

## Subdued mining volumes impact growth...

AIA Engineering (AIA) reported revenues at ₹ 733.3 crore (vs. estimate of ₹ 801.2 crore) with marginal growth of 2.5% on a YoY basis. EBITDA came in at ₹ 168.6 crore vs. our estimate of ₹ 178.8 crore. However, EBITDA margins improved 130 bps YoY owing to some decline in raw material cost, which is likely to continue and help improve margins for FY20. AIA reported PAT at ₹ 139.5 crore, up 33.9% YoY (vs. estimate of ₹ 124.3 crore) aided by lower effective tax rate and higher other income. Other income was at ₹ 38.6 crore, up 91% YoY (vs. estimate of ₹ 25.1 crore).

## Pick-up in volumes to aid revenue growth in FY19-21E

During the quarter, sales volumes came in at 63618 MT, down marginally by 0.9% YoY while production volumes de-grew 2.6% to 68055 MT YoY. Mining segment sales volume grew marginally by 2.3% to 40649 MT while other segment de-grew 6.2% to 22969 MT. Mining segment, which contributes more than 60%, got impacted by no offtake from one of the Brazilian iron ore mine customer. Accordingly, the management has lowered its volume guidance by 15,000 MT to 285000 MT for FY20E. AIA will continue to focus on the replacement mining market estimated at around 3 MTPA with very low (15-20%) penetration of high chrome consumable.

## Substantial capex, strategic developments to support growth...

For Q1FY20, AIA has done capex of ₹ 35 crore. The company is likely to do capex of over ₹ 550 crore in FY19-21E towards grinding media, mill liners capacity expansion. During Q1FY20, it has added 50000 MT of grinding media capacity, increasing it to 390000 MT per year, which is further going to increase 440000 TPA by Q3FY21E and likely to aid revenue growth. Addition of 50000 MT capacity is likely to be commissioned by FY21E. We build in volume of 283206 MT, 321155 MT for FY20E, FY21E, respectively. AIA successfully completed its first trial for SAG mill liners for large goldmine in Africa under its collaboration with EEMS.

## Valuation & Outlook

Expected pick up in mining segment along with capacity expansion to support long term growth while expected normalisation of ferrochrome prices is to likely to improve margins, going forward. However, working capital management and recovery of volumes from Brazilian customer will be closely monitored. We expect overall revenues, PAT to grow at a CAGR of 11.0%, 8.3%, respectively, in FY19-21E. We believe AIA could benefit significantly from further penetration in mining segment, technical collaboration with EEMS and recovery in non-mining segment. We revise our target price to ₹ 1785/share (28x FY21E EPS) and change our rating from BUY to HOLD.

### Key Financial Summary

Particulars (₹ crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-FY21E)
Net Sales	2,246.0	2,445.1	3,069.5	3,290.8	3,782.1	11.0%
EBITDA	634.7	535.7	660.4	714.4	824.6	11.7%
EBITDA Margin (%)	28.3	21.9	21.5	21.7	21.8	
Net Profit	457.2	443.6	513.2	544.8	601.8	8.3%
EPS (₹)	48.5	47.0	54.4	57.8	63.8	
P/ E (x)	35.0	36.1	31.2	29.4	26.6	
RoNW (%)	16.8	14.7	14.6	13.9	13.9	
RoCE (%)	22.7	18.4	18.8	18.3	18.8	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization	₹ 16025.1 Crore
Total Debt (FY19)	₹ 123.3 Crore
Cash and Investments (FY19)	₹ 1356.1 Crore
EV	₹ 14792.3 Crore
52 week H/L	₹ 2026/1459
Equity capital	₹ 18.9 Crore
Face value	₹ 2

### Key Highlights

- Overall sales volume de-grew 0.9% to 63618 MT. Mining segment volumes grew 2.3% to 40649 MT
- Net realisation per tonne grew 4.3% to ₹ 112.2 per kg, YoY
- Management cut volume guidance by 15000 MT to 285000 MT for FY20
- We revise our target price to ₹ 1785/share (28x FY21E EPS) and change our rating from BUY to HOLD

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**Exhibit 1: Variance Analysis**

