Equity Research

September 10, 2020

BSE Sensex: 38840

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Company Update and earnings revision

Capital goods

Target price: Rs2,043

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 0.2	↑ 5.3
EBITDA	↓ 0.2	↑ 8.1
EPS	↓ 0.2	↑ 8.0

Target price revision

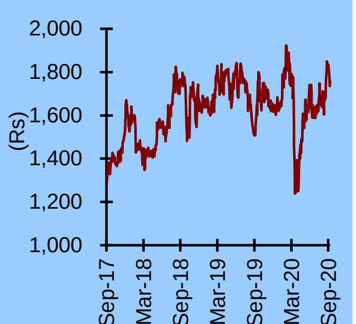
Rs2,043 from Rs1,890

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	58.5	58.5	58.5
Institutional investors	37.8	37.8	38.4
MFs and other	14.7	14.6	15.2
FI / Banks	0.0	0.0	0.0
Insurance Co	1.3	1.4	1.7
FIIs	21.8	21.8	21.5
Others	3.7	3.7	3.1

Source: NSE

Price chart



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INDIA

AIA Engineering

BUY
Maintained
Rs1,755

Strong underlying fundamentals

AIA Engineering (AIAE) is one of the few domestic companies that recouped quickly with relaxation of the Covid-induced lockdown. Global mining market leadership in high-chrome mill internals has been a key focus area for the company. To tap into the price competitive iron ore market, the company is embarking on transformation as a total mill solutions provider with mill lining capability. Factoring-in the capping of export incentives under MEIS at Rs20mn for Q3FY21, we cut FY21E earnings marginally by 0.2%, however, expecting healthy growth recovery, we raise FY22E earnings by 8%. Given the medium- to long-term growth drivers and continuation of mill liner capex plans despite the Covid-related slowdown, we maintain BUY on the stock with a revised target price of Rs2,043 (previously: Rs1,890).

- **Uncertainty of global growth due to Covid pandemic**: Company is still gauging the overall impact of pandemic on global economies and will wait to provide any future guidance. We believe the recent increase in Covid cases in Latin America, wildfire in Amazon, etc. will impact near-term demand. However, we expect demand to stabilise by FY22E.
- **Mill lining capex plans unchanged; grinding media postponed by a year**: Company has earmarked capex of Rs2.5bn for FY21, of which Rs1.6bn will be for 50ktpa mill liner facility and remaining Rs900mn will be for maintenance and peripheral works for the plant. Rs300mn of capex has been done in Q1FY21 and Rs600mn during FY20 for the same purpose (deadline remains unchanged at Mar'21). Due to weak near-term demand, grinding media capacity addition has been deferred to FY22 from Mar'21 earlier.
- **Pickup in mining volumes partially offset decline in non-mining business:** In FY20, overall volumes grew 0.8% YoY to 267,229te wherein mining volumes were up 4% YoY at 177,274MT. Non-mining volumes were impacted due to lockdown and declined 5.3% YoY at 89,955MT. Realisations, which are a combination of four factors – raw material prices, product mix, currency impact and competitive intensity – declined 3.3% YoY to Rs108,200/MT.
- **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. Maintain **BUY** with a revised target price of Rs2,043 (previously: Rs1,890).

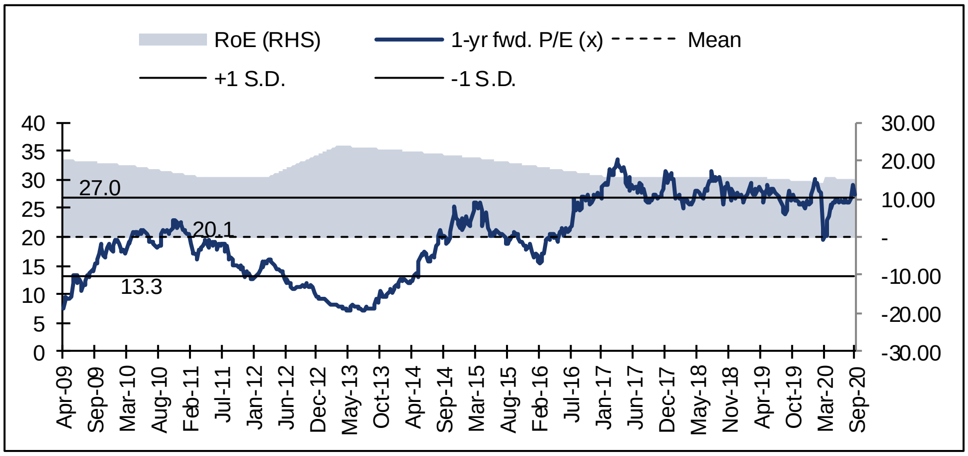
Market Cap	Rs165bn/US$2.2bn
Reuters/Bloomberg	AIAE.BO / AIAE IN
Shares Outstanding (mn)	94.3
52-week Range (Rs)	1923/1239
Free Float (%)	41.5
FII (%)	21.5
Daily Volume (US$/'000)	1,284
Absolute Return 3m (%)	0.8
Absolute Return 12m (%)	16.2
Sensex Return 3m (%)	14.1
Sensex Return 12m (%)	5.7

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	30,695	29,809	29,499	34,633
Rec. Net Income (Rs mn)	5,108	5,904	5,361	6,425
EPS (Rs)	54.2	62.6	56.8	68.1
% Chg YoY	15.2	15.6	(9.2)	19.8
P/E (x)	32.4	28.0	30.8	25.7
CEPS (Rs)	45.8	52.2	46.3	56.0
EV/E (x) (Incl. Indus)	23.2	22.1	22.2	17.9
Dividend Yield (%)	0.5	1.5	0.9	1.4
RoCE (%)	20.1	19.0	16.9	18.4
RoE (%)	15.7	16.4	13.8	14.9

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 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 medium- to long-term growth drivers from mill liners, we maintain **BUY on the stock** with a revised target price of Rs2,043 (previously: Rs1,890).

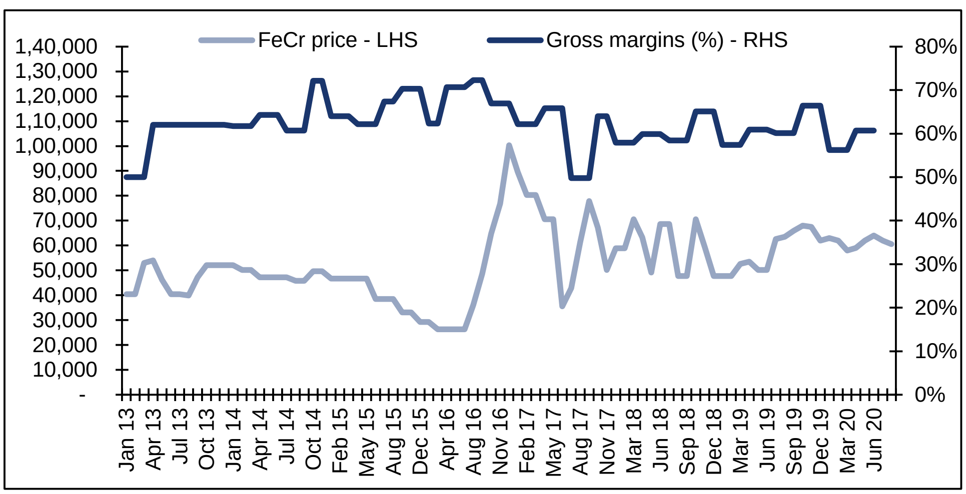
Chart 1: 1-year forward P/E band



Source: I-Sec research

We note there is a 3-4-month timeframe for FeCr price changes to get reflected in EBIDTA margins. In other words, the impact on EBITDA margins lags the change in commodity prices by 3-4 months.

