Equity Research

June 23, 2020

BSE Sensex: 35430

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Q4FY20 result review and earnings revision

Capital goods

Target price: Rs1,890

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 3.1	↑ 2.1
EBITDA	↑ 11.3	↑ 10.1
EPS	↑ 12.3	↑ 11.8

Target price revision

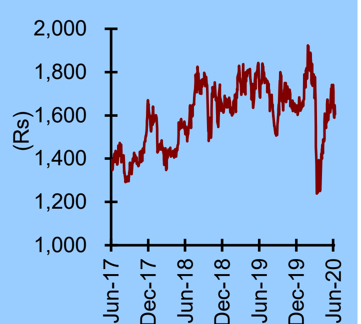
Rs1,890 from Rs1,521

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	58.5	58.5	58.5
Institutional investors	37.6	37.8	37.8
MFs and other	14.3	14.7	14.6
FI / Banks	0.0	0.0	0.0
Insurance Co	1.3	1.3	1.4
FIIs	22.0	21.8	21.8
Others	3.9	3.7	3.7

Source: NSE

Price chart



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INDIA

ICICI Securities

AIA Engineering

BUY
Maintained
Rs1,608

Healthy execution amidst headwinds

AIA Engineering (AIAE) has reported healthy execution in Q4FY20, supporting the overall earnings and cashflows. Current operations have reached ~75% of pre-Covid-19 levels and the management is confident regarding normalisation of demand. Though the new client development has taken a back seat due to travel ban, it is likely to pick up once travel situation normalises. Factoring in better-than-expected execution and relatively quicker recovery in production, we raise FY21E and FY22E earnings by 12.3% and 11.8%, respectively. Given the medium to long-term growth drivers and continuation of mill liner capex plans, we maintain BUY with a revised target price of Rs1,890 (previously: Rs1,521).

- **Uncertainty of global macro growth due to Covid-19 pandemic**: The company is still gauging the overall impact of global economies due to the pandemic and will wait to provide any future guidance. We believe the recent increase in Covid-19 cases from Latin American geographies will impact the overall growth. However, most mines are in rural and semi-urban markets.
- **Have taken price cuts in-line with raw material price reduction:** FeCr prices have corrected and stabilised at lower levels since Mar'19. The company has adjusted its pricing in-line with the same leading to lower gross margins. As it has hedged 60% of receipts at INR/USD of 73, further currency depreciation resulted in marginal forex-related loss in Q4FY20.
- **Capex plans delayed**: Management has earmarked Rs2.5bn worth of capex in FY21E. The 50ktpa mill liner facility will commence operations by Mar'21. The grinding media capacity addition was earlier delayed by three months from Dec'20 to Mar'21 due to issues pertaining to a supplier of critical equipment. However, given Covid-19 related issues, 50ktpa grinding media facility commencement timeline has now been moved from Mar'21 to FY22.
- **Superior performance in tough environment, maintain BUY**: Despite the overall challenging environment, AIAE is continuing with its capex plans to fuel long-term growth. We believe volumes will normalise from FY22E and raise overall earnings estimate by 12.3% and 11.8% for FY21E and FY22E, respectively, and maintain **BUY** with a revised target price of Rs1,890 (earlier: Rs1,521).

Market Cap	Rs150bn/US$2bn
Reuters/Bloomberg	AIAE.BO / AIAE IN
Shares Outstanding (mn)	94.3
52-week Range (Rs)	1923/1239
Free Float (%)	41.5
FII (%)	21.8
Daily Volume (US$/'000)	1,244
Absolute Return 3m (%)	28.3
Absolute Return 12m (%)	(7.6)
Sensex Return 3m (%)	36.7
Sensex Return 12m (%)	(8.7)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	30,695	29,311	32,646	37,886
Rec. Net Income (Rs mn)	5,108	5,920	6,045	7,028
EPS (Rs)	54.2	62.8	64.1	74.5
% Chg YoY	15.2	15.9	2.1	16.3
P/E (x)	33.0	28.4	27.9	24.0
CEPS (Rs)	45.8	52.9	52.4	61.3
EV/E (x) (Incl. Indus)	23.6	22.2	19.5	16.1
Dividend Yield (%)	0.5	0.6	0.6	0.6
RoCE (%)	20.1	18.3	17.5	18.1
RoE (%)	15.7	15.7	14.2	14.6

