

## AIA Engineering

### Soft volumes but robust margin drive earnings beat

AIAE's consolidated sales in Q2FY24 fell 3% YoY to Rs12.9bn, 7% below our estimate. Mining volumes fell 4% YoY to 52,093MT, while non-mining volumes (cement + power) grew 5% YoY to 25,632MT. Realization fell 2% YoY to Rs163,893/MT. Gross margin expanded 110bps YoY/150bps QoQ to 57.8%. EBITDA grew 23% YoY to Rs3.8bn, leading to robust EBITDA margin of 29.5%, up 600bps YoY and above our estimate of 22.8%. Better margin profile was driven by product mix and significant reduction in freight charges. Higher operating profit and other income (up 94% YoY to Rs623mn) led to 32% YoY growth in PAT to Rs3.2bn, above our/consensus estimate of Rs2.7bn each. Profitability was enhanced by higher contribution from more profitable non-grinding media such as tube liner, mill liner and VSMS. For FY24E, AIAE expects incremental volumes of 25,000 MT in the mining sector as around 10,000MT is likely to shift to FY25. FY25E is likely to be a stronger year with minimum incremental of 40,000 MT. Based on higher margin profile, we increase our earnings estimate by 14%/6% for FY24E/25E and roll over valuation to Sept'25. Retain BUY with a revised target price of Rs4,360 (Rs3,975earlier) based on unchanged P/E of 32x H1FY26E EPS.

#### Structural shift to high chrome intact; FY25 volume increase to be stronger than FY24

Total volume in Q2FY24 was flat YoY at 77,725MT. Segment wise, mining reported 4% YoY decline in volumes at 52,093MT while non-mining volumes grew 5% YoY to 25,632MT. AIAE expects incremental volume addition of ~25,000 MT in FY24 as there could be a shift of 10,000 MT to FY25. Though H1FY24 volume growth is limited (~5,500), shift towards high chrome media in mining sector is on-course. Volumes addition is likely to be stronger in FY25 as AIAE aims to add minimum of 40,000 MT. AIAE has earmarked capex worth Rs5bn spread over FY24 (Rs3bn) and FY25 (Rs2bn). With addition of new greenfield plant for grinding media (capacity of 80,000MT) and de-bottlenecking potential of 20,000MT, AIAE's total capacity is expected to rise to 540,000 MT by end-FY25. Mill liner addressable opportunity is at 300,000MT while AIAE's current capacity is at 75,000 MT (incl. new 50,000 MT plant). For grinding media, 1mn to 1.5mn MT of conversion from forged media to high chrome media is likely over a medium term.

#### Realization sustained amidst volatile Ferro chrome prices

Realization in Q2FY24 was Rs163,893/MT, down 2% YoY. Realization is a function of raw material prices (Ferro chrome and MS scrap) and freight cost, which are passed through with a lag. Ferro Chrome prices in Q2FY24 were volatile as it moved from Rs120/kg to Rs100/kg and then returned to Rs110-Rs112/kg. For H2FY24, AIAE expects realization in range of Rs155/kg-Rs170/kg. Minimum sustainable EBITDA margin is 23-24%.

#### Maintain BUY with a revised target price of Rs4,360

AIAE's technological leadership in high chrome mill internals, strong growth opportunity in mining sector and superior financial metrics are key business moats. We retain BUY rating on the stock with a target price of Rs4,360 based on 32x H1FY26E EPS. Key risks is any major fall in prices of Ferro Chrome which would lead to a sharp decline in realization.

#### Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	12,948	13,287	(2.5)	12,396	4.5	52,689	57,362	63,063
EBITDA	3,821	3,120	22.5	3,430	11.4	14,542	14,742	15,766
EBITDA margin (%)	29.5	23.5	600bps	27.7	180bps	27.6	25.7	25.0
Adj. Net profit	3,231	2,448	32.0	2,723	18.6	12,019	12,399	13,318
Adj. EPS (Rs)	34.3	26.0	32.0	28.9	18.6	127.4	131.5	141.2
EPS growth (%)						13.8	3.2	7.4
PE (x)						28.5	27.7	25.8
EV/EBITDA (x)						22.9	22.1	20.2
PBV (x)						5.1	4.5	3.9
RoE (%)						19.4	17.2	16.2
RoCE (%)						18.8	17.1	16.1

