

## AIA Engineering

### Softer volumes to impact growth in short term

AIAE's consolidated sales in Q3FY24 fell 5% YoY to Rs11.7bn, 9% below our estimate. Mining volumes grew 21% YoY to 53,395 MT on a low base, and has remained at similar levels in past 3 quarters. Other segment (cement + power) volumes fell 24% YoY to 20,745 MT. Realization fell 9% YoY to Rs154,669/MT amid varied product mix of alloys. On a very high base, EBITDA margin fell 320ps YoY to 26.6%, above our estimate of 25.3%, translating to EBITDA/KG of Rs42, down 18% YoY. PAT fell 21% YoY to Rs2.8bn, however, it was 3% above our/consensus estimate of Rs2.7bn each, led by higher than expected other income at Rs831mn. For FY24E, AIAE expects volumes of 300,000 MT (9M at 225,911 MT, up 4% YoY), an addition of only 10,000 MT YoY vs. earlier guidance of 25,000 MT, as shift from forged media to high chrome media is facing delays by customers. FY25E is likely to see at least 25,000-30,000 MT addition, with an upside bias as very important mines with extra-ordinary sales opportunities are in the process of being developed. Long term growth opportunity of high chrome media penetration (0.5mn MT converted out of 2.5mn MT industry size) and scale-up of mill liners remains intact. Factoring the lower volumes, our EPS for FY24E/25E/26E gets cut by 6%/6%/1%. Post recent run-up in stock price, we downgrade the rating to ADD with a revised target price of Rs4,210 (Rs4,360 earlier) based on unchanged P/E of 32x H1FY26E EPS.

#### Structural shift to high chrome intact; FY24 volume growth guidance curtailed

Total volumes grew 4% YoY to 74,140MT in Q3 and 4% YoY to 225,911 MT in 9MFY24. Segment wise, mining volumes grew 10% YoY to 158,744MT while non-mining volumes fell 9% YoY to 67,167MT in 9MFY24. Amidst delay in conversion rate from forged to high chrome media, FY24 volumes are likely at 300,000 MT (+3% YoY), with non-mining share at 80,000-90,000MT. With Rs5bn capex planned, AIAE's capacity will enhance to 540,000 MT by FY25 from 440,000 MT currently. To enhance mill liner offering, AIAE bought 30% stake in Australian firm MPS for Rs430mn. The firm is an expert in composite mill liners and is purely into designing. Mill liner addressable opportunity is at 300,000MT while AIAE's current capacity is at 70,000 MT (incl. new 50,000 MT plant) and is poised for a volume of 30,000 MT in FY24.

#### Realization faltered due to product mix change; to sustain at Rs150/kg-Rs160/kg

Realization in Q3FY24 was Rs154,669/MT, down 9% YoY, and was mainly due to shift in product mix of alloys (which ranges from 11%-30% chrome content). Going ahead, AIAE expects realization in range of Rs150/kg-Rs160/kg. While Q3 didn't see any impact of Red Sea issue, but Q4 could see rise in freight cost. AIAE would absorb it in near term as it gets pass through to the clients with a lag.

#### Downgrade to ADD with a revised target price of Rs4,210

AIAE's technological leadership in high chrome mill internals, strong growth opportunity in mining sector and superior financial metrics are key business moats. However, considering the recent run-up in stock price, we downgrade the rating to ADD with a target price of Rs4,210 based on 32x H1FY26E EPS. Short term volume softness is a key overhang.

#### Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	11,692	12,269	(4.7)	12,948	(9.7)	49,492	53,562	59,853
EBITDA	3,112	3,657	(14.9)	3,821	(18.6)	13,412	13,712	15,502
EBITDA margin (%)	26.6	29.8	(320bps)	29.5	(290bps)	27.1	25.6	25.9
Adj. Net profit	2,796	3,525	(20.7)	3,231	(13.5)	11,305	11,619	13,213
Adj. EPS (Rs)	29.6	37.4	(20.7)	34.3	(13.5)	119.9	123.2	140.1
EPS growth (%)						7.1	2.8	13.7
PE (x)						34.4	33.5	29.5
EV/EBITDA (x)						28.2	27.1	23.6
PBV (x)						5.9	5.1	4.5
RoE (%)						18.3	16.4	16.3
RoCE (%)						17.7	16.2	16.2