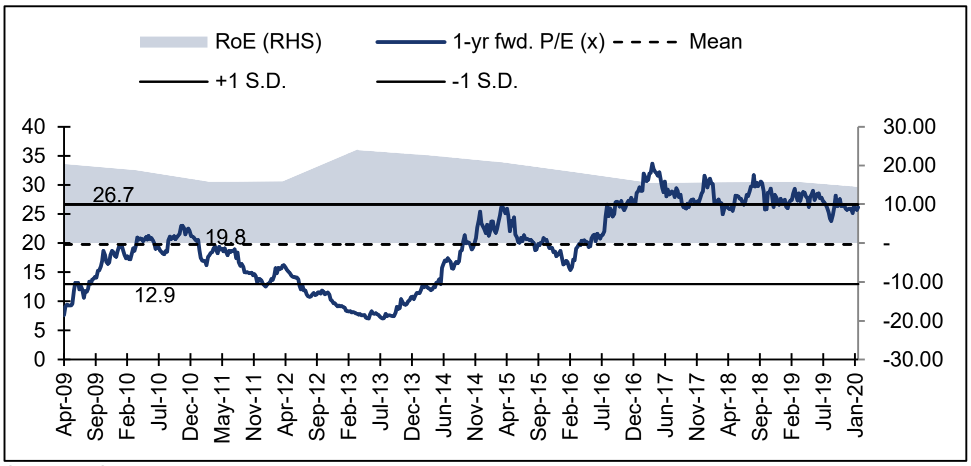
Please refer to important disclosures at the end of this report

Outlook and valuation

AIA Engineering (AIAE) is currently in capex mode; hence, overall RoCEs are low given the initially lower utilisation of new facilities. We, however, believe commencement of new capacities will support medium- to long-term growth from FY22E onwards. Mill liner is a high-margin segment and the planned 50ktpa capacity will support the overall growth with margin improvement from FY22E onwards. Factoring in these upsides, we have assigned a multiple of 30x P/E FY22E, valuing the stock at 12% premium to 1-year forward +1 SD of 27x. Given the medium to long term growth drivers from mill liners, we maintain **BUY** with a revised target price of Rs1,890.

The stock is trading at 24x FY22E earnings. The company will be a key beneficiary of INR depreciation and low ferrochrome prices. Hence, we maintain **BUY** with a revised target price of Rs1890, (earlier: Rs1,521). We have assigned a multiple of 30x P/E FY22E, valuing the stock at 12% premium to 1-year forward +1 SD of 27x.

Chart 1: 1-year forward P/E band



Source: I-Sec research

Table 1: Earnings revision (consolidated)

(Rs mn)

	FY21E			FY22E		
Rs mn	**Earlier**	**Revised**	**YoY (%)**	**Earlier**	**Revised**	**YoY (%)**
Revenue	28,555	29,447	3.1	32,209	32,889	2.1
EBIDTA	6,037	6,720	11.3	6,871	7,565	10.1
PAT	4,782	5,370	12.3	5,317	5,946	11.8

Source: Company data, I-Sec research

Table 2: Quarterly financial trend (consolidated)

(Rs mn)

