AIA Engineering (AIAENG)

ICICI direct Research

CMP: ₹ 1715 | Target: ₹ 2050 (⬆ 20%) | Target Period: 12 months | BUY

May 28, 2019

Result Update

Strong mining volume growth to continue…

AIA Engineering reported revenues of ₹ 887.2 crore (above our estimate of ₹ 777.3 crore) registering strong growth of 19.3% YoY. EBITDA came in at ₹ 191.3 crore, above our estimate of ₹ 178.8 crore. However, EBITDA margins declined 70 bps YoY to 21.6% (below our estimate of 23.0%) on account of higher-than-expected increase in raw material expenses and other operating expenses. PAT was at ₹ 155.9 crore (above our estimate of ₹ 143.7 crore) registering growth of 3.1% YoY aided by lower tax rate during the quarter. Other income was at ₹ 23.6 crore vs. estimate of ₹ 45.1 crore. Effective tax rate came in at 18.1% vs. 23.9% in Q4FY18.

Incremental volumes to aid revenue growth over FY19-21E

During the quarter, sales volumes came in at 80033 MT, registering robust growth of 20.6% while production volumes grew 19% to 72942 MT YoY. Mining segment sales volume grew 34.1% to 50407 MT while other segment (including cement) grew 2.9% to 29626 MT. Mining segment is expected to rebound with incremental volume sales estimated to be in the range of 35000 to 40000 MTPA from FY20E onwards. For FY19, sales volumes grew 15.9% to 265174 MT in which mining segment volumes grew 23% to 170224 MT. AIA will continue to focus on the replacement mining market estimated at around 3 MTPA with penetration of high chrome consumable still very low (15-20%).

Substantial capex, strategic developments to benefit…

AIA has done capex of ₹ 206 crore and is likely to do capex of over ₹ 600 crore in FY20-21E towards grinding media, mill liners capacity expansion. Commissioning of eight wind turbines of 2.1 MW each has been completed. AIA has planned a capex of ₹ 250 crore towards building dedicated plant for mining mill optimisation products for EEMS collaboration. Grinding media capacity is going to increase from present 340000 TPA to 440000 TPA by Q3FY21E and is likely to aid revenue growth. We build in volume of 302830 MT and 342200 MT for FY20E and FY21E, respectively.

Valuation & Outlook

Strong visibility ramp up of mining segment along with focus on building in-house power capabilities to hedge power cost to help stabilise margins at current levels from FY20E onwards. We expect overall revenues and PAT to grow at a CAGR of 14.5% and 12.0%, respectively, over FY19-21E. We believe that AIA could benefit significantly from expected incremental sales volumes contribution from mining segment, technical collaboration with EEMS and recovery in non-mining segment. We revise our target price to ₹ 2050/share (30x FY21E EPS) and maintain **BUY** rating.

AIA Engineering Ltd.

Particulars

Particular	Amount
Market Capitalization	₹ 16525 Crore
Total Debt (FY18)	₹ 123.3 Crore
Cash and Investments (FY18)	₹ 1356.1 Crore
EV	₹ 15292.2 Crore
52 week H/L	₹ 2026/1423
Equity capital	₹ 18.9 Crore
Face value	₹ 2

Key Highlights

- For FY19, Sales volume grew by 15.9% to 265174 MT in which mining segment volumes grew by 23% to 170224 MT.
- The net realisation per tonne remained flat at ₹ 107.6 per kg, YoY and expected to remain stable going forward
    - We revise our target price to ₹ 2050/share (30x FY21E EPS) and maintain BUY rating.

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ICICI Securities – Retail Equity Research

Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19P	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	2,246.0	2,445.1	3,069.5	3,535.0	4,020.9	14.5%
EBITDA	634.7	535.7	660.4	759.9	870.2	14.8%
EBITDA Margin (%)	28.3	21.9	21.5	21.5	21.6	
Net Profit	457.2	443.6	513.4	562.3	643.4	12.0%
EPS (₹)	48.5	47.0	54.4	59.6	68.2	
P/ E (x)	36.1	37.3	32.2	29.4	25.7	
RoNW (%)	16.8	14.7	14.6	14.7	15.1	
RoCE (%)	22.7	18.4	18.9	19.9	20.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (Chg %)	Q3FY19	QoQ (Chg %)	Comments
Sales	887.2	777.3	743.9	19.3	726.4	22.1	Volume increased 20.6% YoY above our estimates. Mining volumes grew 34.1% YoY
Other Income	23.6	45.1	49.5	-52.3	28.9	-18.4	
Raw Materials Expenses	377.8	291.5	313.5	20.5	253.5	49.1	
Employee Cost	32.3	35.0	28.5	13.6	32.3	0.2	
Other Expenditure	285.8	272.0	235.3	21.5	275.5	3.7	
EBITDA	191.3	178.8	166.0	15.2	165.2	15.8	
EBITDA Margin (%)	21.6	23.0	22.3	-76 bps	22.7	-119 bps	EBITDA margins (%) declined due to increased operating cost
Depreciation	22.7	19.5	14.0	62.1	21.6	5.0	
Interest	2.0	0.0	2.9	-30.8	2.0	-2.9	
PBT	190.2	202.4	198.7	-4.2	170.5	11.6	
Taxes	34.4	58.7	47.5	-27.7	41.3	-16.8	Effective tax rate at 34.4%, came in lower aiding growth in profit
PAT	155.9	143.7	151.2	3.1	129.2	20.6	
Key Metrics							
Volume (in tonnes)	80,033	64,695	66,375	20.6	59,235	35.1	Sales volumes better than our estimates
Net Realisation (₹/tonne)	107,581	116,200	108,561	-0.9	118,208	-9.0	Realisations flat YoY, impacted by forex

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	3,523.8	3,535.0	0.3	4,123.6	4,020.9	-2.5
EBITDA	807.9	759.9	-5.9	970.3	870.2	-10.3
EBITDA Margin (%)	22.9	21.5	-143 bps	23.5	21.6	-189 bps
PAT	594.3	562.3	-5.4	694.7	643.4	-7.4
EPS (₹)	63.0	59.6	-5.4	73.7	68.2	-7.4

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Overall Volumes (tonnes)	228,725	265,174	302,829	342,196	290,812	337,633	Marginal increase in volume estimates
Mining Volumes (tonnes)	138,398	170,224	200,251	231,413	185,892	224,319	Higher penetration in gold and copper will drive mining growth
Capacity	340,000	390,000	440,000	440,000	440,000	440,000	
Net Realisations	106,903	115,753	116,731	117,504	121,171	122,132	Realisations likely to reamin stable

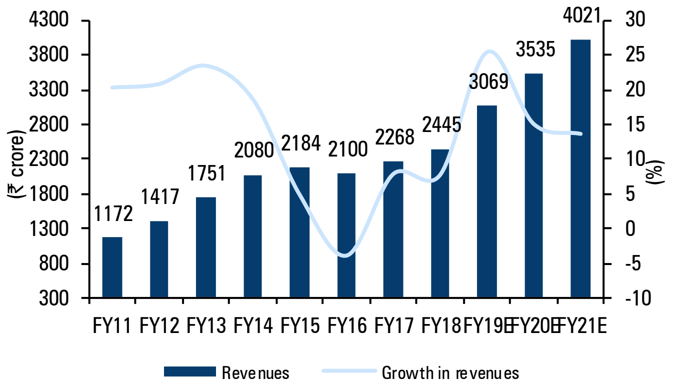
Source: Company, ICICI Direct Research

Key financial results highlights

- The net realisation per tonne remained flat at ₹ 107.6 per kg YoY and is expected to remain stable, going forward. The realisation is the function of product mix and currency
- During the quarter, sales volumes came in at 80033 MT, registering robust growth of 20.6% while production volumes grew 19% to 72942 MT YoY. Mining segment sales volume grew 34.1% to 50407 MT while other segment (including cement) grew 2.9% to 29626 MT
- Volumes during the quarter, includes the 8000-10000 MT which were tucked due to off take delay by few customers in previous quarter
- The company expects to clock incremental volumes to the tune of 35000-40000 MT per year for next two years
- AIA has done capex of ₹ 206 crore and likely to do capex of over ₹ 600 crore over FY20-FY21E towards grinding media, mill liners capacity expansion
- To hedge power cost, AIA bought & installed eight WTGs of 2.1 MW each at cost of ₹ 104 crore during FY19
- Working capital to sales was at 40% and is likely to remain stable at this optimal level over next year
- The strategic tie up with EEMS is progressing well and picking up fast. The company has started market development activities related to mill liners
- The order book of the company was at ₹ 637 crore as on FY19
- Number of inventory days for FY19 was at 64 days vs. 58 days in FY18. The company expects 60 days average inventory days going forward considering penetration