	Q1FY20	Q1FY20E	Q1FY19	YoY (Chg %)	Q4FY19	QoQ (Chg %)	Comments
Sales	733.3	801.2	715.2	2.5	887.2	-17.3	Overall Volumes de-grew 1% YoY, while mining volumes grew marginally by 2.3% YoY
Other Income	38.6	25.0	20.2	91.5	23.6	63.5	
Raw Materials Expenses	286.7	312.5	286.5	0.1	377.8	-24.1	
Employee Cost	32.1	34.4	30.8	4.0	32.3	-0.9	
Other Expenditure	245.9	280.4	242.3	1.5	285.8	-14.0	
EBITDA	168.6	173.9	155.0	8.8	191.3	-11.8	
EBITDA Margin (%)	23.0	21.7	21.7	133 bps	21.6	144 bps	EBITDA margins (%) improved due to decrease in raw material cost
Depreciation	23.6	21.1	16.5	42.8	22.7	4.2	
Interest	1.4	0.0	1.8	-22.0	2.0	-27.6	
PBT	182.2	176.3	156.8	16.2	190.2	-4.2	
Taxes	42.7	52.0	52.6	-18.8	34.4	24.1	Effective tax rate at 23.4%, came in lower aiding growth in profit
PAT	139.5	124.3	104.2	33.9	155.9	-10.5	
<b>Key Metrics</b>							
Volume (in tonnes)	63,618	70,105	64,211	-0.9	80,033	-20.5	Sales volumes below our estimates
Net Realisation (₹/tonne)	112,192	110,500	107,605	4.3	107,581	4.3	Realisations improved YoY, owing to forex

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20E			FY21E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	3,535.0	3,290.8	-6.9	4,020.9	3,782.1	-5.9	Lowered revenue estimates owing to reduced volume guidance
EBITDA	759.9	714.4	-6.0	870.2	824.6	-5.2	
EBITDA Margin (%)	21.5	21.7	21 bps	21.6	21.8	16 bps	Margins likely to improve owing to normalised raw material costs, going ahead
PAT	562.3	544.8	-3.1	643.4	601.8	-6.5	
EPS (₹)	59.6	57.8	-3.1	68.2	63.8	-6.4	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier		Comment
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Overall Volumes (tonnes)	228,725	265,174	283,206	321,155	302,829	342,196	Decreased in volume estimates, in line with revised guidance
Mining Volumes (tonnes)	138,398	170,224	180,629	210,372	200,251	231,413	Higher penetration in gold and copper likely to drive growth
Capacity	340,000	340,000	390,000	440,000	390,000	440,000	
Net Realisations	106,903	115,753	116,197	117,766	116,731	117,504	Realisations likely to remain stable