	Q4FY19	Q4FY20	YoY(%)	Q3FY20	QoQ(%)	I-Sec Est	Var (%)	FY19	FY20	Q4FY19
Net Sales	8,872	8,569	*(3.4)*	6,941	*23.5*	7,028	21.9	30,692	29,809	8,872
EBITDA	1,913	1,848	*(3.4)*	1,729	*6.9*	1,499	23.3	6,596	6,803	1,913
Margin	21.6	21.6	0bps	24.9	-334bps	21.3	23bps	21.5	22.8	21.6
Depreciation	227	268	*18.2*	252	*6.3*	219	22.4	788	978	227
Finance Cost	20	14	*(31.3)*	13	*6.8*	33	(59.2)	75	56	20
Other Income	236	293	*24.0*	460	*(36.4)*	283	3.2	1,212	1,419	236
Extraordinary Income										
PBT	1,902	1,859	*(2.3)*	1,924	*(3.4)*	1,530	21.5	6,944	7,188	1,902
Tax	344	434	*26.2*	360	*20.4*	384	12.9	1,830	1,285	344
tax rate	*18.1*	*23.3*	527bps	*18.7*	461bps	*25.1*	-176bps	*26.3*	*17.9*	*18.1*
Reported PAT	1,558	1,417	*(9.0)*	1,561	*(9.2)*	1,146	23.6	5,108	5,904	1,558
Adjusted PAT	1,558	1,417	*(9.0)*	1,561	*(9.2)*	1,146	23.6	5,108	5,904	1,558
Margin(%)	17.6	16.5	-102bps	22.5	-595bps	16.3	22bps	16.6	19.8	17.6
EPS	16.5	15.0		16.5		12.2		54.2	62.6	

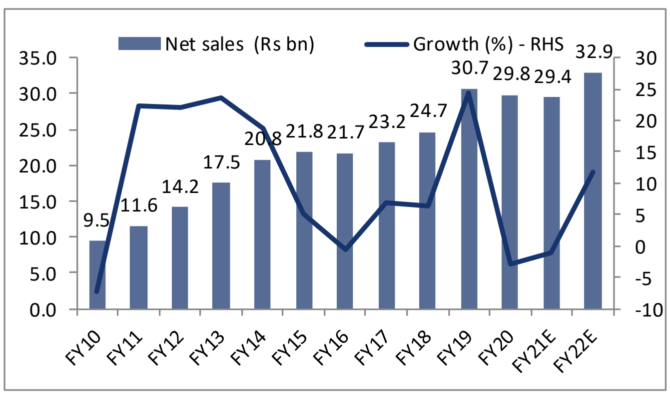
Source: Company data, I-Sec research

Table 3: Production and sales

(te)	Q4FY19	Q4FY20	YoY(%)	Q3FY20	QoQ(%)	I-Sec Est	Var (%)	FY19	FY20	YoY(%)
Mining Sales	50,407	55,105	*9.3*	41,162	*33.9*	34,669	*58.9*	1,70,224	1,77,274	*4.1*
Cement and Thermal	29,626	27,023	*(8.8)*	19,101	*41.5*	27,286	*(1.0)*	94,950	89,955	*(5.3)*
Total Sales (MT)	**80,033**	**82,128**	***2.6***	**60,263**	***36.3***	**61,954**	***32.6***	**2,65,174**	**2,67,229**	***0.8***
Production (MT)	72,942	76,913	*5.4*	67,228	*14.4*	1,09,839	*(30.0)*	2,89,666	2,71,274	*(6.3)*
EBITDA/tonn (Rs/tonn)	23,900	22,496	*(5.9)*	28,684	*(21.6)*	24,194	*(7.0)*	24,875	25,458	*2.3*
Realisations (Rs/tonn)	1,10,857	1,04,342	*(5.9)*	1,15,176	*(9.4)*	1,13,432	*(8.0)*	1,15,743	1,11,549	*(3.6)*

Source: Company data, I-Sec research

Chart 2: Revenue growth to be driven by higher capacity and increased market penetration



Source: Company data, I-Sec research

Chart 3: EBITDA margin to improve on the back of low-cost structure and stable FeCr prices