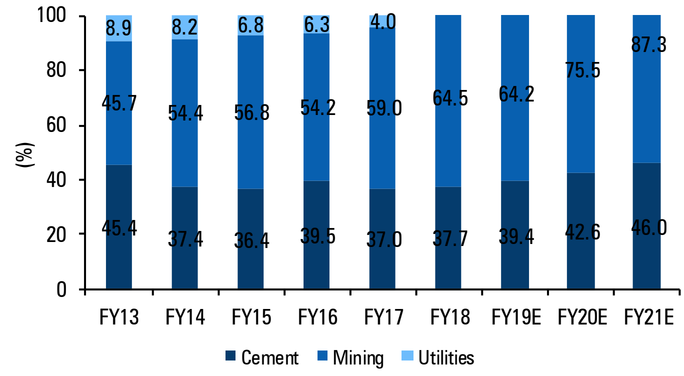
Financial Story in Charts

Exhibit 4: Trend in revenues...



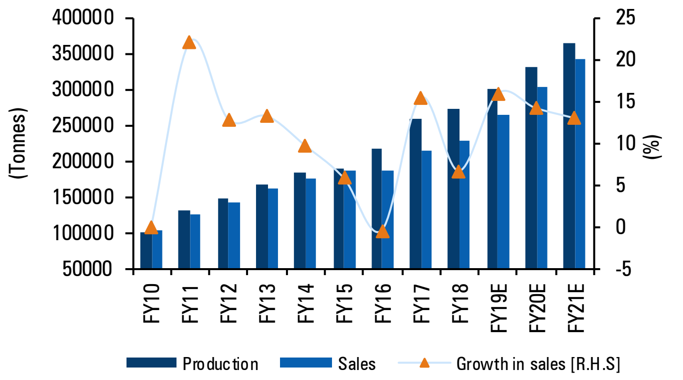
Source: ICICI Direct Research, Company

Exhibit 5: Share of mining segment to rise gradually…



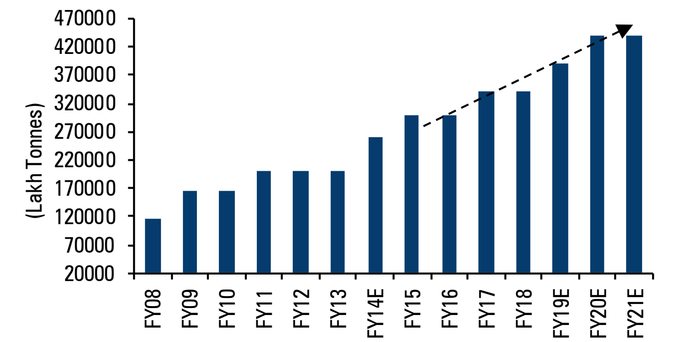
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



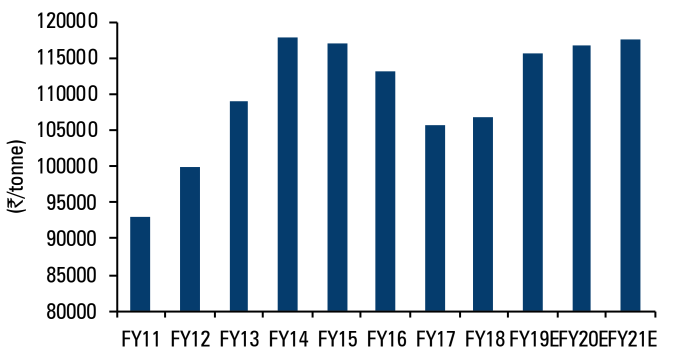
Source: Company, ICICI Direct Research

Exhibit 7: Trend in capacity...



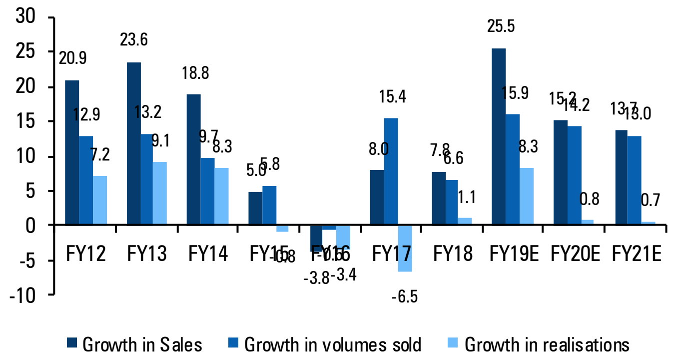
Source: Company, ICICI Direct Research

Exhibit 8: Trend in realisation...