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

#### Result Update

India I Capital Goods

07 February, 2024

#### ADD

Price: Rs4,129

Target Price: Rs4,210

Forecast return: 2%

Institutional Research

#### Market Data

Bloomberg:	AIAE IN
52 week H/L:	4,630/2,620
Market cap:	Rs389.5bn
Shares Outstanding:	94.3mn
Free float:	41.5%
Avg. daily vol. 3mth:	86,575

Source: Bloomberg

#### Changes in the report

Rating:	ADD; Downgrade from BUY
Target price:	Rs4,210; down 3.4%
	FY24E: Rs119.9; down 5.9%
EPS:	FY25E: Rs123.2; down 6.3%
	FY26E: Rs140.1; down 0.8%

Source: Centrum Broking

#### Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	58.5	58.5	58.5	58.5
FII	18.3	18.5	18.1	18.0
DII	20.5	20.3	20.9	21.0
Public/other	2.8	2.7	2.5	2.5

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	12,890	11,692	(9.3)
EBITDA	3,256	3,112	(4.4)
EBITDA margin	25.3	26.6	130bps
PAT	2,715	2,796	3.0
EPS	28.8	29.6	3.0

Source: Company Data, Centrum Broking



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Capital Goods

# Thesis Snapshot

## Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	53,562	57,362	(6.6)	59,853	63,063	(5.1)
EBITDA	13,712	14,742	(7.0)	15,502	15,766	(1.7)
EBITDA margin %	25.6	25.7	(10bps)	25.9	25.0	90bps
Adj. PAT	11,619	12,399	(6.3)	13,213	13,318	(0.8)
Diluted EPS (Rs)	123.2	131.5	(6.3)	140.1	141.2	(0.8)

Source: Centrum Broking

## AIA Engineering versus NIFTY 50

	1m	6m	1 year
AIAE IN	13.9	16.6	48.0
NIFTY 50	4.1	30.5	60.9

Source: Bloomberg, NSE

## Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Sales Volume (MT)	3,00,352	3,37,352	3,84,352
Realizations (Rs/MT)	1,62,000	1,56,000	1,53,000
Revenue growth (%)	0.8	8.2	11.7
EBITDA margin (%)	27.1	25.6	25.9

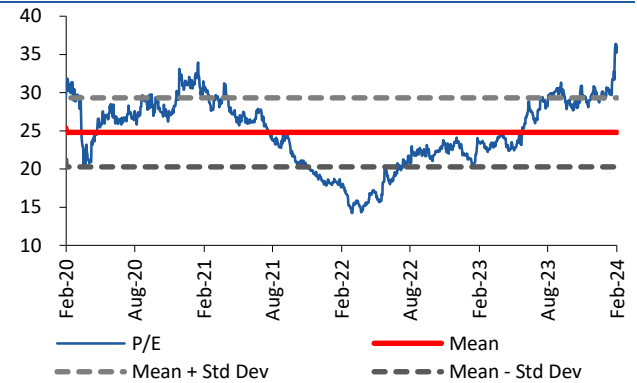
Source: Centrum Broking

## Valuations

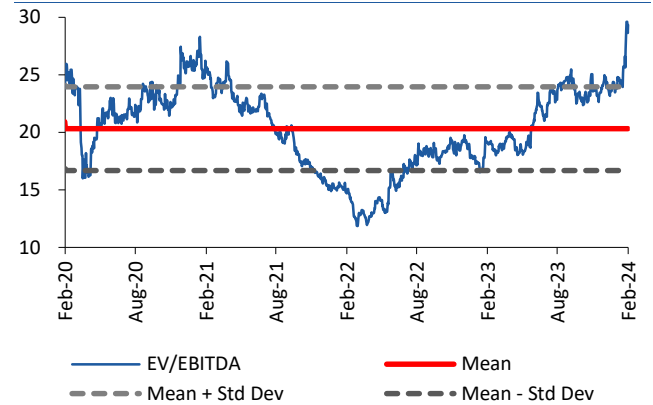
We value AIAE at 32x H1FY26E EPS and arrive at the target price of Rs4,210