Source: Company, Centrum Broking

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

#### Result Update

India I Capital Goods

06 November, 2023

**BUY**

Price: Rs3,637

Target Price: Rs4,360

Forecast return: 20%

Institutional Research

#### Market Data

Bloomberg:	AIAE IN
52 week H/L:	3,840/2,384
Market cap:	Rs343.1bn
Shares Outstanding:	94.3mn
Free float:	41.5%
Avg. daily vol. 3mth:	80,167

Source: Bloomberg

#### Changes in the report

Rating:	BUY; Unchanged
Target price:	Rs4,360; up 9.7%
EPS:	FY24E: Rs127.4; up 13.5% FY25E: Rs131.5; up 5.8%

Source: Centrum Broking

#### Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	58.5	58.5	58.5	58.5
FIs	18.5	18.1	18.0	17.8
DIs	19.9	20.5	21.0	21.0
Public/other	3.1	2.9	2.5	2.7

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	13,911	12,948	(6.9)
EBITDA	3,176	3,821	20.3
EBITDA margin %	22.8	29.5	670bps
PAT	2,667	3,231	21.2
EPS	28.3	34.3	21.2

Source: Company Data, Centrum Broking



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Capital Goods

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	52,689	53,649	(1.8)	57,362	57,789	(0.7)
EBITDA	14,542	12,768	13.9	14,742	13,927	5.9
EBITDA margin %	27.6	23.8	380bps	25.7	24.1	160bps
Adj. PAT	12,019	10,591	13.5	12,399	11,719	5.8
Diluted EPS (Rs)	127.4	112.3	13.5	131.5	124.2	5.8

Source: Centrum Broking

### AIA Engineering versus NIFTY 50

	1m	6m	1 year
AIAE IN	5.7	32.4	32.8
NIFTY 50	(0.9)	24.2	26.0

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Sales Volume (MT)	3,20,352	3,64,352	4,08,352
Realizations (Rs/MT)	1,62,000	1,55,000	1,52,000
Revenue growth (%)	7.3	8.9	9.9
EBITDA margins (%)	27.6	25.7	25.0

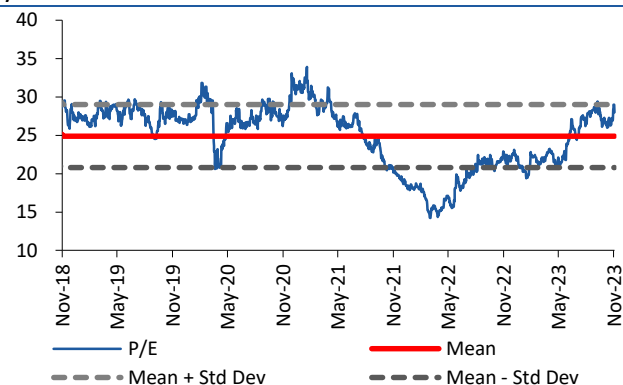
Source: Centrum Broking

### Valuations

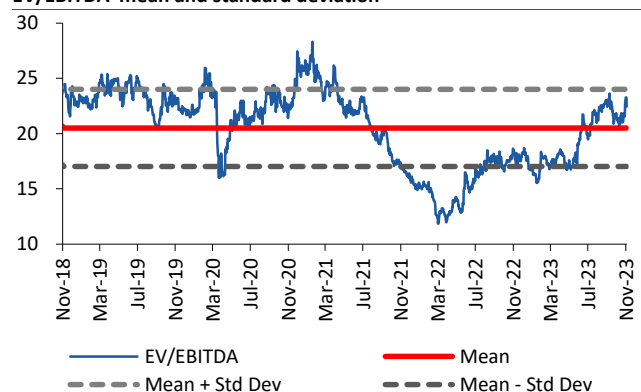
We value AIAE at 32x H1FY26E EPS and arrive at the target price of Rs4,360

Valuations	Rs/share
H1FY26 EPS	136
PE (x)	32
<b>Target price per share</b>	<b>4,360</b>