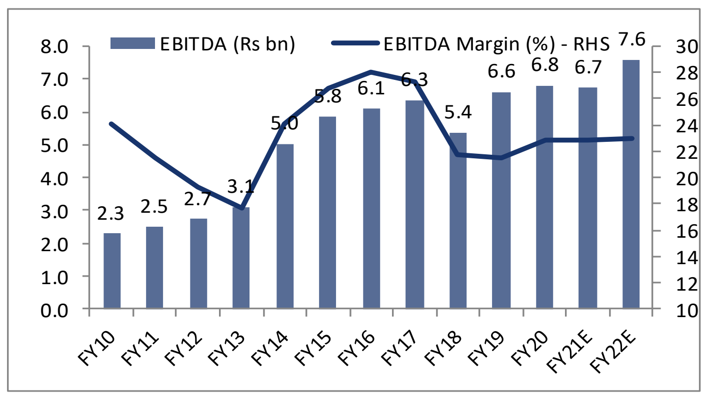
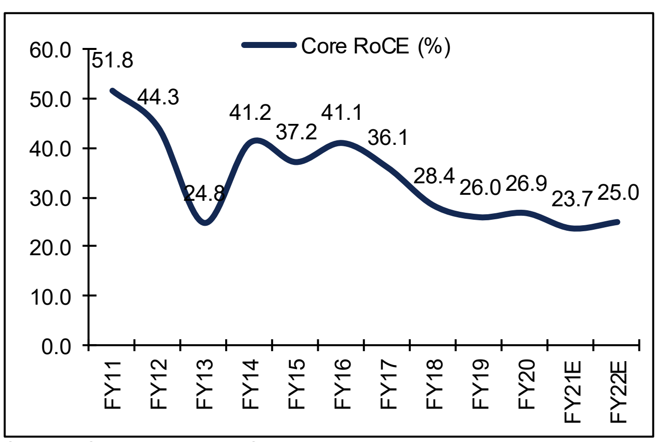
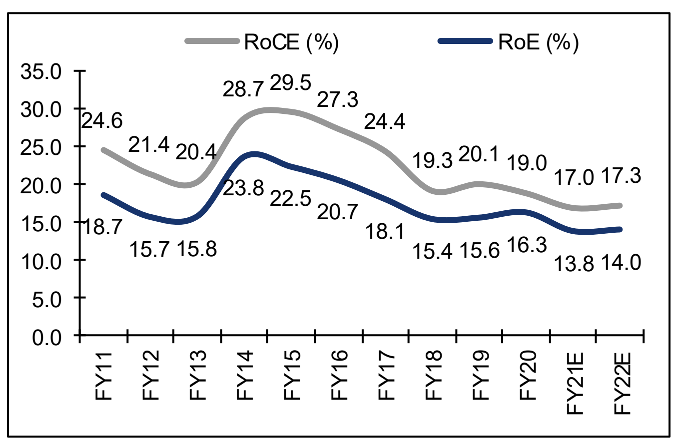


Chart 4: Core RoCE trend



Source: Company data, I-Sec research

Chart 5: RoCE and RoE



Concall highlights

- The 50ktpa mill lining capacity expansion is on track for commencement of operations in Mar'21. The expected commissioning timeline of 50ktpa grinding media expansion has moved to FY22 from Mar'21.
- The company is currently at 75% of pre-Covid-19 levels in terms of production and sales and is hopeful of reaching pre-Covid-19 levels in next 2-3 months. Most plants continue to be operational although utilisation levels have dropped.
- The company does 20-25ktpa volumes to South Africa, of which, 3-4ktp were impacted due to Covid-19 outbreak. Industrial activity has started in South Africa and demand levels are coming back.
- Enquiries from China are currently at an all-time high. There is no dependence on China from supply side. However, of the total 50ktpa casting annual production, 3.5ktpa has been sold to China representing Rs500mn.
- The volume guidance for FY21 would have been 290k-300kpta without Covid-19 crisis.
- Realisations dropped 6% YoY to Rs101,100 per ton due to product mix and correction in raw material prices. Around Rs100,000-110,000 is the long-term guidance for realisation.
- The company continues to maintain a month of inventory at customer sites and doesn't expect this level to go up as there are no transportation issues.
- FY21 capex guidance stands at Rs2.5bn, which includes Rs1.9bn for mill liner facility, Rs200mn for land and Rs400mn as maintenance capex.
- INR/USD exchange rate was 73 in Q4FY20 vs 71 in Q3FY20. FY20 rate was 71.
- The 19MW captive wind power facility generated Rs250-300 in savings from the credit generated out of wind farms.
- Long term tax rate guidance is at 22%.