Valuations	Rs/share
H1FY26E EPS	132
PE (x)	32
<b>Target price per share</b>	<b>4,210</b>

### P/E mean and standard deviation



### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

## Key concall takeaways

### Financials and business outlook

- Targeting volume sales of 300,000 MT in FY24
- FY25 will see 25,000 to 30,000 MT incremental volume
- 9M capex was Rs1.46bn. Rs500mn more will be spent in Q4.
- Identified total capex of Rs5bn comprising of Rs2bn grinding media plant (with likely commissioning in March 2025), Rs2bn de-bottlenecking of existing plant and Rs1bn in renewable power.
- With the planned capex, capacity will increase from 440,000 MT currently to 540,000 MT
- Forex gain was Rs170mn, it's a part of other income
- NWC at par with trend, at 100 days in Q3
- Using export packing credit limit of Rs4bn-Rs4.5bn where they have interest subvention. Rate of interest is low at 5.7%. Don't have any term loan and don't need it.
- No impact of red-sea issue in Q3. But in Q4, there could be rise in freight cost. In short term they will absorb it. It is a pass through expense for them with a lag.
- Realization fall in Q3 is due to product mix of the alloys that they sell in each of the category (from 11% Chrome to 30% Chrome)
- Non mining volume decline in Q3 is just a timing issue. Non-mining volumes should be around 80,000-90,000 MT per annum
- Net cash at Rs31bn.
- Cash usage = Capex average run rate Rs2bn- Rs2.5bn per year + NWC need + inorganic opportunity (but not in next 1 year)
- Atleast till it reaches 400,000 MT sales, AIAE will have to conservatively keep cash
- Never been more excited from business standpoint due to business opportunity. But its taking longer to convert from forged to high chrome in changing customer mind-set. Hence FY24 volumes are going to be lower than originally expected.

### Grinding media

- Copper and Gold are the driving force for the growth.
- Certain very important mines with extra-ordinary sales opportunities are in the process of being developed.
- Mining solutions have deep opportunity as AIA is improving the operational parameters for customers. Copper grades are falling and plants have to run at optimal utilization so AIA's products will be needed.
- Out of 2.5mn MT global market, only 0.5mn MT has converted to high chrome. Rest all is forged media, which will get converted over a long term. The global market is broadly equally split among three ores – gold, copper and iron ore.
- The current 440,000 MT capacity is likely to be fully utilized in 3 years with 80% utilization level.
- Realization will remain between Rs150,000 per MT to Rs160,000 per MT
- One mine needs 25,000-30,000 MT grinding media whereas entire country's cement need is 27,000 MT. Hence, cement capex will not drive volume growth at AIA level. In cement sector, AIA has 95% market share in India and 35% market share globally ex-China.

## Mill Liners

- Bought 30% stake in an Australian company named MPS for Rs430mn, an important development from long term. AIA will eventually be taking majority stake.
- Mill liner scale up opportunity is on track. Australian company MPS is an expert in composite mill liner. Beneficiation and grinding is a focus area. MPS is not into manufacturing but purely into designing with good access to market.
- AIAE has 50,000 MT green-field manufacturing plant of mill liner as well as they make mill liner in other multi-purpose facility, taking the total capacity to 70,000 MT.
- Global industry size of metal liners is 300,000 MT
- Currently at run rate of 30,000 MT mill liner sales in FY24.