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

## Key concall takeaways

- May not be able to add more than 25,000 MT in FY24 as some volume could shift from FY24 to FY25 (shortfall of around 10,000 MT possible). But directionally the shift to high chrome remains on course. FY25 volume addition will be stronger, it can be 40,000 MT minimum addition.
- Margin higher due to very favourable product mix and significant reduction in freight costs
- Realistic EBITDA margin trajectory 23-24%
- In Q2, a very high % of sales came from non-grinding media (tube liner, mill liner, VSMS) which is more profitable
- Raw material continues to be volatile. Ferro Chrome price moved from Rs 120 per kg to Rs 100 per kg and back to Rs 110-112 per kg. Have pass through benefit with a lag
- Sales realization in H2 will be in the range of Rs 155 to Rs 170 per kg
- Business is not running on operating leverage as (1) product mix is extremely wide (from Rs80-100 per kg to Rs 300 per kg), (2) RM price pass through and (3) currency movement
- In Q2, Others category saw improvement in volume from cement sector
- Rs5bn capex outlay planned in FY24 (Rs3bn) and FY25 (Rs2bn). It will be utilized for grinding media new plant (Rs2bn), capacity debottlenecking and upgrading (Rs2bn), renewable power (Rs500mn), maintenance (Rs500mn).
- 80,000 MT grinding media capacity expansion by Dec 2024 is on course. Debottlenecking should add 15,000-20,000 MT. Current capacity of 440,000 MT will go to around 540,000 MT by end FY25
- In Grinding media, 1 to 1.5 mn MT is unconverted opportunity from forged to grinding media. It's a 5-10 year opportunity.
- Mill liner addressable market is 300,000 MT. There are 3-4 organised players. AIA has capacity of 75,000 MT (including 50,000 MT new plant).
- AIA acquired 30% stake in an Australian company focussed on mill liner. It will enhance its design capability and technological prowess. This will aid in pushing mill liner volumes.
- Brazil's 5 year duty structure's sunset review has started. By March 2024 new rate will be known. AIA's supplies are continuing. In FY23, supply was 6,000-8,000 MT, this year volume will be slightly higher.
- Continue to work aggressively for South American opportunity including in Peru and Chile

## Quarterly performance trend

### Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net sales	8,330	10,800	10,647	13,116	12,099	12,518	12,203	12,739	(2.9)	4.4
Other operating income	151	133	150	171	169	217	193	209	22.7	8.5
<b>Total sales</b>	<b>8,481</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>	(2.5)	4.5
Direct Costs	3,207	4,736	4,698	5,748	4,435	5,777	5,414	5,470	(4.8)	1.0
Gross Profit	5,274	6,197	6,099	7,539	7,833	6,958	6,982	7,478	(0.8)	7.1
Staff Cost	355	358	367	374	378	399	406	433	15.9	6.7
Other Expenses	3,307	3,580	3,260	4,045	3,797	3,402	3,145	3,224	(20.3)	2.5
Total Expenditure	6,869	8,674	8,325	10,167	8,611	9,578	8,966	9,127	(10.2)	1.8
<b>EBITDA</b>	<b>1,612</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>	22.5	11.4
Depreciation	249	213	208	246	244	232	242	245	(0.2)	1.1
EBIT	1,363	2,046	2,264	2,874	3,413	2,925	3,188	3,576	24.4	12.2
Interest	25	(2)	11	39	52	99	75	74	91.5	(1.0)
Other Income	423	387	206	321	1,180	638	595	623	93.9	4.7
PBT	1,761	2,436	2,459	3,157	4,540	3,464	3,708	4,125	30.7	11.2
Tax	376	496	545	708	1,015	788	983	884	24.9	(10.0)
PAT	1,385	1,940	1,915	2,449	3,525	2,677	2,725	3,241	32.3	18.9
Less : Minority interest	4	(6)	10	1	0	-5	2	10	862.8	459.2
<b>PAT after minority</b>	<b>1,382</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>	32.0	18.6
EPS (Rs/share)	14.6	20.6	20.2	26.0	37.4	28.4	28.9	34.3	32.0	18.6