Table 4: Key assumptions

(Rs mn, year ending March 31)

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	**21,272**	**22,392**	**23,963**	**29,674**	**28,913**	**28,506**	**31,902**
Mining	-	12,316	12,461	16,552	16,458	16,296	19,155
Cement	-	7,837	8,627	9,884	9,552	9,265	9,683
Thermal	-	2,239	2,876	3,234	3,095	2,945	3,064
Revenue Contribution (%)							
Mining	-	*55.0*	*52.0*	*55.8*	*56.9*	*57.2*	*60.0*
Cement	-	*35.0*	*36.0*	*33.3*	*33.0*	*32.5*	*30.4*
Thermal	-	*10.0*	*12.0*	*10.9*	*10.7*	*10.3*	*9.6*
Total Sales Volumes (te)	**1,85,788**	**2,14,477**	**2,28,725**	**2,65,174**	**2,67,229**	**2,67,570**	**2,96,413**
YoY growth (%)	*-0.5*	*15.4*	*6.6*	*15.9*	*0.8*	*0.1*	*10.8*
Mining	1,00,684	1,26,479	1,38,399	1,70,224	1,77,274	1,80,578	2,06,460
YoY growth (%)	*-5.1*	*25.6*	*9.4*	*23.0*	*4.1*	*1.9*	*14.3*
Cement	71,487	73,918	75,874	79,758	75,562	73,295	75,846
YoY growth (%)	*5.1*	*3.4*	*2.6*	*5.1*	*-5.3*	*-3.0*	*3.5*
Thermal	13,617	14,080	14,452	15,192	14,393	13,696	14,107
YoY growth (%)	*8.1*	*3.4*	*2.6*	*5.1*	*-5.3*	*-4.8*	*3.0*
Sales Volume Contribution (%)							
Mining	*54.2*	*59.0*	*60.5*	*64.2*	*66.3*	*67.5*	*69.7*
Cement	*38.5*	*34.5*	*33.2*	*30.1*	*28.3*	*27.4*	*25.6*
Thermal	*7.3*	*6.6*	*6.3*	*5.7*	*5.4*	*5.1*	*4.8*
Total Realisation (Rs '000 /te)	**114**	**104**	**105**	**112**	**108**	**107**	**108**

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 5: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Income	**30,695**	**29,809**	**29,447**	**32,889**
Operating Expenses	24,096	23,006	22,727	25,324
EBITDA	**6,599**	**6,803**	**6,720**	**7,565**
% margins	*21.5*	*22.8*	*22.8*	*23.0*
Depreciation & Amortisation	788	978	998	1,138
EBIT	**5,811**	**5,825**	**5,721**	**6,426**
Gross Interest	75	56	56	56
Other Income	1,209	1,419	1,219	1,252
PBT before exceptionals	**6,944**	**7,188**	**6,884**	**7,622**
Add: Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	-	-	-	-
PBT	**6,944**	**7,188**	**6,884**	**7,622**
Less: Taxes	1,830	1,285	1,514	1,677
Less: Minority Interests	6	(1)	(1)	(1)
Net Income (Reported)	**5,108**	**5,904**	**5,370**	**5,946**
Adjusted Net Income	**5,108**	**5,904**	**5,370**	**5,946**