Chart 2: Lag of 3-4 months in gross margins and FeCr prices



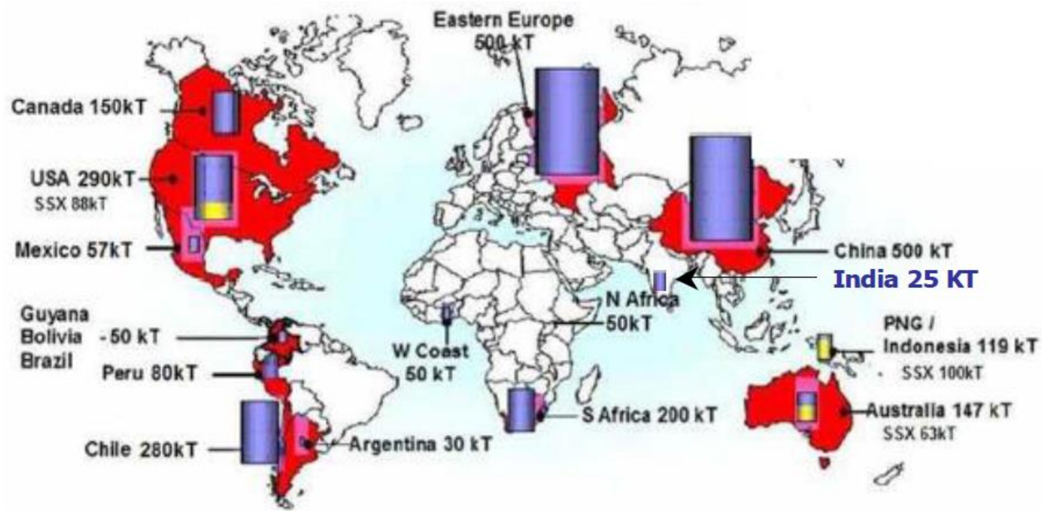
Source: Steelmint, Company data, I-Sec research

Large opportunity in an under-penetrated mining market

The global mining market for grinding media from forged steel replacement is pegged at ~2.5mnte as of FY20, and currently only 15-20% (0.37-0.50mnte) of total potential high-chrome grinding media mining opportunity is using high chrome.

With AIAE's mining grinding media sales at ~0.18mnte in FY20 and current penetration levels at 6-7% of the overall forged steel replacement market, there is a huge opportunity for the company to expand in the highly underpenetrated market.

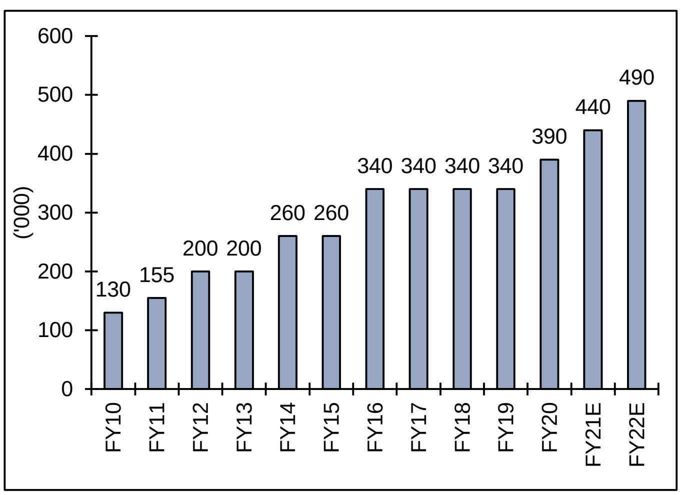
Chart 3: Estimated mining sector demand at ~2.5mtpa



Source: Company data, I-Sec research

In FY20, AIAE successfully commissioned the first tranche of 50,000tpa expansion at Kerala GIDC plant in Gujarat, which has taken its installed grinding media capacity to 390,000tpa. The mill lining facility of 50,000tpa (expected to be commissioned by Mar'21) and the second tranche of 50,000tpa grinding media capacity addition will take its annual total capacity to 490,000tpa.

Chart 4: Installed capacity timeline ('000 tpa)



Source: Company data, I-Sec research

Table 1: Installed capacity – timeline

Timeline	Remarks
2001	Exit from JV : Capacity 20,000tpa
2008	Commissioned 100,000tpa grinding media plant
2009	Started supply to mining companies
2011	Enhanced capacity to 200,000tpa
2013	100,000tpa annual sales to mining companies
2016	Commissioning of Greenfield Kerala GIDC, Gujarat
2017	Completed Kerala GIDC Plant Phase I
FY20	50,000tpa of Kerala GIDC Phase II – Tranche I
Mar 2021	50,000tpa capacity in mill linings
FY22	50,000tpa of Kerala GIDC Phase II – Tranche II

Lowest cost of production and hub and spoke model provides strong economic moat to AIAE

The grinding media industry is dominated by three major players – AIAE, Magotteaux (Sigdo Koppers) and MolyCop (now owned by American Industrial Partners).

MolyCop has the world's largest grinding media capacity (~2mtpa) and is present only in the forged steel grinding media market. Bankruptcy at Australian steelmaker, Arrium, due to its weak mining business compelled the troubled parent to sell MolyCop (grinding media business) to a US private equity firm American Industrial Partners for US$1.23bn in Nov'16. MolyCop is majorly present in the mining industry in North America, South America and Australia. Furthermore, in Jan'19, the company acquired the grinding media business of Finnish industrial machinery company, Metso.

Magotteaux is owned by Chilean conglomerate Sigdo Koppers and has a total capacity of 427,000tpa, largely high-chrome. In CY19 the company created an alliance with sensor suppliers to develop a new service that maximises milling. The technology was in the test phase in 2019 and is expected to get installed at 3-5 clients in 2020.

Table 2: Capacity comparison of AIAE, Magotteaux and MolyCop

Product type	Magotteaux*	AIA Engineering	MolyCop**
High-Chromium balls	**3,27,000**	**3,90,000**	
Low-Chromium balls	50,000		
Forged steel balls	50,000		2,000,000
Total distributed balls	**4,27,000**	**3,90,000**	**~2,000,000**
High-Chromium balls in JV with Scaw Metals	1,00,000		
Forged steel balls in JV with XingCheng	1,05,000		
Castings	67,000		
Total capacity	**6,99,000**		

*Note: *Capacity as of CY18 **Since there's no data available after CY15 (sale to PE firm American Industrial Partners), we estimate ~2mtpa to be MolyCop's current capacity (including 275,000te expansion in Chile)*
Source: Companies data, I-Sec research

Given that AIAE is present only in high chrome media, Magotteaux makes a better peer for it than MolyCop (present only in forged steel balls). Magotteaux has a product mix of high-chrome grinding media, forged steel grinding media and castings and, despite such a varied product mix, it has higher cost of production than AIAE (providing AIAE with price advantage). MolyCop has the lowest realisations due to lower pricing of forged steel balls as compared to cast high-chrome balls.