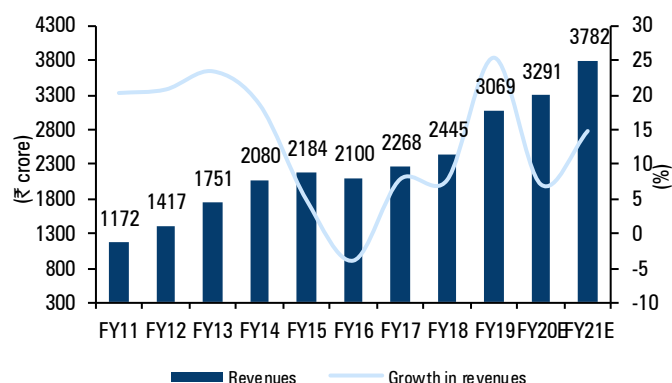
Source: Company, ICICI Direct Research

## Key financial highlights

- The net realisation per tonne grew 4.3% ₹ 107.6 per kg, YoY and expected to remain stable, going forward. The realisation is the function of product mix and currency
- During the quarter, sales volumes came in at 63618 MT, which de-grew 0.9%, YoY impacted by no offtake by one Brazilian iron ore mine customer (Vale SA). Accordingly, the management has cut the guidance for FY20 by 15000 MT to 285000 MT. Production volumes de-grew 2.6% to 68055 MT YoY. Mining segment sales volume grew marginally by 2.3% to 40649 MT while other segment de-grew 6.2% to 22969 MT
- During Q1FY20, it has added 50000 MT of grinding media capacity, increasing it to 390000 MT per year, which is further going to increase 440000 TPA by Q3FY21E and is likely to aid revenue growth. Addition of 50000 MT capacity is likely to be commissioned by FY21E. We build in volume of 283206 MT, 321155 MT for FY20E, FY21E, respectively
- Considering stabilised ferrochrome prices, the company has increased its raw material inventory, which will help improve margins, going forward
- AIA successfully completed its first trial for SAG mill liners for large goldmine in Africa under its collaboration with EEMS. The capacity addition in mill lining augers well for long-term growth from new capacities
- For Q1FY20, AIA has done capex of ₹ 36 crore and is likely to do capex of over ₹ 250 crore for FY20 and ₹ 250-300 crore in FY21E towards grinding media, mill liners capacity expansion
- Working capital increased due to higher raw material inventory, WIP while the company is confident of reducing the overall net working capital (NWC) by 10-15 days to 115-120 days. This would be average normalised long term level over this year
- The order book of the company was at ₹ 593 crore as on Q1FY20