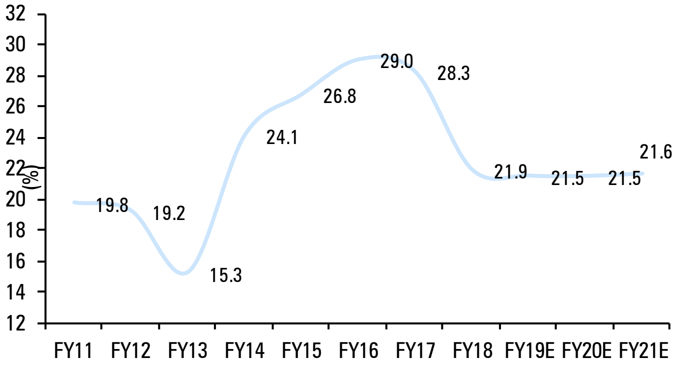
Source: Company, ICICI Direct Research

Exhibit 9: Volume growth to lead revenue CAGR in FY19-21E



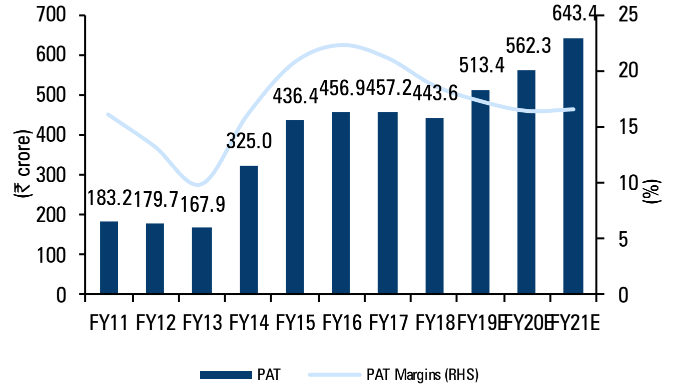
Source: Company, ICICI Direct Research

Exhibit 10: Trend in EBITDA margin...



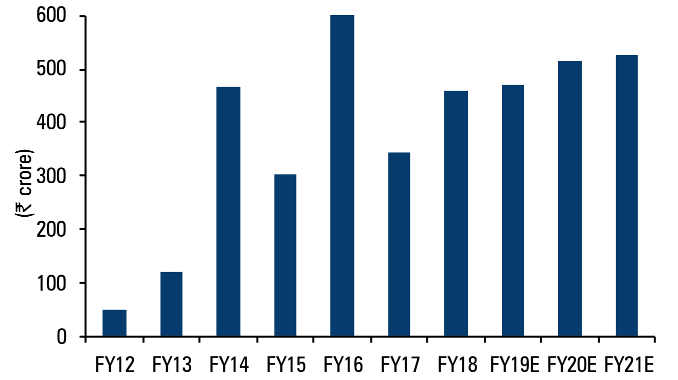
Source: Company, ICICI Direct Research

Exhibit 11: Volume and margin recovery key to PAT



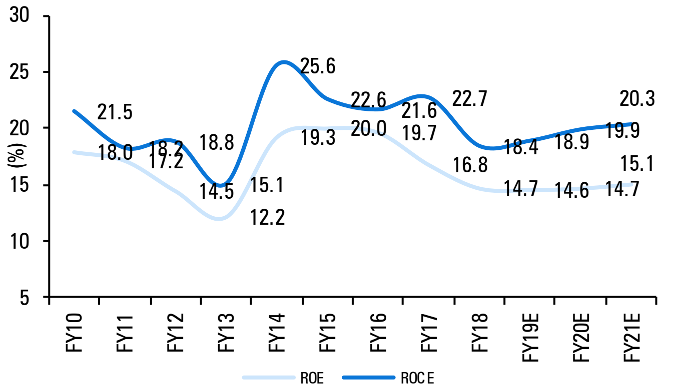
Source: Company, ICICI Direct Research

Exhibit 12: Trend in cash flows...