Chart 5: Magotteaux realisations (US$/te) significantly higher than AIAE

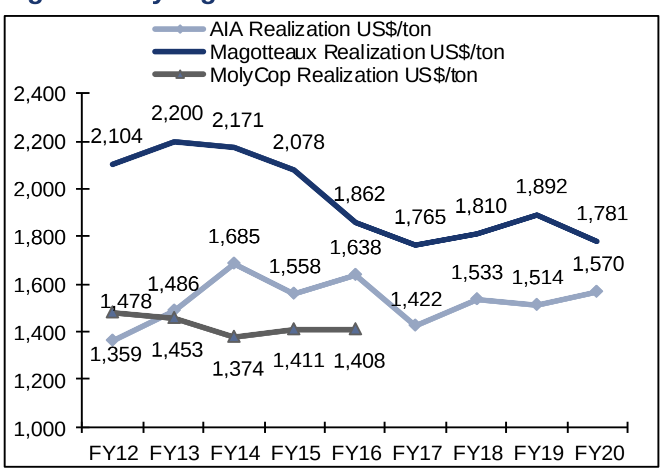
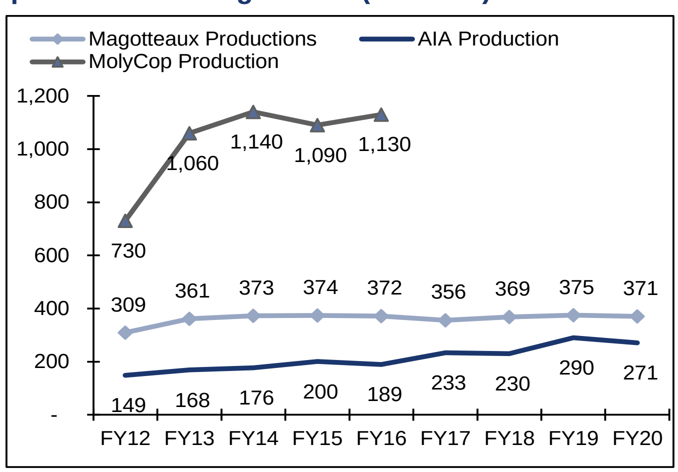


Chart 6: Growing production at AIAE *vs* stagnant production at Magotteaux (in 000'te)



Source: Company data, I-Sec research *Note: Data unavailable for MolyCop post sale to PE firm American Industrial Partners in CY15*

Sustainable low-cost structure supports high margins for AIAE

Despite lower realisations and raw material price volatility, AIAE has maintained superior EBITDA margins over its peers due to lower employee costs and economies of scale due to localisation.

AIAE enjoys a superior cost structure over its peers (FY20 EBITDA/te is 1.9x of Magotteaux CY19) due to its sustainable competitive advantage (*chart 8*). This cost benefit over peers is due to localisation as all of AIAE's manufacturing facilities operate in India. Magotteaux, on the other hand, has a relatively higher employee and overhead costs due to the presence of its manufacturing setups spread globally.

Chart 7: Plant locations for Magotteaux (spread across the globe) and AIAE (all domestic)

Source: Company data, I-Sec research

Although the high customer-stickiness in the business can play a spoilsport in acquiring some new clients, we believe, the pricing advantage resulting from a low-cost structure will be the eventual winner in the long term. This helps AIAE increase its market share in newly entered geographies.

The planned expansions of 100,000tpa grinding media capacity (50,00tpa already commissioned) and 50,000tpa mill liners are in close proximity to existing facilities, keeping the operating costs controlled. This makes us believe AIAE will be able to maintain its low-cost structure in the foreseeable future

Additionally, the recently purchased eight wind farms (2.1MW each), which have seen 20% IRR and on a run-rate basis and generates Rs250mn-300mn in annual savings, underpins the management's focus to truncate overheads as much as possible.

In our opinion, AIAE will be able to retain its cost advantage at least in the near- to medium-term, preserving its optionality of either being aggressive on pricing, or holding onto EBITDA margins.

Chart 8: EBITDA/te of AIAE is ~1.9x that of Magotteaux

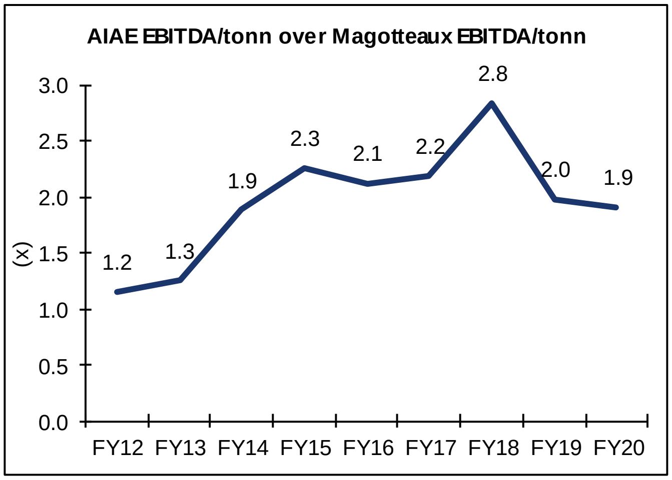
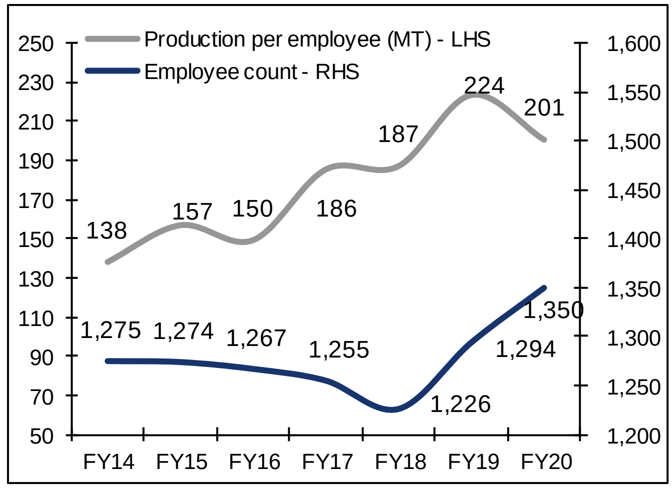


Chart 9: Increasing productivity in terms production per employee (te/employee)