## Quarterly performance trend

### Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net sales	10,800	10,647	13,116	12,099	12,518	12,203	12,739	11,467	(5.2)	(10.0)
Other operating income	133	150	171	169	217	193	209	224	32.8	7.1
<b>Total sales</b>	<b>10,933</b>	<b>10,797</b>	<b>13,287</b>	<b>12,269</b>	<b>12,736</b>	<b>12,396</b>	<b>12,948</b>	<b>11,692</b>	<b>(4.7)</b>	<b>(9.7)</b>
Direct Costs	4,736	4,698	5,748	4,435	5,777	5,414	5,470	4,806	8.4	(12.1)
Gross Profit	6,197	6,099	7,539	7,833	6,958	6,982	7,478	6,886	(12.1)	(7.9)
Staff Cost	358	367	374	378	399	406	433	432	14.2	(0.3)
Other Expenses	3,580	3,260	4,045	3,797	3,402	3,145	3,224	3,341	(12.0)	3.6
Total Expenditure	8,674	8,325	10,167	8,611	9,578	8,966	9,127	8,579	(0.4)	(6.0)
<b>EBITDA</b>	<b>2,259</b>	<b>2,472</b>	<b>3,120</b>	<b>3,657</b>	<b>3,157</b>	<b>3,430</b>	<b>3,821</b>	<b>3,112</b>	<b>(14.9)</b>	<b>(18.6)</b>
Depreciation	213	208	246	244	232	242	245	270	10.4	10.1
EBIT	2,046	2,264	2,874	3,413	2,925	3,188	3,576	2,842	(16.7)	(20.5)
Interest	(2)	11	39	52	99	75	74	71	34.9	(4.6)
Other Income	387	206	321	1,180	638	595	623	831	(29.5)	33.3
<b>PBT</b>	<b>2,436</b>	<b>2,459</b>	<b>3,157</b>	<b>4,540</b>	<b>3,464</b>	<b>3,708</b>	<b>4,125</b>	<b>3,603</b>	<b>(20.6)</b>	<b>(12.7)</b>
Tax	496	545	708	1,015	788	983	884	811	(20.1)	(8.3)
PAT	1,940	1,915	2,449	3,525	2,677	2,725	3,241	2,791	(20.8)	(13.9)
Less : Minority interest	-6	10	1	0	-5	2	10	(5)	NA	NA
<b>PAT after minority</b>	<b>1,946</b>	<b>1,905</b>	<b>2,448</b>	<b>3,525</b>	<b>2,682</b>	<b>2,723</b>	<b>3,231</b>	<b>2,796</b>	<b>(20.7)</b>	<b>(13.5)</b>
EPS (Rs/share)	20.6	20.2	26.0	37.4	28.4	28.9	34.3	29.6	(20.7)	(13.5)

#### As a % of revenue

Direct Costs	43.3	43.5	43.3	36.2	45.4	43.7	42.2	41.1		
Gross Margin	56.7	56.5	56.7	63.8	54.6	56.3	57.8	58.9		
Staff Cost	3.3	3.4	2.8	3.1	3.1	3.3	3.3	3.7		
Other expenses	32.7	30.2	30.4	31.0	26.7	25.4	24.9	28.6		
EBITDA Margin	20.7	22.9	23.5	29.8	24.8	27.7	29.5	26.6		
PAT Margin	17.7	17.7	18.4	28.7	21.0	22.0	25.0	23.9		
Tax rate	20.4	22.1	22.4	22.4	22.7	26.5	21.4	22.5		