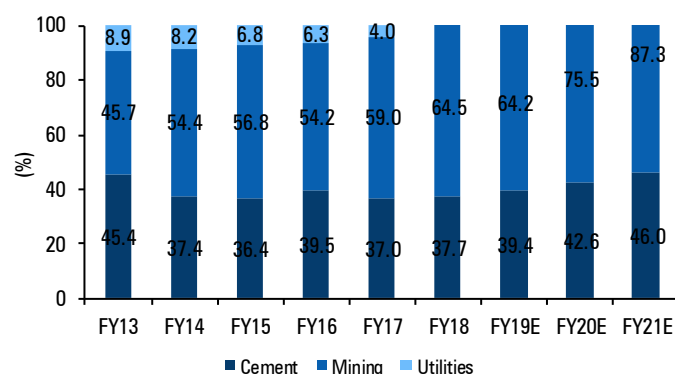
## Financial Story in Charts

**Exhibit 4: Trend in revenues..**



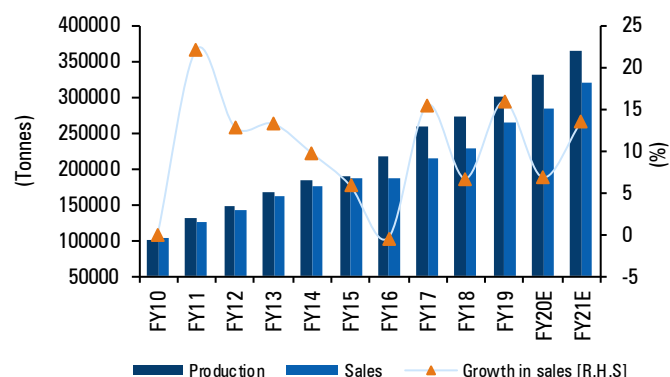
Source: ICICI Direct Research, Company

**Exhibit 5: Share of mining segment to rise gradually..**



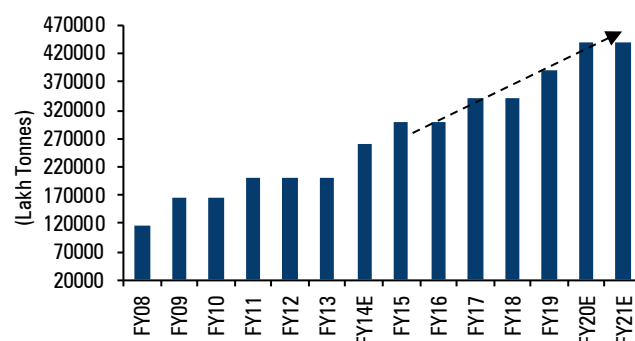
Source: ICICI Direct Research, Company

**Exhibit 6: Trend in volume growth..**



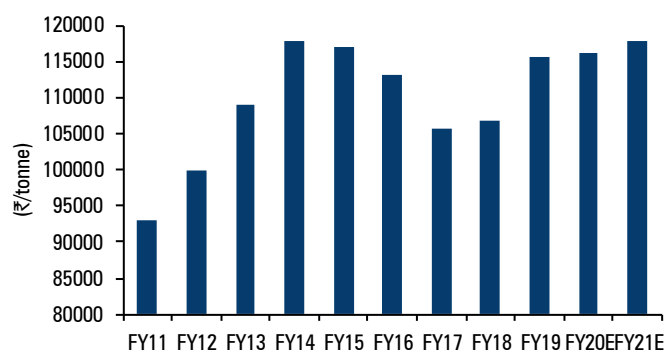
Source: Company, ICICI Direct Research

**Exhibit 7: Trend in capacity..**



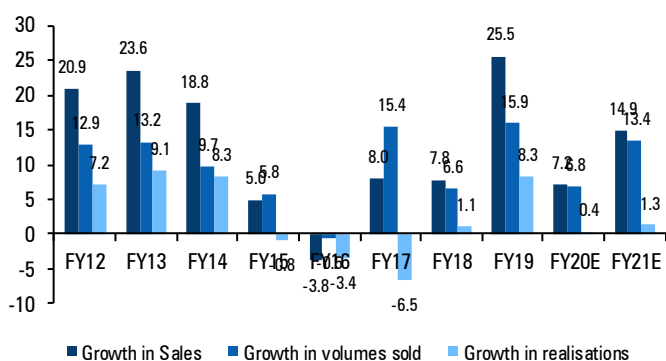
Source: Company, ICICI Direct Research

**Exhibit 8: Trend in realisation..**



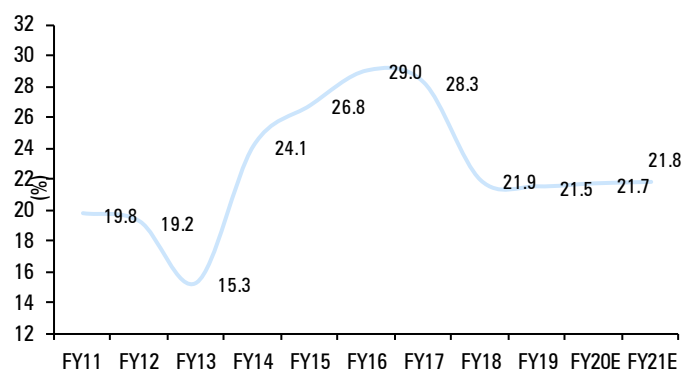
Source: Company, ICICI Direct Research

**Exhibit 9: Volume growth to lead rev. CAGR over FY19-FY21E**



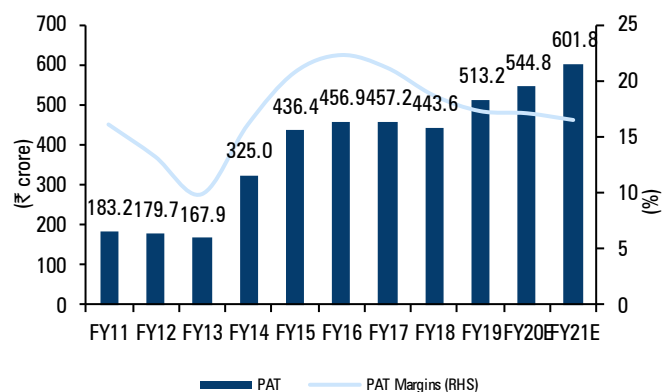
Source: Company, ICICI Direct Research

**Exhibit 10: Trend in EBITDA margin..**



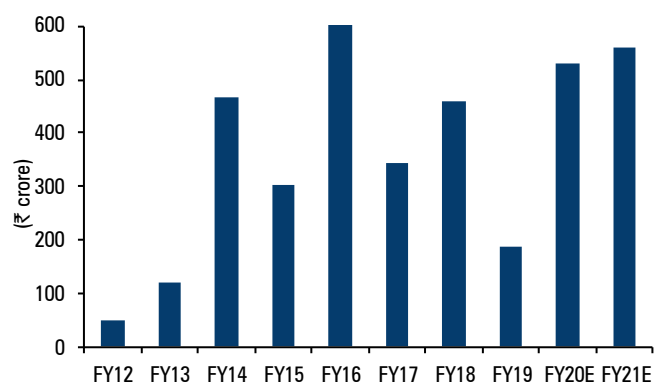
Source: Company, ICICI Direct Research

**Exhibit 11: Volume and margin recovery key to PAT**



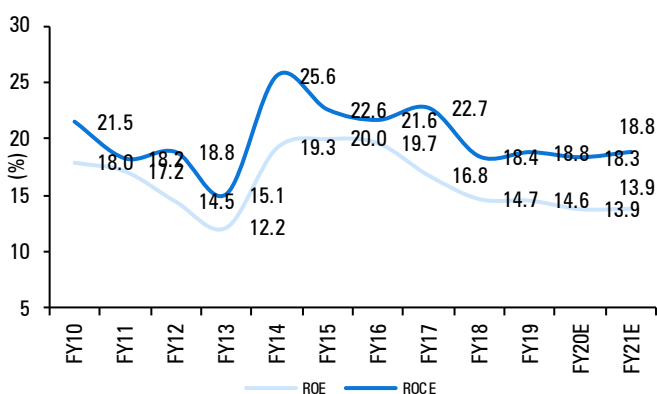
Source: Company, ICICI Direct Research

**Exhibit 12: Trend in cash flows..**



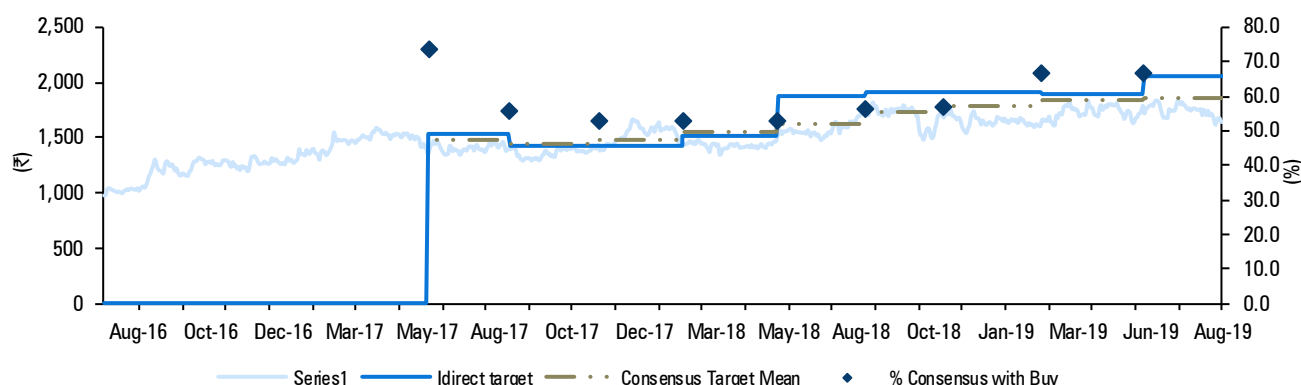
Source: Company, ICICI Direct Research