Source: Company data, I-Sec research

Chart 10: Superior EBITDA US$/te over peers

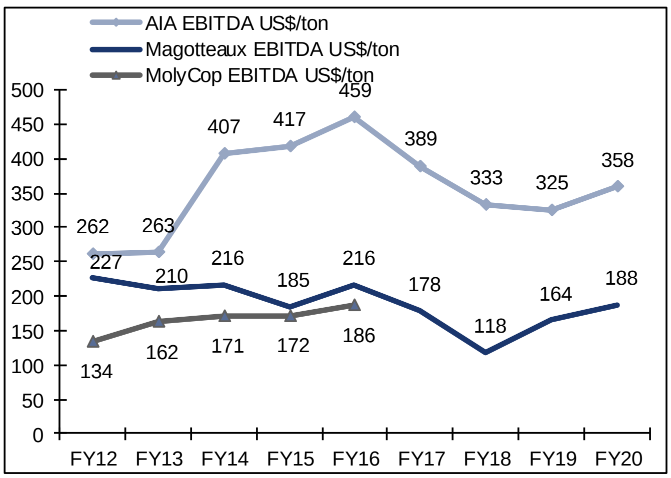
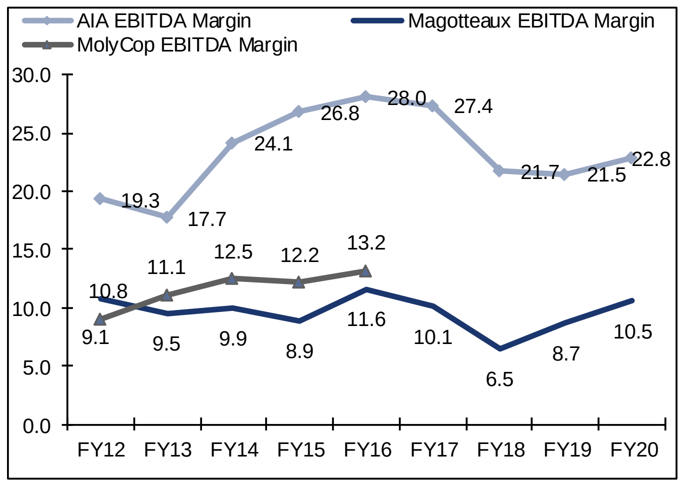
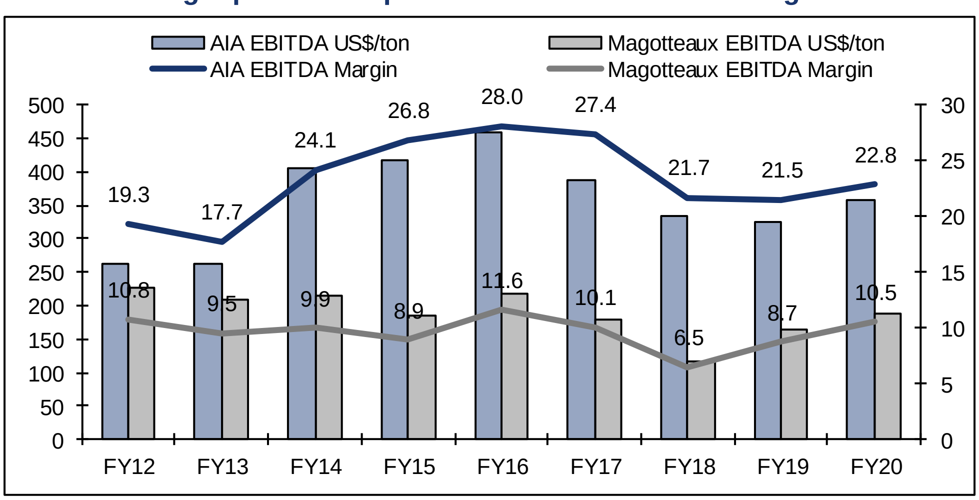


Chart 11: High-margin profile over peers



Source: Company data, I-Sec research

Chart 12: Margin profile comparison between AIAE and Magotteaux



Source: Company data, I-Sec research

Margin improvement and growth potential from mill linings capex

Mill linings constitute an estimated 300,000tpa market and while AIAE is currently doing 3,000-5,000te each year, the mill lining market is expected to grow at similar rates as the mining market. Since there is little scope left in improvement of the metallurgy of mill linings, the design of mill linings is the key differentiator as it has a material impact on improving the efficiency of grinding process. Consecutively, AIAE plans to increase its offerings in the mill liners and vertical mills segments by expanding its capacity and setting up a 50,000tpa mill lining plant by Mar'21-end.

Total planned capex outlay for FY21 is Rs2.5bn, of which Rs1.9bn will be for mill linings and remaining Rs600mn will be related to maintenance, land and peripheral capex for plant.

Of the Rs2.5bn capex required for 50,000tpa mill linings facility, Rs600mn has been done in FY20, Rs300mn in Q1FY21 and balance Rs1.6bn will be done in the remainder of FY21 to achieve the commissioning target date of before Mar'21

This is being done in technical collaboration with EE Mill Solutions (EEMS), US, for the patent applications and technical knowhow for the products. AIAE has proprietary mill lining designs with EEMS, which offers superior benefits of process improvement for the mining industry. This redesigning of mill internals is expected to improve the mining liner mills' performance and optimise energy efficiency in wet and dry grinding.

Identifying the appropriate type of lining and design is vital for optimising mill throughput and total grinding costs, including costs of energy, grinding media and maintenance. The technical collaboration will provide a circuit improvement process that is applicable to all ore mines.

Some of the large global players currently operating in this market are: Bradken, Metso, and Elecmetal.

Bradken: One of the leading solution providers for mining equipment parts, Bradken is an Australian company with operations in China and the US. In 2011, it acquired Norcast Wear Solutions in Canada and Swanmet Ltd in Malaysia making Bradken the world's largest manufacturer of mill liners to the global mineral processing industry. In Apr'17, Bradken became a wholly-owned subsidiary of Hitachi Construction Machinery, a member of the Hitachi group.

Metso: Based in Finland, Metso manufactures mill in addition to liners. It had sold its grinding media division, which was acquired in 2013, to MolyCop in 2019. Metso is a conglomerate having expertise in mining, pulp and paper, valves, mills, etc. In 2012, it launched *Megaliner* shell liner concept, which maximises grinding mill availability while improving worker safety. Metso was split into two separate listed entities in 2013 with Metso Corporation focusing on mining, aggregates, oil & gas, and flow control solutions for process industries. Company has a foundry capacity in India for cast wear parts for aggregates and a mining industry in Vadodara.

Elecmetal: A global leader in designing and supplying highly engineered grinding mill liners for SAG, AG, ball and rod milling application, Elecmetal forayed into grinding mill liner segment in 1967. The ownership of the company has changed different arms and its presence was predominantly in the US and Chile market. In 2011, the company did a JV with a Chinese steel manufacturer for manufacturing grinding balls. In 2012, the company announced US$45mn worth of investment towards a new plant in China to tap the Asia-Pacific market of mill liners.

Successful trial runs to drive demand

There has been considerable success while testing mill liners in SAG mills of Rio-Tinto in the US and a mine in Ghana. The major breakthrough had been the success of this in ball mill (overflow mill) of Jindal, which has reduced electricity consumption by 30-40%.

Although, currently, trial runs/discussions are underway in ~10 mines across the globe, management is not taking orders for mill liners before commencement of the plant. It expects to reach 80% utilisation in four years from commencement.

Given the savings on energy consumption (kWh/t) along with higher throughput (TPH), we believe, there will be a strong receptiveness from customers towards these new mill liners. This will aid in opening up a large opportunity not only for sale of mill liners, but also convert forged media consumers towards high chrome mill internals. Along with new mill liners, AIA plans to cross-sell its high chrome grinding media, which has higher wear resistance *vs* forged media and thus, by providing a bundled service, becomes a comprehensive solution partner to mining companies.