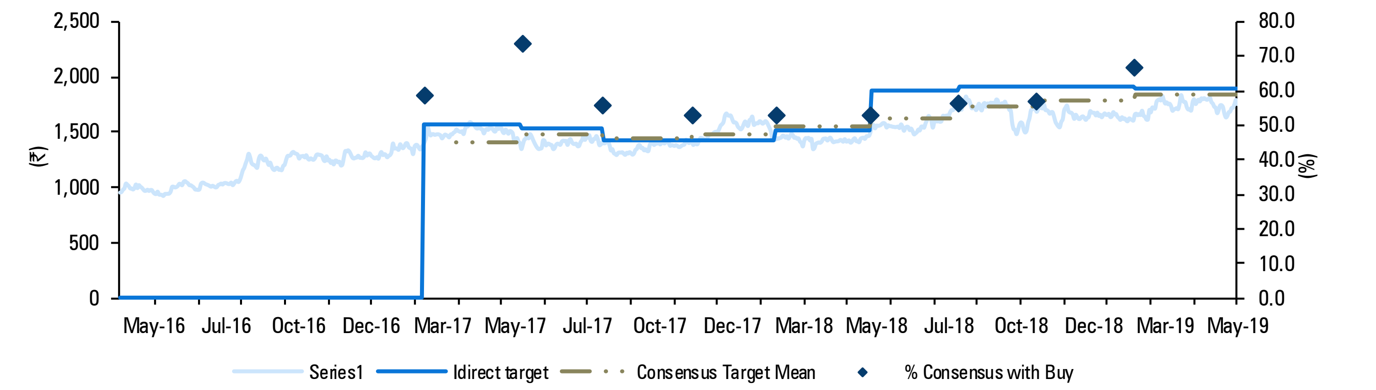
Source: Company, ICICI Direct Research

Exhibit 13: RoE, RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Shah (Bhadresh K)	31-Mar-19	58.4	55.1	0.0
2	Nalanda Capital Pte Ltd	31-Mar-19	9.7	9.1	0.0
3	HDFC Asset Management Co., Ltd.	31-Mar-19	2.9	2.8	0.0
4	Goldman Sachs AMC International	31-Mar-19	2.0	1.8	0.0
5	L&T Investment Management Limited	31-Mar-19	1.9	1.8	0.1
6	SBI Funds Management Pvt. Ltd.	31-Mar-19	1.9	1.8	0.0
7	Matthews International Capital Mgmt, L.L.C.	31-Dec-18	1.6	1.5	-0.5
8	PineBridge India Private Limited	31-Mar-19	1.5	1.4	0.0
9	Kotak Mahindra AMC Ltd.	31-Mar-19	1.4	1.3	0.0
10	The Vanguard Group, Inc.	31-Mar-19	1.3	1.2	0.0

Source: Reuters, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Caisse de Depot et Placement du Quebec	+8.44M	+0.35M	Matthews International Capital Management, L.L.C.	-13.08M	-0.54M
L&T Investment Management Limited	+1.71M	+0.07M	Norges Bank Investment Management (NBIM)	-3.24M	-0.13M
Edelweiss Asset Management Ltd.	+1.32M	+0.05M	IDFC Asset Management Company Private Limited	-0.31M	-0.01M
Royce & Associates, LP	+1.18M	+0.05M	BOI AXA Investment Managers Private Limited	-0.31M	-0.01M
Goldman Sachs Asset Management International	+0.85M	+0.03M	Essel Finance AMC Limited	-0.28M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	61.7	58.5	58.5	58.5	58.5
FII	23.1	23.0	22.5	21.6	21.9
DII	10.6	13.5	14.0	14.5	14.7
Others	4.7	5.0	5.1	5.4	5.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	**2,445.1**	**3,069.5**	**3,535.0**	**4,020.9**
Growth (%)	8.9	25.5	15.2	13.7
Raw Material Expenses	964.4	1,225.0	1,373.6	1,565.3
Employee Expenses	113.2	126.4	143.7	161.9
Other expenses	831.9	1,057.7	1,257.8	1,423.4
Total Operating Expenditure	1,909.4	2,409.1	2,775.1	3,150.7
EBITDA	**535.7**	**660.4**	**759.9**	**870.2**
Growth (%)	-15.6	23.3	15.1	14.5
Depreciation	65.6	78.9	95.2	111.4
Interest	6.9	6.1	6.5	6.9
Other Income	121.8	120.9	142.6	165.5
PBT	585.0	696.3	800.7	917.3
Others	0.0	0.0	0.0	0.0
Total Tax	141.4	183.0	238.4	273.9
PAT	**443.6**	**513.4**	**562.3**	**643.4**
Growth (%)	-3.0	15.7	9.5	14.4
EPS (₹)	**47.0**	**54.4**	**59.6**	**68.2**