**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	st Filing Date	% O/S	Position (m)	Change (m)
1	Shah (Bhadresh K)	30-Jun-19	58.4	55.1	0.0
2	Nalanda Capital Pte Ltd	30-Jun-19	9.7	9.1	0.0
3	HDFC Asset Management Co., Ltd.	30-Jun-19	2.9	2.8	0.0
4	L&T Investment Management Limited	30-Jun-19	2.0	1.9	0.1
5	Goldman Sachs Asset Mgt International	30-Jun-19	1.9	1.8	0.0
6	SBI Funds Management Pvt. Ltd.	30-Jun-19	1.9	1.8	0.0
7	PineBridge India Private Limited	30-Jun-19	1.5	1.4	0.0
8	Kotak Mahindra Asset Mgt Co. Ltd.	30-Jun-19	1.4	1.3	0.0
9	Matthews International Capital Mgt, L.L.C.	30-Jun-19	1.4	1.3	0.0
10	The Vanguard Group, Inc.	30-Jun-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
L&T Investment Management Limited	+2.66M	+0.10M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-1.30M	-0.05M
Royce & Associates, LP	+2.47M	+0.10M	Matthews International Capital Management, L.L.C.	-0.71M	-0.03M
IDFC Asset Management Company Private Limited	+1.04M	+0.04M	Allianz Global Investors Asia Pacific Limited	-0.38M	-0.01M
Canara Robeco Asset Management Company Ltd.	+1.01M	+0.04M	PineBridge India Private Limited	-0.17M	-0.01M
UTI Asset Management Co. Ltd.	+0.54M	+0.02M	Schroder Investment Management (Singapore) Ltd.	-0.11M	-0.00M