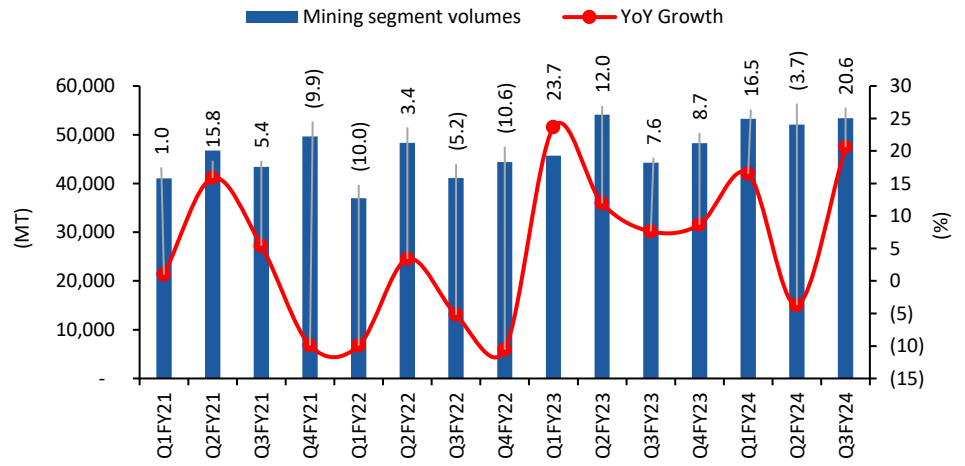
Source: Company Data, Centrum Broking

### Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
<b>Volume sales (MT)</b>										
Mining	44,395	45,710	54,109	44,284	48,249	53,256	52,093	53,395	20.6	2.5
Others	28,581	22,188	24,391	27,155	25,256	20,790	25,632	20,745	(23.6)	(19.1)
<b>Total</b>	<b>72,976</b>	<b>67,898</b>	<b>78,500</b>	<b>71,439</b>	<b>73,505</b>	<b>74,046</b>	<b>77,725</b>	<b>74,140</b>	<b>3.8</b>	<b>(4.6)</b>
<b>Volume sales break-up (%)</b>										
Mining	60.8	67.3	68.9	62.0	65.6	71.9	67.0	72.0		
Others	39.2	32.7	31.1	38.0	34.4	28.1	33.0	28.0		
Production (MT)	70,391	68,336	80,224	64,854	74,674	73,702	75,042	82,708	27.5	10.2
Sales to Production (%)	103.7	99.4	97.9	110.2	98.4	100.5	103.6	89.6		
Revenue (Rs mn)	10,800	10,647	13,116	12,099	12,518	12,203	12,739	11,467	(5.2)	(10.0)
Realisation (Rs/MT)	1,47,993	1,56,804	1,67,082	1,69,368	1,70,303	1,64,802	1,63,893	1,54,669	(8.7)	(5.6)
Order book (Rs mn)	5,020	7,000	7,840	6,830	7,700	6,610	6,930	6,640	(2.8)	(4.2)

