guidance** lowered with 10-15k MT incremental volumes in FY24 from 25-30k MT earlier (FY23: 291k MT). The shortfall in volumes may spill over to FY25 (implying 30-40k MT additional volumes in FY25) but specific outlook to be shared in subsequent qtrs.
- **Elevated EBITDA margins to normalise to 23-24%:** Margins currently remain elevated (1HFY24: 28.6%; FY23: 25.3%) due to benefit of product mix (tube mill liners, large castings, etc.). Product mix likely to normalise as we go ahead. Also coming qtrs will see pass-through of the decline in RM and freight costs.
- **Freight rates** remain stable despite the recent geopolitical events
- **Anti-dumping duty** – Brazil: 5-year review of the anti-dumping duty in Brazil has started and is likely to be completed by Mar-24. Present volumes are c8k MT (3% of total FY23 volume) in Brazil and since the duty is anyways in force there may not be an incremental adverse impact
- **Capex plans on track:** The capex plan of INR 5bn by FY25 is on track and will increase grinding media and mill liner capacity from 440k MT to c.540k MT.
- **Overall view:** The weak volume performance and cut in guidance is a dampener but the positive surprise on margins should restrict impact on FY24E EPS. Since the volume shortfall in FY24 may spill over to FY25 the impact on FY25E earnings is also likely to be small.

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	35,665	49,088	49,785	56,349	62,682
Sales Growth	23.8%	37.6%	1.4%	13.2%	11.2%
Other Operating Income	0	0	0	0	0
Total Revenue	35,665	49,088	49,785	56,349	62,682
Cost of Goods Sold/Op. Exp	14,711	20,658	21,656	25,188	28,019
Personnel Cost	1,394	1,519	1,754	1,953	2,173
Other Expenses	12,351	14,504	12,695	15,665	17,426
EBITDA	7,210	12,407	13,679	13,543	15,064
EBITDA Margin	20.2%	25.3%	27.5%	24.0%	24.0%
EBITDA Growth	10.0%	72.1%	10.3%	-1.0%	11.2%
Deprn. & Amort.	921	930	1,061	1,183	1,323
EBIT	6,289	11,476	12,617	12,360	13,741
Other Income	1,563	2,345	2,528	3,210	3,682
Finance Cost	39	201	300	300	300
PBT before Excep. & Forex	7,814	13,620	14,845	15,270	17,123
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	7,814	13,620	14,845	15,270	17,123
Taxes	1,617	3,055	3,563	3,665	4,110
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-1	6	20	20	20
Reported Net Profit	6,198	10,559	11,263	11,585	12,993
Adjusted Net Profit	6,196	10,559	11,263	11,585	12,993
Net Margin	17.4%	21.5%	22.6%	20.6%	20.7%
Diluted Share Cap. (mn)	94.3	94.3	94.3	94.3	94.3
Diluted EPS (INR)	65.7	111.9	119.4	122.8	137.8
Diluted EPS Growth	9.4%	70.4%	6.7%	2.9%	12.2%
Total Dividend + Tax	849	1,509	2,264	2,547	3,113
Dividend Per Share (INR)	9.0	16.0	24.0	27.0	33.0

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	47,550	56,913	65,932	74,990	84,891
Share Capital	189	189	189	189	189
Reserves & Surplus	47,361	56,725	65,743	74,802	84,703
Preference Share Capital	0	0	0	0	0
Minority Interest	85	89	109	129	149
Total Loans	28	4,990	4,990	4,990	4,990
Def. Tax Liab. / Assets (-)	390	399	399	399	399
Total - Equity & Liab.	48,052	62,391	71,430	80,508	90,429
Net Fixed Assets	10,002	11,102	13,041	12,857	12,535
Gross Fixed Assets	13,840	16,898	17,898	20,898	22,473
Intangible Assets	0	0	0	0	0
Less: Deprn. & Amort.	5,940	6,871	7,932	9,115	10,438
Capital WIP	2,102	1,074	3,074	1,074	500
Investments	10,554	22,543	23,196	23,196	23,196
Current Assets	30,444	32,667	39,422	49,241	60,023
Inventories	12,260	12,180	13,230	14,975	16,658
Sundry Debtors	8,001	8,608	8,866	10,035	11,163
Cash & Bank Balances	5,061	8,060	13,371	19,754	27,222
Loans & Advances	3,253	1,288	1,364	1,544	1,717
Other Current Assets	1,869	2,531	2,592	2,933	3,263
Current Liab. & Prov.	2,949	3,921	4,228	4,786	5,324
Current Liabilities	1,967	2,614	2,728	3,088	3,435
Provisions & Others	981	1,307	1,500	1,698	1,889
Net Current Assets	27,496	28,746	35,194	44,455	54,699
Total - Assets	48,052	62,391	71,430	80,508	90,429