Source: Reuters, ICICI Direct Research

**Exhibit 17: Shareholding Pattern**

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	58.5	58.5	58.5	58.5	58.5
FII	23.0	22.5	21.6	21.9	21.8
DII	13.5	14.0	14.5	14.7	14.8
Others	5.0	5.1	5.4	5.0	4.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 18: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Total operating Income</b>	<b>2,445.1</b>	<b>3,069.5</b>	<b>3,290.8</b>	<b>3,782.1</b>
Growth (%)	8.9	25.5	7.2	14.9
Raw Material Expenses	964.4	1,225.0	1,289.4	1,466.3
Employee Expenses	113.2	126.4	137.7	152.3
Other expenses	831.9	1,057.7	1,149.3	1,338.9
Total Operating Expenditure	1,909.4	2,409.1	2,576.4	2,957.5
<b>EBITDA</b>	<b>535.7</b>	<b>660.4</b>	<b>714.4</b>	<b>824.6</b>
Growth (%)	-15.6	23.3	8.2	15.4
Depreciation	65.6	79.1	95.3	112.9
Interest	6.9	6.1	6.3	6.6
Other Income	121.8	120.9	146.4	155.3
PBT	585.0	696.2	759.2	860.4
Others	0.0	0.0	0.0	0.0
Total Tax	141.4	183.0	214.4	258.6
<b>PAT</b>	<b>443.6</b>	<b>513.2</b>	<b>544.8</b>	<b>601.8</b>
Growth (%)	-3.0	15.7	6.1	10.5
<b>EPS (₹)</b>	<b>47.0</b>	<b>54.4</b>	<b>57.8</b>	<b>63.8</b>

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	443.6	513.2	544.8	601.8
Add: Depreciation	65.6	79.1	95.3	112.9
(Inc)/dec in Current Assets	-138.3	-355.7	-127.7	-211.2
Inc/(dec) in CL and Provision:	89.4	-49.3	16.4	55.5
Others	3.3	3.0	5.0	5.0
<b>CF from operating activities</b>	<b>460.3</b>	<b>187.3</b>	<b>528.8</b>	<b>559.0</b>
(Inc)/dec in Investments	0.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-120.9	-215.7	-340.2	-270.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-352.3</b>	<b>-155.9</b>	<b>-371.1</b>	<b>-340.8</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-16.9	4.6	30.0	30.0
Dividend paid & dividend tax	-133.1	0.0	-155.0	-177.2
Inc/(dec) in Sec. premium	1.9	0.1	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>-168.5</b>	<b>-4.3</b>	<b>-95.0</b>	<b>-172.2</b>
Net Cash flow	-60.5	27.1	62.7	46.1
Opening Cash	241.7	181.2	208.3	271.0
<b>Closing Cash</b>	<b>181.2</b>	<b>208.3</b>	<b>271.0</b>	<b>317.1</b>

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	2,990.3	3,494.6	3,914.4	4,314.0
Total Shareholders funds	3,009.2	3,513.5	3,933.3	4,332.9
Total Debt	123.3	127.9	157.9	187.9
Deferred Tax Liability	73.5	87.0	82.0	87.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3,223.4</b>	<b>3,746.9</b>	<b>4,183.3</b>	<b>4,618.9</b>
<b>Assets</b>				
Gross Block	882.2	1,127.1	1,377.1	1,627.1
Less: Acc Depreciation	233.0	304.8	399.5	511.8
Net Block	649.2	822.4	977.7	1,115.4
Capital WIP	96.8	59.8	150.0	170.0
Total Fixed Assets	745.9	882.2	1,127.7	1,285.4
Investments	1,174.8	1,151.7	1,176.7	1,226.7
Inventory	553.4	785.9	784.6	843.2
Debtors	600.2	706.4	759.1	858.8
Loans and Advances	4.5	3.7	3.9	5.5
Other Current Assets	183.0	200.8	276.9	328.2
Cash	181.2	208.3	271.0	317.1
Total Current Assets	1,522.4	1,905.1	2,095.6	2,352.9
Creditors	163.3	173.6	192.0	219.7
Provisions	16.5	18.7	22.1	29.2
Total Current Liabilities	335.0	285.7	302.1	357.7
Net Current Assets	1,187.4	1,619.4	1,793.4	1,995.2
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3,223.4</b>	<b>3,746.9</b>	<b>4,183.3</b>	<b>4,618.9</b>