Arbitration matter with Magotteaux

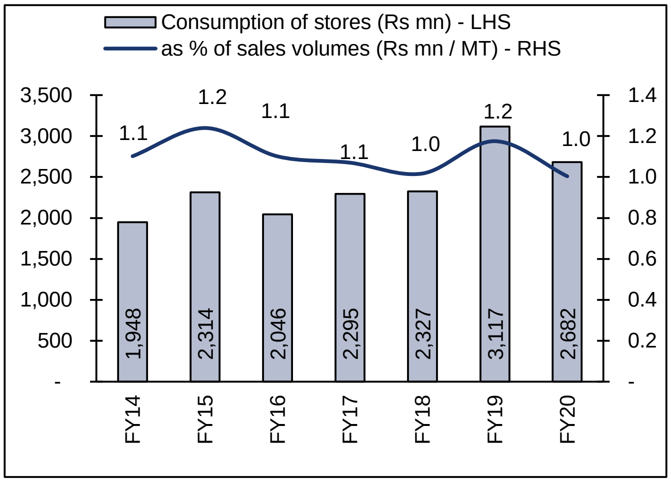
Background: With the setup of JV between Ahmedabad Induction Alloys Pvt Ltd and Magotteaux in 1991, AIAE got high-chrome grinding media technology from Magotteaux. On exit from JV in 2000, AIA retained the technology; however, Magotteaux had filed a patent infringement case against AIA involving Sintercast products in the US. The district court of Nashville ruled in favour of Magotteaux and AIA paid US$6mn (Rs320mn) to Magotteaux in FY14. It was a one-off expense and did not have any structural impact on overall business due to AIAE’s negligible presence in the US.

Current status: Currently, there is another arbitral proceeding initiated by Magotteaux at the International Chamber of Commerce, London (ICC) against AIAE for US$60mn (~Rs3.9bn) for patent infringement relating to Sintercast products. In Aug’19, the arbitration tribunal passed a unanimous award and dismissed claims of Magotteaux. Consequently, Magotteaux has preferred an appeal before the Commercial Court of England (QBD) for partial award passed by the arbitration tribunal. Any unfavourable outcome poses a risk to AIAE’s performance and may impact its cashflow.

Other expense analysis in charts

For FY20, the 11% YoY decline in power and fuel cost was more than 6% YoY decline in production. This was due to the nine captive winds farms with 19MW capacity (9x 2.1MW), which have seen 20% IRR and, on a run-rate basis, generate Rs250mn-300mn in annual savings. **Other expenses in FY20 also included a royalty expense of Rs29mn.**

Chart 13: Consumption of stores as proportion of sales volume remained stable



Source: Company data, I-Sec research

Chart 14: Newly acquired eight wind farms led to power and fuel savings

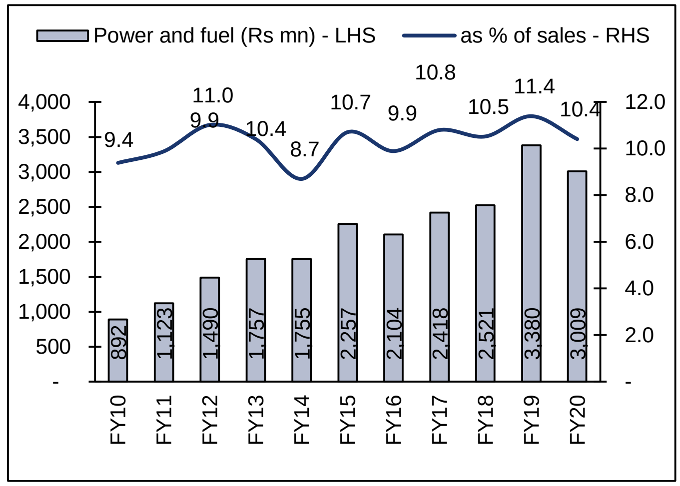
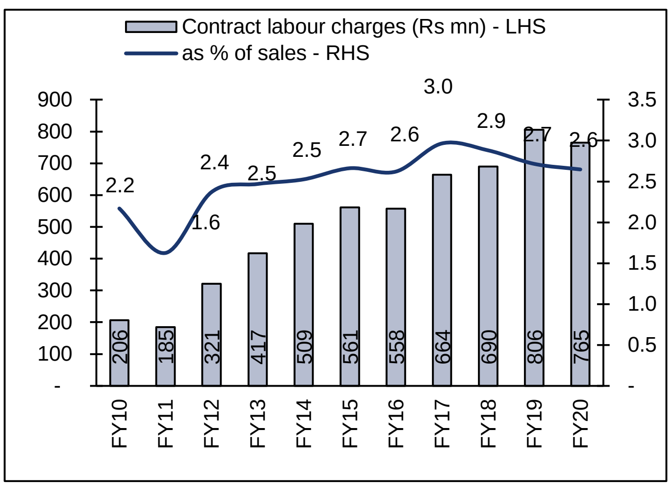


Chart 15: Gradually declining contract labour charges over the past few years



Source: Company data, I-Sec research

Chart 16: Freight charges indicate an upward trend at 6.5% of sales

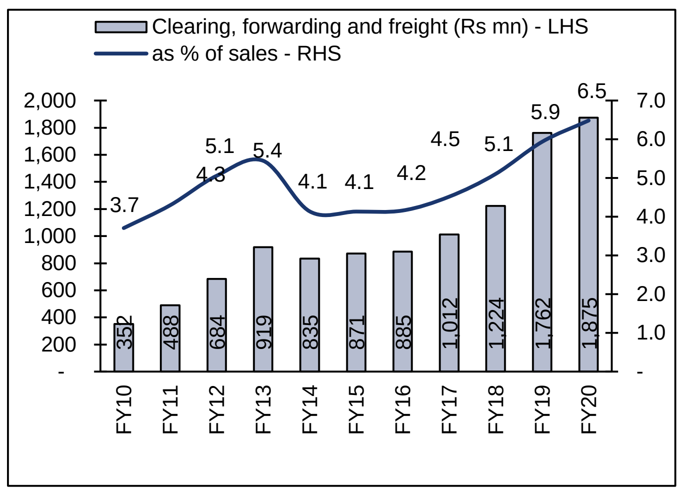
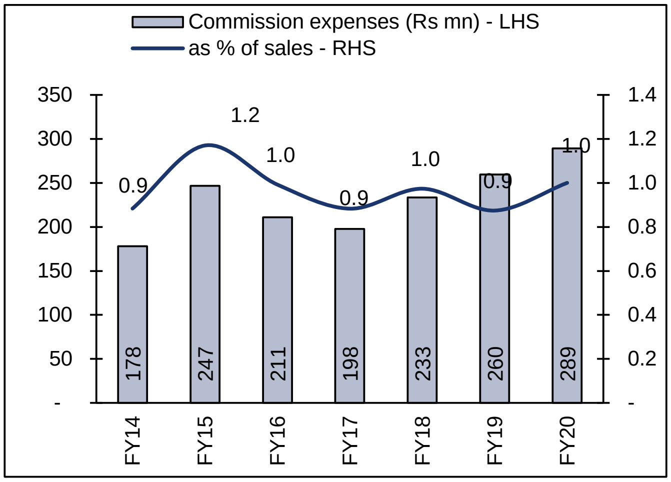