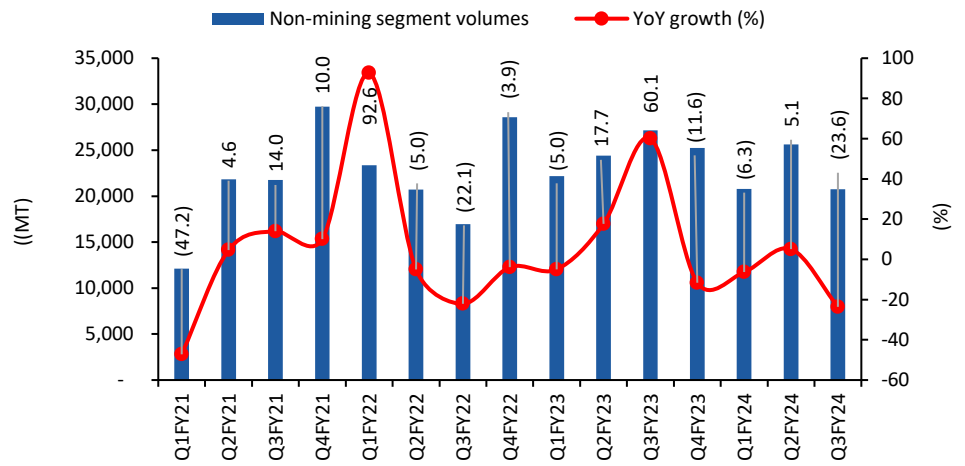
Source: Company, Centrum Broking

**Exhibit 3: Mining segment volumes trend**



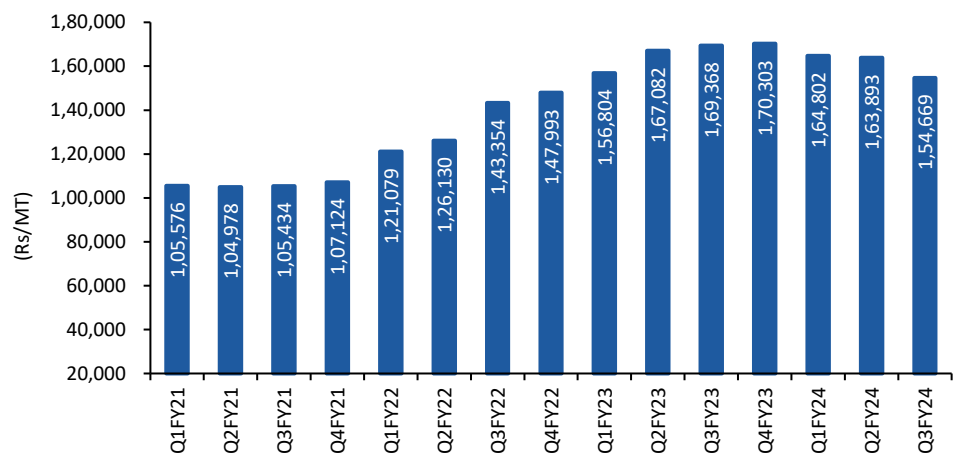
Source: Company Data, Centrum Broking

**Exhibit 4: Non-mining segment volumes trend**



Source: Company Data, Centrum Broking

**Exhibit 5: Realization trend**



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>35,665</b>	<b>49,088</b>	<b>49,492</b>	<b>53,562</b>	<b>59,853</b>
Operating Expense	14,711	20,658	20,737	22,335	24,659
Employee cost	1,394	1,519	1,732	2,035	2,334
Others	12,351	14,504	13,610	15,479	17,357
<b>EBITDA</b>	<b>7,209</b>	<b>12,406</b>	<b>13,412</b>	<b>13,712</b>	<b>15,502</b>
Depreciation & Amortisation	921	930	1,033	1,094	1,197
<b>EBIT</b>	<b>6,288</b>	<b>11,476</b>	<b>12,379</b>	<b>12,617</b>	<b>14,305</b>
Interest expenses	39	201	294	260	199
Other income	1,563	2,345	2,623	2,571	2,873
<b>PBT</b>	<b>7,813</b>	<b>13,620</b>	<b>14,708</b>	<b>14,928</b>	<b>16,979</b>
Taxes	1,617	3,055	3,383	3,284	3,735
Effective tax rate (%)	20.7	22.4	23.0	22.0	22.0
<b>PAT</b>	<b>6,196</b>	<b>10,565</b>	<b>11,325</b>	<b>11,644</b>	<b>13,243</b>
Minority/Associates	1	(6)	(20)	(25)	(30)
<b>Recurring PAT</b>	<b>6,197</b>	<b>10,559</b>	<b>11,305</b>	<b>11,619</b>	<b>13,213</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>6,197</b>	<b>10,559</b>	<b>11,305</b>	<b>11,619</b>	<b>13,213</b>