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	47.0	54.4	57.8	63.8
Cash EPS	54.0	62.8	67.9	75.8
BV	319.0	372.5	417.0	459.4
DPS	12.0	0.0	14.0	16.0
Cash Per Share	19.2	22.1	28.7	33.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	21.9	21.5	21.7	21.8
PBT / Total Operating income	24.6	23.5	23.8	23.6
PAT Margin	18.7	17.3	17.1	16.5
Inventory days	85.1	96.7	89.9	84.4
Debtor days	92.3	86.9	87.0	86.0
Creditor days	25.1	21.4	22.0	22.0
<b>Return Ratios (%)</b>				
RoE	14.7	14.6	13.9	13.9
RoCE	18.4	18.8	18.3	18.8
RoIC	28.4	26.0	24.8	25.5
<b>Valuation Ratios (x)</b>				
P/E	34.9	30.1	28.4	25.7
EV / EBITDA	26.6	21.6	19.8	17.1
EV / Net Sales	6.0	4.8	4.5	3.9
Market Cap / Sales	6.5	5.2	4.9	4.2
Price to Book Value	5.1	4.4	3.9	3.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.0	5.9	6.0	5.7
<b>Quick Ratio</b>	<b>2.4</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>

Source: Company, ICICI Direct Research

**Exhibit 22: ICICI Direct coverage universe (Capital Goods)**

Exhibit 22: Total Direct coverage universe (Capex Goods)																
Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
L&T (LARTOU)	1333	1,675	Buy	184934	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	51	60	Hold	17759	3.5	3.2	3.8	17.2	19.0	15.7	6.9	6.0	7.0	3.9	3.5	4.2
AIA Engineering (AIAENG)	1699	1,785	Hold	16025	54.4	57.8	63.8	31.2	29.4	26.6	18.8	18.3	18.8	14.6	13.9	13.9
Thermax (THERMA)	1077	1,170	Hold	12833	23.1	28.3	34.1	47.3	38.6	32.0	18.0	17.0	18.7	11.2	11.3	12.3
KEC International (KECIN)	288	330	Hold	7404	19.2	22.8	27.3	15.1	12.7	10.6	24.8	25.2	25.6	20.1	20.2	20.2
Kalpataru Power(KALPOW)	485	570	Buy	7443	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2
Greaves Cotton (GREAVE)	116	145	Buy	2833	6.9	8.0	8.8	17.0	14.8	13.5	27.4	27.7	29.5	18.7	19.1	20.4
Elgi Equipment (ELGEQU)	242	300	Buy	3835	6.1	6.5	7.2	38.1	36.0	32.4	14.3	13.8	15.1	14.1	13.4	13.6
Bharat Electronics (BHAELE)	95	135	Buy	23148	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3
Engineers India (ENGIND)	103	105	Hold	6509	5.9	6.7	7.7	17.6	15.4	13.4	21.3	23.4	23.9	16.3	18.1	19.8
VaTech Wabag (VATWAB)	272	260	Hold	1477	19.2	18.8	23.8	14.2	14.5	11.4	14.6	17.7	20.1	9.5	9.2	10.8
Cochin Shipyard (COCSHI)	349	440	Buy	4,591	36.3	37.0	40.1	9.6	9.4	8.7	18.8	17.0	16.4	14.4	13.7	13.7
SKF (SKFIND)	1840	1,565	Reduce	9446	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4
Timken India (TIMIND)	706	830	Buy	5310	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	87	85	Hold	843	11.2	6.1	7.1	7.4	13.7	11.7	21.0	13.8	15.2	19.5	11.9	13.2
Grindwell Norton (GRINOR)	542	635	Buy	6001	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5

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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