Chart 17: Commission expenses remained fairly stable in FY20



Source: Company data, I-Sec research

Chart 18: No major legal fee related to arbitration in the recent past

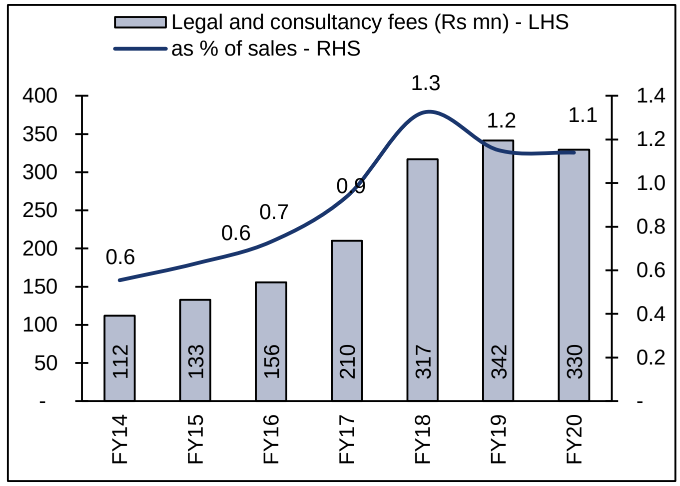
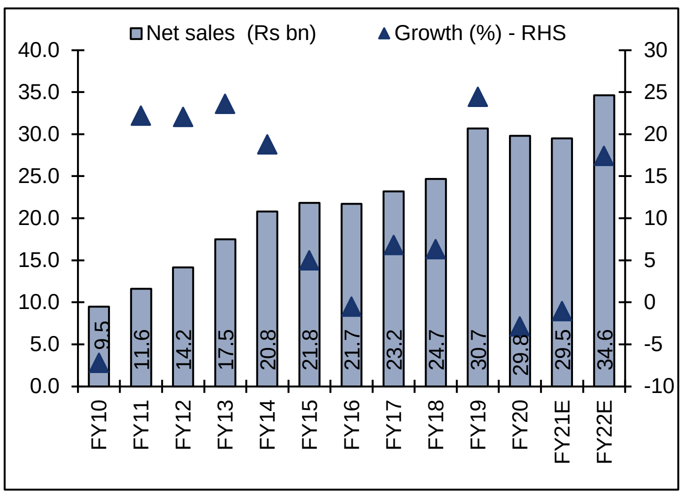


Chart 19: Revenue growth to be driven by higher capacity and increased market penetration



Source: Company data, I-Sec research

Chart 20: EBITDA margins to improve on the back of low-cost structure and stable FeCr prices

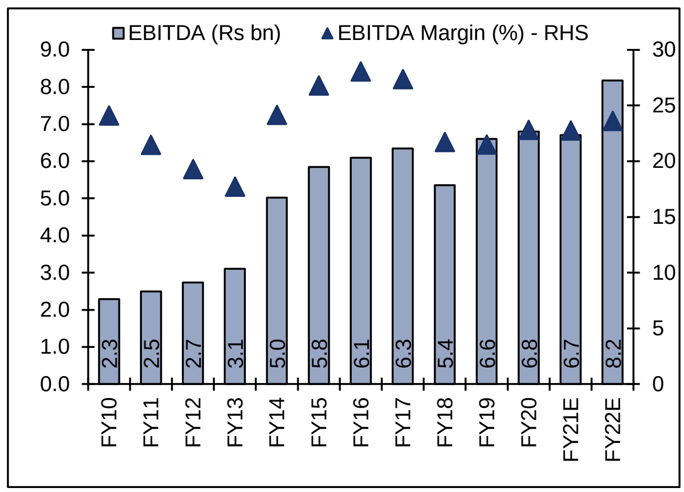
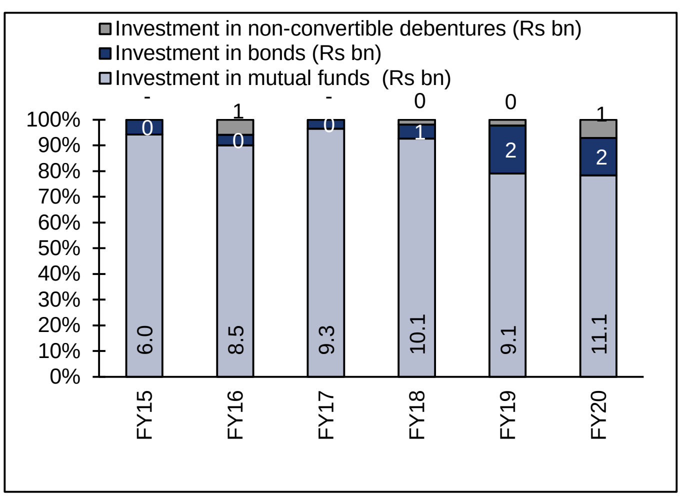
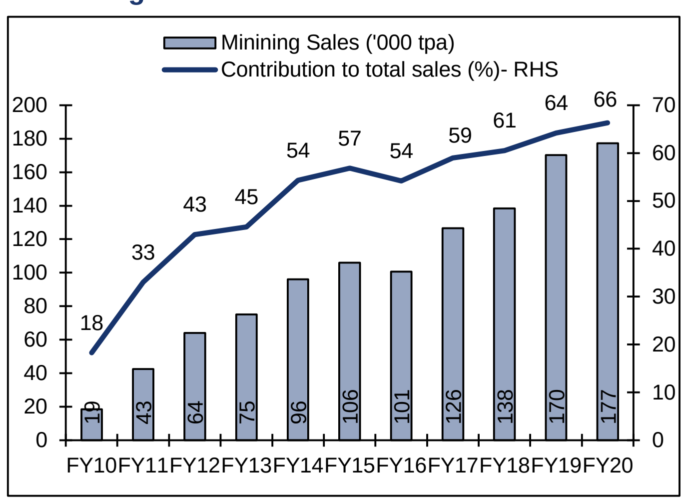


Chart 21: Breakdown of Rs14.2bn of current investment



Source: Company data, I-Sec research

Chart 22: Mining sales contribution continues to increase given stable demand from cement sector



Source: Company data, I-Sec research

Chart 23: Core RoCE to reduce before increasing in near term given the capacity expansion

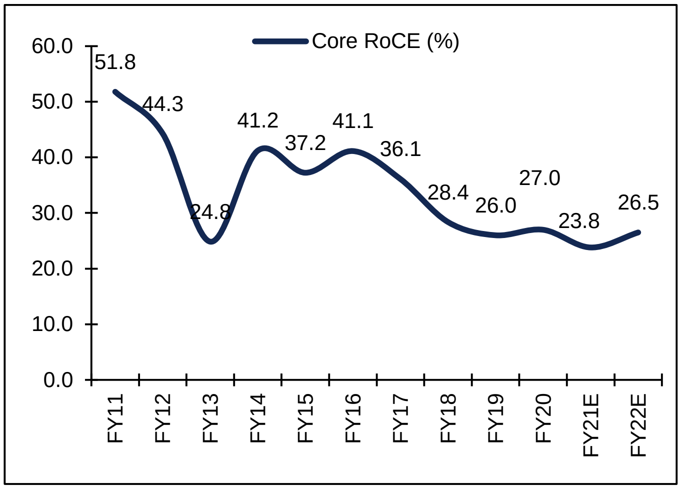
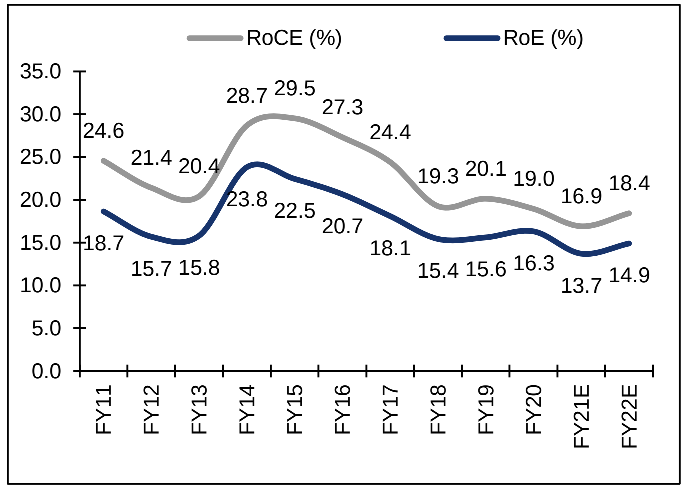