#### As a % of revenue

Direct Costs	37.8	43.3	43.5	43.3	36.2	45.4	43.7	42.2		
Gross Margin	62.2	56.7	56.5	56.7	63.8	54.6	56.3	57.8		
Staff Cost	4.2	3.3	3.4	2.8	3.1	3.1	3.3	3.3		
Other expenses	39.0	32.7	30.2	30.4	31.0	26.7	25.4	24.9		
EBITDA Margin	19.0	20.7	22.9	23.5	29.8	24.8	27.7	29.5		
PAT Margin	16.3	17.7	17.7	18.4	28.7	21.0	22.0	25.0		
Tax rate	21.3	20.4	22.1	22.4	22.4	22.7	26.5	21.4		

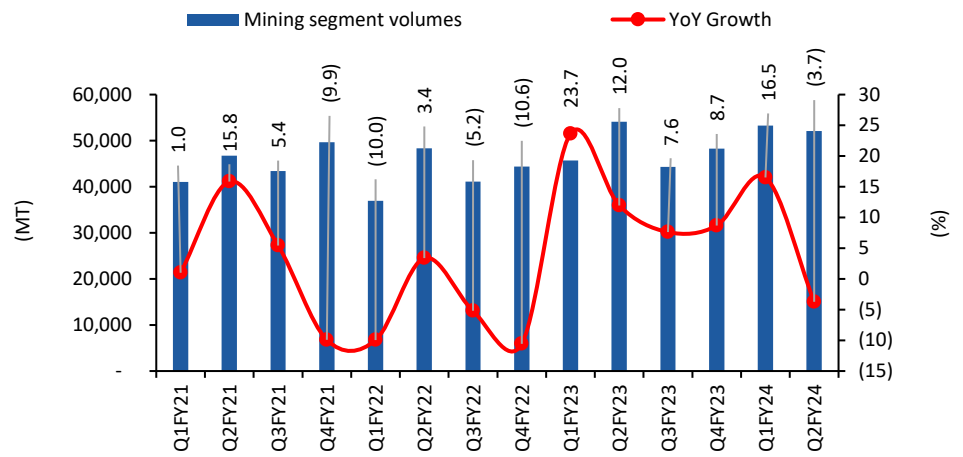
Source: Company Data, Centrum Broking

### Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
<b>Volume sales (MT)</b>										
Mining	41,147	44,395	45,710	54,109	44,284	48,249	53,256	52,093	(3.7)	(2.2)
Others	16,964	28,581	22,188	24,391	27,155	25,256	20,790	25,632	5.1	23.3
<b>Total</b>	<b>58,111</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>(1.0)</b>	<b>5.0</b>
<b>Volume sales break-up (%)</b>										
Mining	70.8	60.8	67.3	68.9	62.0	65.6	71.9	67.0		
Others	29.2	39.2	32.7	31.1	38.0	34.4	28.1	33.0		
Production (MT)	75,764	70,391	68,336	80,224	64,854	74,674	73,702	75,042	(6.5)	1.8
Sales to Production (%)	76.7	103.7	99.4	97.9	110.2	98.4	100.5	103.6		
Revenue (Rs mn)	8,330	10,800	10,647	13,116	12,099	12,518	12,203	12,739	(2.9)	4.4
Realisation (Rs/MT)	1,43,354	1,47,993	1,56,804	1,67,082	1,69,368	1,70,303	1,64,802	1,63,893	(1.9)	(0.6)
Order book (Rs mn)	6,820	5,020	7,000	7,840	6,830	7,700	6,610	6,930	(11.6)	4.8