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Revenue	23.8	37.6	0.8	8.2	11.7
EBITDA	10.0	72.1	8.1	2.2	13.1
Adj. EPS	9.5	70.4	7.1	2.8	13.7
<b>Margins (%)</b>					
Gross	58.8	57.9	58.1	58.3	58.8
EBITDA	20.2	25.3	27.1	25.6	25.9
EBIT	17.6	23.4	25.0	23.6	23.9
Adjusted PAT	17.4	21.5	22.8	21.7	22.1
<b>Returns (%)</b>					
ROE	13.8	20.2	18.3	16.4	16.3
ROCE	13.5	19.6	17.7	16.2	16.2
ROIC	18.3	28.1	29.6	28.6	29.5
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	2.7	3.0	2.6	2.5	2.5
Debtors	74	62	65	65	66
Inventory	246	216	212	200	194
Creditors	45	40	46	43	42
Net working capital	241	207	241	275	301
<b>Solvency (x)</b>					
Net debt-equity	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Interest coverage ratio	187.2	61.7	45.6	52.7	77.8
Net debt/EBITDA	(0.7)	(0.2)	(0.8)	(1.3)	(1.6)
<b>Per share (Rs)</b>					
Adjusted EPS	65.7	112.0	119.9	123.2	140.1
BVPS	504.1	603.4	703.3	802.4	914.5
CEPS	75.5	121.8	130.8	134.8	152.8
DPS	9.0	16.0	20.0	24.0	28.0
Dividend payout (%)	13.7	14.3	16.7	19.5	20.0
<b>Valuation (x)</b>					
P/E	62.8	36.9	34.4	33.5	29.5
P/BV	8.2	6.8	5.9	5.1	4.5
EV/EBITDA	53.3	31.1	28.2	27.1	23.6
Dividend yield (%)	0.2	0.4	0.5	0.6	0.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	189	189	189	189	189
Reserves & surplus	47,361	56,725	66,143	75,498	86,071
Shareholders fund	47,550	56,913	66,332	75,687	86,259
Minority Interest	85	89	89	89	89
Total debt	28	4,960	1,960	1,760	1,560
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	387	391	391	391	391
<b>Total liabilities</b>	<b>48,050</b>	<b>62,354</b>	<b>68,772</b>	<b>77,928</b>	<b>88,300</b>
Gross block	13,213	16,267	18,767	21,767	24,267
Less: acc. Depreciation	(5,540)	(6,470)	(7,504)	(8,598)	(9,795)
Net block	7,673	9,796	11,263	13,169	14,472
Capital WIP	2,102	1,074	1,200	700	700
Net fixed assets	10,002	11,102	12,663	14,069	15,372
Non Current Assets	3,925	804	841	911	1,017
Investments	10,554	22,543	22,543	22,543	22,543
Inventories	12,260	12,180	11,931	12,544	13,715
Sundry debtors	8,056	8,609	9,085	10,125	11,479
Cash & Cash Equivalents	5,061	8,060	12,880	19,035	25,591
Loans & advances	19	1,266	1,138	1,339	1,496
Other current assets	1,376	1,741	1,831	1,875	2,095
Trade payables	1,967	2,614	2,557	2,692	2,973
Other current liab.	1,026	1,125	1,089	1,285	1,436
Provisions	210	212	495	536	599
Net current assets	23,569	27,905	32,725	40,405	49,368
<b>Total assets</b>	<b>48,050</b>	<b>62,354</b>	<b>68,772</b>	<b>77,928</b>	<b>88,300</b>

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	7,813	13,620	14,708	14,928	16,979
Depreciation & Amortisation	921	930	1,033	1,094	1,197
Net Interest	39	201	294	260	199
Net Change – WC	(9,352)	1,783	(37)	(1,594)	(2,514)
Direct taxes	(1,698)	(3,051)	(3,383)	(3,284)	(3,735)
<b>Net cash from operations</b>	<b>(2,277)</b>	<b>13,478</b>	<b>12,595</b>	<b>11,379</b>	<b>12,096</b>
Capital expenditure	(1,200)	(2,030)	(2,595)	(2,500)	(2,500)
Acquisitions, net	0	0	0	0	0
Investments	(2,468)	(11,989)	0	0	0
Others	0	0	0	0	0
<b>Net cash from investing</b>	<b>(3,668)</b>	<b>(14,019)</b>	<b>(2,595)</b>	<b>(2,500)</b>	<b>(2,500)</b>
<b>FCF</b>	<b>(5,945)</b>	<b>(541)</b>	<b>10,001</b>	<b>8,879</b>	<b>9,596</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(1,816)	4,932	(3,000)	(200)	(200)
Dividend paid	(849)	(1,509)	(1,886)	(2,264)	(2,641)
Interest paid	(39)	(201)	(294)	(260)	(199)
Others	(245)	318	0	0	0
<b>Net cash from financing</b>	<b>(2,949)</b>	<b>3,540</b>	<b>(5,181)</b>	<b>(2,724)</b>	<b>(3,040)</b>
Net change in Cash	(8,894)	2,999	4,820	6,155	6,556

Source: Company, Centrum Broking

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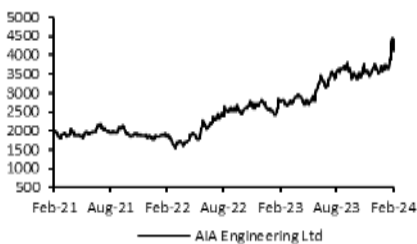
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**AIA Engineering**



Source: Bloomberg

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