Chart 24: RoCE and RoE profile



Source: Company data, I-Sec research

Due to ongoing capex related to mill lining and two tranches of grinding media facility, we expect the RoCE profile to take some time before it starts picking up with increase in utilisation of the new facilities. Eventually, RoCE will be supported by higher utilisation and richer margin profile of mill liners. We calculate AIAE's core RoCE by taking EBITDA generated over the core capital employed by the company (gross block + net working capital).

Chart 25: Working capital profile

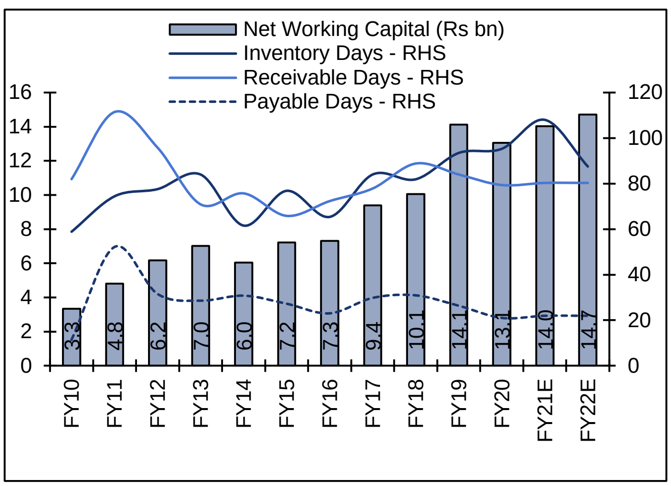
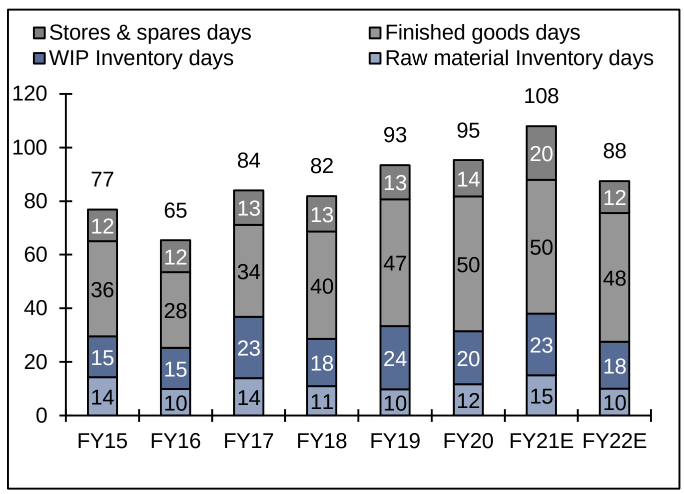


Chart 26: Inventory days breakup



Source: Company data, I-Sec research

For every new customer, once a normal orderbook cycle is factored-in, to ensure timely despatch of products, an additional stock is kept as inventory, equivalent to about two months of inventory for a monthly customer. Barring the impact of Covid, since AIAE has added new geographies in the past few years, this has surged the incremental inventory needed per new customer; hence the overall inventory days increased for FY18/FY19/FY20 to 82/93/95 days respectively. We don't foresee this as an impediment to the company's cashflow generation capabilities.

The receivables ageing profile has been stable for a long time with a major portion of debtor dues within three-months period.

In the recent years, company's FX exposure has shifted from CAD to USD. CAD receivables as proportion of total foreign currency receivables have reduced to nil in FY20 from 51% in FY16 while for USD it has increased to 72% in FY20 from 6% in FY16. Given that a large proportion of revenues are in foreign currency, the company follows active hedging policies and, as of Q1FY21-end, 35-40% of receipts were hedged at INR/USD of 76-77.

Chart 27: Debtor profile maintained with a higher portion ageing in three months (Rs mn)

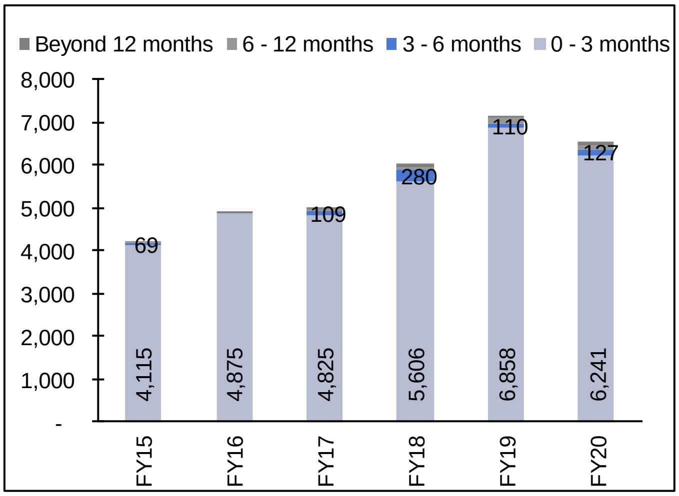
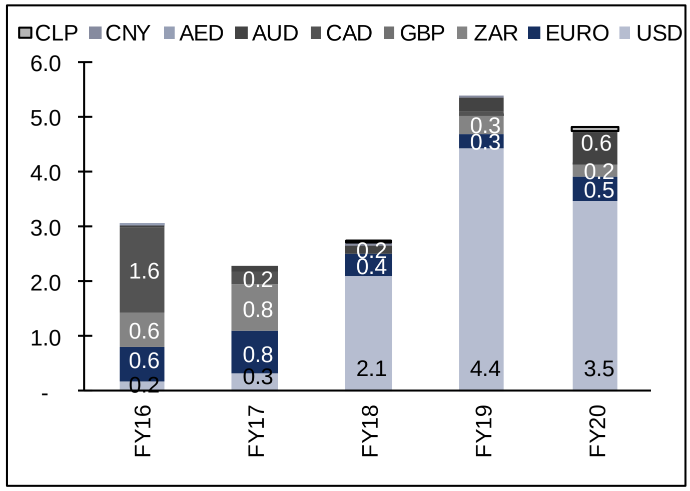