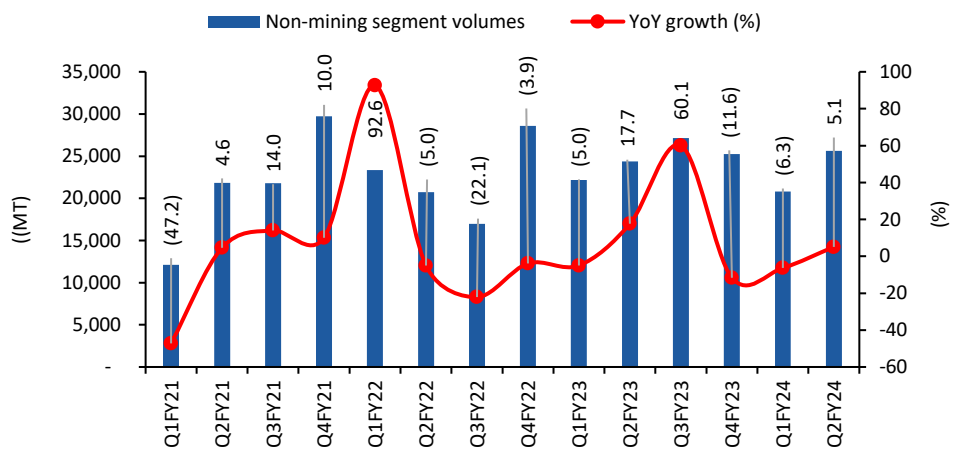
Source: Company, Centrum Broking

**Exhibit 3: Mining segment volumes trend**



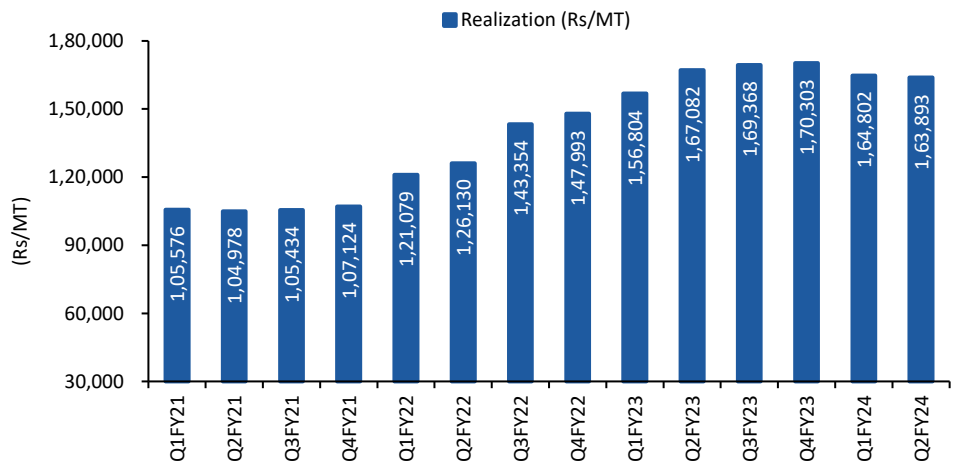
Source: Company Data, Centrum Broking

**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>52,689</b>	<b>57,362</b>	<b>63,063</b>
Operating Expense	14,711	20,658	21,971	23,805	25,982
Employee cost	1,394	1,519	1,844	2,180	2,523
Others	12,351	14,504	14,331	16,635	18,793
<b>EBITDA</b>	<b>7,209</b>	<b>12,406</b>	<b>14,542</b>	<b>14,742</b>	<b>15,766</b>
Depreciation & Amortisation	921	930	977	1,128	1,252
<b>EBIT</b>	<b>6,288</b>	<b>11,476</b>	<b>13,565</b>	<b>13,614</b>	<b>14,514</b>
Interest expenses	39	201	294	260	232
Other income	1,563	2,345	2,371	2,581	2,838
<b>PBT</b>	<b>7,813</b>	<b>13,620</b>	<b>15,642</b>	<b>15,934</b>	<b>17,119</b>
Taxes	1,617	3,055	3,598	3,506	3,766
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>12,044</b>	<b>12,429</b>	<b>13,353</b>
Minority/Associates	1	(6)	(25)	(30)	(35)
<b>Recurring PAT</b>	<b>6,197</b>	<b>10,559</b>	<b>12,019</b>	<b>12,399</b>	<b>13,318</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>6,197</b>	<b>10,559</b>	<b>12,019</b>	<b>12,399</b>	<b>13,318</b>