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	7,813	13,620	14,845	15,270	17,123
Deprn. & Amort.	921	930	1,061	1,183	1,323
Net Interest Exp. / Inc. (-)	-748	-870	-2,228	-2,910	-3,382
Inc (-) / Dec in WCcap.	-6,010	-1,521	-1,137	-2,878	-2,776
Others	-743	-441	0	0	0
Taxes Paid	-1,625	-3,041	-3,563	-3,665	-4,110
Operating Cash Flow	-392	8,677	8,979	7,001	8,178
Capex	-1,255	-1,948	-3,000	-1,000	-1,000
Free Cash Flow	-1,647	6,729	5,979	6,001	7,178
Inc (-) / Dec in Investments	2,253	-10,135	-652	0	0
Others	0	0	0	0	0
Investing Cash Flow	999	-12,083	-3,652	-1,000	-1,000
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-763	-771	-2,264	-2,547	-3,113
Inc / Dec (-) in Loans	-1,816	4,932	0	0	0
Others	-96	-211	2,248	2,930	3,402
Financing Cash Flow	-2,675	3,950	-16	383	289
Inc / Dec (-) in Cash	-2,069	544	5,311	6,384	7,467
Opening Cash Balance	7,130	5,061	8,060	13,371	19,754
Closing Cash Balance	5,061	8,060	13,371	19,754	27,222

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	17.4%	21.5%	22.6%	20.6%	20.7%
Asset Turnover (x)	0.8	0.9	0.7	0.7	0.7
Leverage Factor (x)	1.0	1.1	1.1	1.1	1.1
RoE	13.8%	20.2%	18.3%	16.4%	16.3%

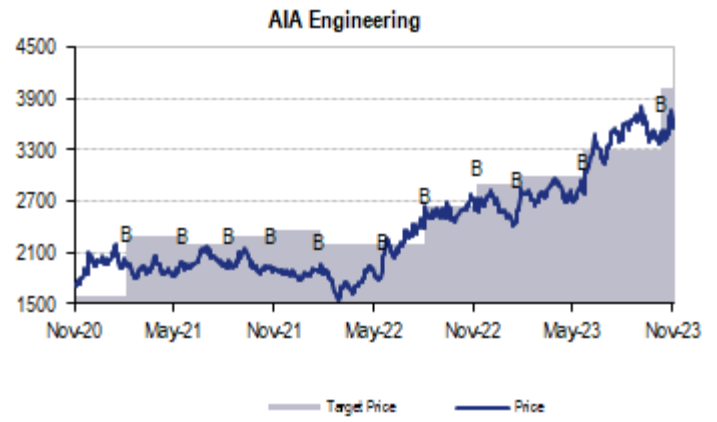
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	504.1	603.4	699.0	795.1	900.0
ROIC	18.3%	28.1%	29.1%	26.2%	27.2%
ROE	13.8%	20.2%	18.3%	16.4%	16.3%
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.2	-0.3
P/E (x)	29.1	21.9	29.7	28.9	25.8
P/B (x)	3.8	4.1	5.1	4.5	3.9
EV/EBITDA (x)	24.3	18.4	23.8	23.6	20.7
EV/Sales (x)	9.2	6.7	6.5	5.7	5.0
Debtor days	82	64	65	65	65
Inventory days	125	91	97	97	97
Creditor days	25	26	28	26	26

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
31-Jan-20	Hold	1,550	
9-Apr-20	Hold	1,300	-16.1
22-Jun-20	Hold	1,350	3.8
11-Aug-20	Hold	1,400	3.7
1-Sep-20	Hold	1,450	3.6
2-Nov-20	Hold	1,600	10.3
10-Feb-21	Buy	2,300	43.8
25-May-21	Buy	2,200	-4.3
14-Aug-21	Buy	2,300	4.5
1-Nov-21	Buy	2,350	2.2
27-Jan-22	Buy	2,200	-6.4
25-May-22	Buy	2,200	0.0
9-Aug-22	Buy	2,650	20.5
14-Nov-22	Buy	2,900	9.4
27-Jan-23	Buy	3,000	3.4
26-May-23	Buy	3,300	10.0
16-Oct-23	Buy	4,015	21.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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