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	30,569	31,442	33,864	36,701
of which cash & cash eqv.	13,600	15,725	17,151	19,880
Total Current Liabilities & Provisions	2,949	2,873	2,897	3,102
Net Current Assets	**27,620**	**28,569**	**30,968**	**33,599**
Investments	9	9	9	9
Other Non-Current Assets	904	1,151	1,234	1,329
Net Fixed Assets	**8,847**	**9,020**	**10,022**	**10,883**
Goodwill	-	-	-	-
Total Assets	**37,379**	**38,749**	**42,232**	**45,819**
Liabilities				
Borrowings	1,279	969	969	969
Deferred Tax Liability	870	674	674	674
Minority Interest	93	93	93	93
Equity Share Capital	189	189	189	189
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus	34,948	36,824	40,307	43,895
Net Worth	**35,137**	**37,013**	**40,496**	**44,083**
Total Liabilities	**37,379**	**38,749**	**42,232**	**45,819**

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	**5,543**	**6,105**	**5,741**	**6,440**
Working Capital Changes	(4,038)	1,070	(973)	97
Capital Commitments	(2,153)	(1,151)	(2,000)	(2,000)
Free Cashflow	**(648)**	**6,024**	**2,768**	**4,537**
Cashflow from Investing Activities	**515**	**(1,956)**	**601**	**605**
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	48	(309)	-	-
Interest paid	(75)	(56)	(56)	(56)
Dividend paid	(1,023)	(2,991)	(1,886)	(2,358)
Extraordinary Items/Others	**698**	**(1,326)**	**0**	**-**
Chg. in Cash & Bank balance	**(487)**	**(615)**	**1,427**	**2,728**

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
Diluted adjusted EPS	54.2	62.6	56.9	63.0
Recurring Cash EPS	45.8	52.2	46.4	51.0
Dividend per share (DPS)	9.0	27.0	20.0	25.0
Book Value per share (BV)	373.5	393.4	430.3	468.3
Growth Ratios (%)				
Operating Income	24.4	(2.9)	(1.2)	11.7
EBITDA	23.2	3.1	(1.2)	12.6
Recurring Net Income	15.2	15.6	(9.0)	10.7
Diluted adjusted EPS	15.2	15.6	(9.0)	10.7
Diluted Recurring CEPS	14.3	14.0	(11.3)	10.0
Valuation Ratios				
P/E	29.7	25.7	28.3	25.6
P/CEPS	35.2	30.8	34.8	31.6
P/BV	4.3	4.1	3.7	3.4
EV / EBITDA	21.2	20.2	20.2	17.6
EV / Operating Income	4.5	4.6	4.6	4.0
EV / Op FCF (pre-capex)	92.8	19.1	28.5	20.4
Operating Ratios				
Raw Material/Sales (%)	39.9	39.4	38.0	38.0
SG&A/Sales (%)	4.9	5.3	5.6	5.3
Other Income / PBT (%)	17.4	19.7	17.7	16.4
Effective Tax Rate (%)	26.3	17.9	22.0	22.0
NWC / Total Assets (%)	37.5	33.1	32.7	29.9
Inventory Turnover (days)	79.6	95.8	102.2	92.1
Receivables (days)	77.7	82.9	80.3	76.1
Payables (days)	25.5	24.3	21.6	20.8
Net D/E Ratio (x)	(0.3)	(0.4)	(0.4)	(0.4)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	16.6	19.8	18.2	18.1
RoCE	20.1	19.0	17.0	17.3
RoNW	15.7	16.4	13.9	14.1
Dividend Payout Ratio	20.0	50.7	35.1	39.7
Dividend Yield (%)	0.6	1.7	1.2	1.6
EBITDA Margins	21.5	22.8	22.8	23.0

Source: Company data, I-Sec research

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