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Revenue	23.8	37.6	7.3	8.9	9.9
EBITDA	10.0	72.1	17.2	1.4	6.9
Adj. EPS	9.5	70.4	13.8	3.2	7.4
<b>Margins (%)</b>					
Gross	58.8	57.9	58.3	58.5	58.8
EBITDA	20.2	25.3	27.6	25.7	25.0
EBIT	17.6	23.4	25.7	23.7	23.0
Adjusted PAT	17.4	21.5	22.8	21.6	21.1
<b>Returns (%)</b>					
ROE	13.8	20.2	19.4	17.2	16.2
ROCE	13.5	19.6	18.8	17.1	16.1
ROIC	18.3	28.1	31.6	29.3	28.9
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	2.7	3.0	2.7	2.6	2.7
Debtors	74	62	63	66	67
Inventory	246	216	206	199	196
Creditors	45	40	44	43	42
Net working capital	241	207	226	264	296
<b>Solvency (x)</b>					
Net debt-equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.3)
Interest coverage ratio	187.2	61.7	49.4	56.6	67.8
Net debt/EBITDA	(0.7)	(0.2)	(0.7)	(1.1)	(1.5)
<b>Per share (Rs)</b>					
Adjusted EPS	65.7	112.0	127.4	131.5	141.2
BVPS	504.1	603.4	708.8	815.3	928.5
CEPS	75.5	121.8	137.8	143.4	154.5
DPS	9.0	16.0	22.0	25.0	28.0
Dividend payout (%)	13.7	14.3	17.3	19.0	19.8
<b>Valuation (x)</b>					
P/E	55.3	32.5	28.5	27.7	25.8
P/BV	7.2	6.0	5.1	4.5	3.9
EV/EBITDA	46.9	27.4	22.9	22.1	20.2
Dividend yield (%)	0.2	0.4	0.6	0.7	0.8

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	66,669	76,710	87,387
Shareholders fund	47,550	56,913	66,858	76,898	87,575
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>69,298</b>	<b>79,139</b>	<b>89,616</b>
Gross block	13,213	16,267	19,267	21,767	23,767
Less: acc. Depreciation	(5,540)	(6,470)	(7,447)	(8,576)	(9,828)
Net block	7,673	9,796	11,819	13,191	13,939
Capital WIP	2,102	1,074	1,200	700	700
Net fixed assets	10,002	11,102	13,219	14,091	14,839
Non Current Assets	3,925	804	896	975	1,072
Investments	10,554	22,543	22,543	22,543	22,543
Inventories	12,260	12,180	12,641	13,370	14,593
Sundry debtors	8,056	8,609	9,672	11,001	12,094
Cash & Cash Equivalents	5,061	8,060	11,561	18,537	25,967
Loans & advances	19	1,266	1,212	1,434	1,577
Other current assets	1,376	1,741	1,950	2,008	2,207
Trade payables	1,967	2,614	2,709	2,870	3,132
Other current liab.	1,026	1,125	1,159	1,377	1,514
Provisions	210	212	527	574	631
Net current assets	23,569	27,905	32,640	41,530	51,162
<b>Total assets</b>	<b>48,050</b>	<b>62,354</b>	<b>69,298</b>	<b>79,139</b>	<b>89,616</b>

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	7,813	13,620	15,642	15,934	17,119
Depreciation & Amortisation	921	930	977	1,128	1,252
Net Interest	39	201	294	260	232
Net Change – WC	(9,352)	1,783	(1,326)	(1,993)	(2,299)
Direct taxes	(1,698)	(3,051)	(3,598)	(3,506)	(3,766)
<b>Net cash from operations</b>	<b>(2,277)</b>	<b>13,478</b>	<b>11,965</b>	<b>11,795</b>	<b>12,504</b>
Capital expenditure	(1,200)	(2,030)	(3,095)	(2,000)	(2,000)
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>(3,095)</b>	<b>(2,000)</b>	<b>(2,000)</b>
<b>FCF</b>	<b>(5,945)</b>	<b>(541)</b>	<b>8,870</b>	<b>9,795</b>	<b>10,504</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)	(2,075)	(2,358)	(2,641)
Interest paid	(39)	(201)	(294)	(260)	(232)
Others	(245)	318	0	0	0
<b>Net cash from financing</b>	<b>(2,949)</b>	<b>3,540</b>	<b>(5,369)</b>	<b>(2,818)</b>	<b>(3,073)</b>
Net change in Cash	(8,894)	2,999	3,501	6,976	7,430

Source: Company, Centrum Broking

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Source: Bloomberg



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