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	443.6	513.4	562.3	643.4
Add: Depreciation	65.6	78.9	95.2	111.4
(Inc)/dec in Current Assets	-138.3	-331.1	-132.8	-233.4
Inc/(dec) in CL and Provisions	89.4	159.3	45.5	55.8
Others	3.3	3.0	5.0	5.0
CF from operating activities	**460.3**	**420.5**	**570.2**	**577.2**
(Inc)/dec in Investments	0.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-120.9	-216.0	-340.2	-250.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	**-352.3**	**-391.3**	**-268.7**	**-341.8**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-16.9	5.0	35.0	35.0
Dividend paid & dividend tax	-133.1	-188.2	-121.8	-132.9
Inc/(dec) in Sec. premium	1.9	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	**-168.5**	**-2.1**	**-226.8**	**-162.9**
Net Cash flow	-60.5	27.1	74.7	72.5
Opening Cash	241.7	181.2	208.3	283.0
Closing Cash	**181.2**	**208.3**	**283.0**	**355.5**

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	2,990.3	3,496.5	3,797.0	4,242.6
Total Shareholders funds	3,009.2	3,515.4	3,815.9	4,261.4
Total Debt	123.3	128.3	163.3	198.3
Deferred Tax Liability	73.5	78.5	83.5	88.5
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	**3,223.4**	**3,731.7**	**4,073.2**	**4,559.7**
Assets				
Gross Block	882.2	1,135.2	1,385.2	1,635.2
Less: Acc Depreciation	233.0	311.3	405.8	516.6
Net Block	649.2	823.9	979.3	1,118.5
Capital WIP	96.8	59.8	150.0	150.0
Total Fixed Assets	745.9	883.7	1,129.3	1,268.5
Investments	1,174.8	1,324.8	1,249.8	1,324.8
Inventory	553.4	786.4	779.2	859.5
Debtors	600.2	706.5	787.5	904.5
Loans and Advances	4.5	6.2	7.5	8.0
Other Current Assets	183.0	173.1	230.7	266.4
Cash	181.2	208.3	283.0	355.5
Total Current Assets	1,522.4	1,880.5	2,088.0	2,393.9
Creditors	163.3	173.2	215.6	244.7
Provisions	16.5	31.2	32.3	36.7
Total Current Liabilities	335.0	494.3	539.8	595.5
Net Current Assets	1,187.4	1,386.2	1,548.2	1,798.3
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	**3,223.4**	**3,731.7**	**4,073.2**	**4,559.7**

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	47.0	54.4	59.6	68.2
Cash EPS	54.0	62.8	69.7	80.0
BV	319.0	372.7	404.6	451.8
DPS	12.0	17.0	11.0	12.0
Cash Per Share	19.2	22.1	30.0	37.7
Operating Ratios (%)				
EBITDA Margin	21.9	21.5	21.5	21.6
PBT / Total Operating income	24.6	23.5	23.4	23.6
PAT Margin	18.7	17.3	16.4	16.6
Inventory days	85.1	96.7	83.1	80.8
Debtor days	92.3	86.9	84.0	85.0
Creditor days	25.1	21.3	23.0	23.0
Return Ratios (%)				
RoE	14.7	14.6	14.7	15.1
RoCE	18.4	18.9	19.9	20.3
RoIC	28.4	29.0	29.6	29.6
Valuation Ratios (x)				
P/E	37.3	32.2	29.4	25.7
EV / EBITDA	28.5	22.9	19.9	17.3
EV / Net Sales	6.4	5.1	4.4	3.9
Market Cap / Sales	7.0	5.6	4.8	4.3
Price to Book Value	5.5	4.7	4.3	3.9
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.0	3.4	3.3	3.4
Quick Ratio	**2.4**	**1.8**	**1.9**	**2.0**

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1574	1,680	Buy	218369	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	72	75	Hold	25071	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1715	2,050	Buy	16176	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1029	1,170	Buy	12261	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	334	315	Hold	8587	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	529	550	Buy	8118	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	145	150	Hold	3541	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	113	110	Buy	26803	6.6	7.0	7.8	11.4	10.6	9.6	25.6	25.0	25.3	18.2	17.4	17.3
Engineers India (ENGIND)	125	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	320	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	375	455	Buy	4,933	36.3	38.2	41.5	10.3	9.8	9.0	18.8	17.6	17.0	14.4	14.0	14.1
SKF (SKFIND)	1930	1,845	Hold	9729	65.4	69.4	76.8	27.6	26.0	23.5	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	717	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	177	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	600	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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