Chart 28: Receivables exposure (Rs bn) has reduced for CA$ and increased for US$



Source: Company data, I-Sec research

Table 3: Major subsidiaries

Entity Name	Stake (%)	Type
Welcast Steels Ltd.	74.85%	Subsidiary
Vega Industries Ltd., USA	100% by Vega UK	Wholly-owned Subsidiary
Vega Industries (Middle East)	100%	Wholly-owned Subsidiary
Vega Industries Ltd., UK	100% by Vega ME	Wholly-owned Subsidiary
Vega Steel Industries (RSA)	74.63% by Vega ME	Subsidiary
Wuxi Vega Trade Co. Ltd., China	100% by Vega ME	Wholly-owned Subsidiary
Pt Vega Industries Indonesia,	99% by Vega ME	Wholly-owned Subsidiary
Vega Industries Chile, SpA	100% by Vega ME	Wholly-owned Subsidiary
AIA Ghana Limited	100% by Vega ME	Wholly-owned Subsidiary
Vega Industries Australia Pty.	100% by Vega ME	Wholly-owned Subsidiary

Source: Company data, I-Sec research

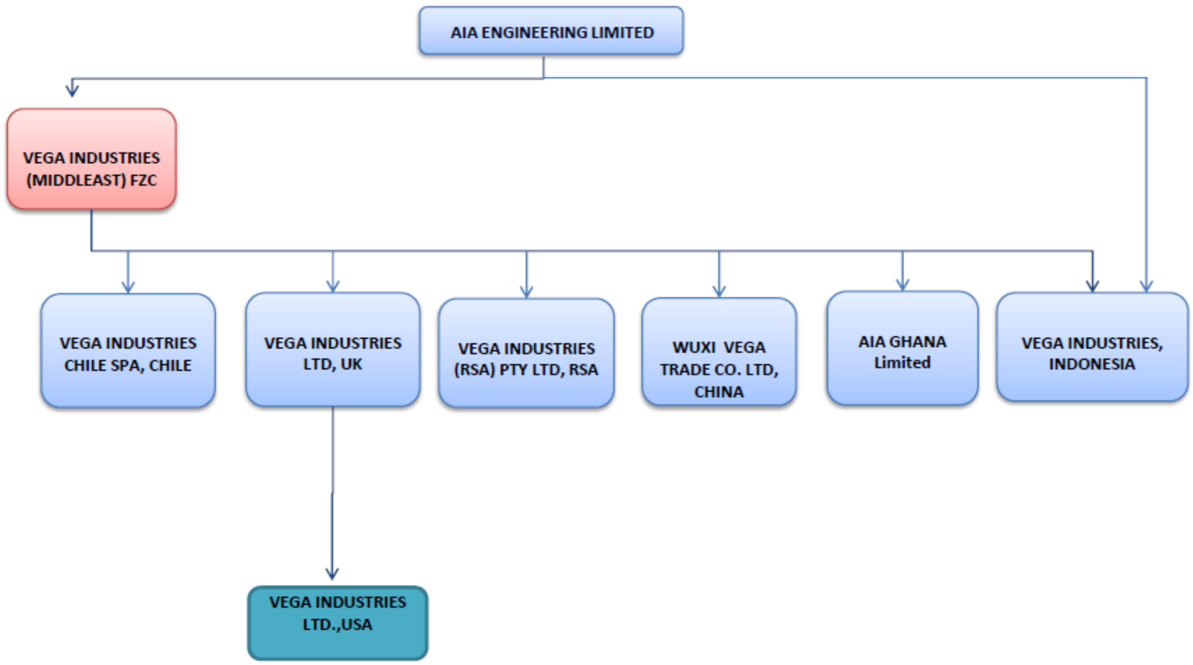
Table 4: Earnings revision

(Rs mn)

	FY21E			FY22E		
	Previous	Revised	% chg	Previous	Revised	% chg
Revenues	29,447	29,499	0.2	32,889	34,633	5.3
EBITDA	6,720	6,708	-0.2	7,565	8,178	8.1
PAT	5,370	5,361	-0.2	5,946	6,425	8.0

Source: I-Sec research

Chart 29: AIAE organisation structure



Source: Company data, I-Sec research

Table 5: 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**	**28,961**	**34,069**
Mining	-	12,316	12,461	16,552	16,448	16,908	20,677
Non-Mining	-	10,077	11,502	13,122	12,465	12,054	13,392
Revenue Contribution (%)							
Mining	-	*55.0*	*52.0*	*55.8*	*56.9*	*58.4*	*60.7*
Non-Mining	-	*45.0*	*48.0*	*44.2*	*43.1*	*41.6*	*39.3*
Total Sales Volumes (te)	**1,85,788**	**2,14,477**	**2,28,725**	**2,65,174**	**2,67,229**	**2,72,592**	**3,16,817**
YoY growth (%)	*-0.5*	*15.4*	*6.6*	*15.9*	*0.8*	*2.0*	*16.2*
Mining	1,00,684	1,26,479	1,38,399	1,70,224	1,77,274	1,85,606	2,21,132
YoY growth (%)	*-5.1*	*25.6*	*9.4*	*23.0*	*4.1*	*4.7*	*19.1*
Non-Mining	85,104	87,998	90,326	94,950	89,955	86,986	95,685
YoY growth (%)	*5.6*	*3.4*	*2.6*	*5.1*	*-5.3*	*-3.3*	*10.0*
Sales Volume Contribution (%)							
Mining	*54.2*	*59.0*	*60.5*	*64.2*	*66.3*	*68.1*	*69.8*
Non-Mining	*45.8*	*41.0*	*39.5*	*35.8*	*33.7*	*31.9*	*30.2*
Total Realisation (Rs '000 /te)	**114**	**104**	**105**	**112**	**108**	**106**	**108**

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 6: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Income	**30,695**	**29,809**	**29,499**	**34,633**
Operating Expenses	24,096	23,006	22,790	26,455
EBITDA	**6,599**	**6,803**	**6,708**	**8,178**
% margins	*21.5*	*22.8*	*22.7*	*23.6*
Depreciation & Amortisation	788	978	999	1,138
EBIT	**5,811**	**5,825**	**5,710**	**7,039**
Gross Interest	75	56	56	56
Other Income	1,209	1,419	1,219	1,252
PBT before exceptionals	**6,944**	**7,188**	**6,873**	**8,236**
Add: Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	-	-	-	-
PBT	**6,944**	**7,188**	**6,873**	**8,236**
Less: Taxes	1,830	1,285	1,512	1,812
Less: Minority Interests	6	(1)	(1)	(1)
Net Income (Reported)	**5,108**	**5,904**	**5,361**	**6,425**
Adjusted Net Income	**5,108**	**5,904**	**5,361**	**6,425**

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	30,569	31,442	34,376	37,798
of which cash & cash eqv.	13,600	15,725	17,633	20,087
Total Current Liabilities & Provisions	2,949	2,873	2,945	3,257
Net Current Assets	**27,620**	**28,569**	**31,431**	**34,540**
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**	**42,695**	**46,761**
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	40,770	44,836
Net Worth	**35,137**	**37,013**	**40,959**	**45,025**
Total Liabilities	**37,379**	**38,749**	**42,695**	**46,761**

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	**5,543**	**6,146**	**5,714**	**6,899**
Working Capital Changes	(4,038)	1,028	(953)	(656)
Capital Commitments	(2,153)	(1,151)	(2,000)	(2,000)
Free Cashflow	**(648)**	**6,022**	**2,761**	**4,243**
Cashflow from Investing Activities	**515**	**(1,956)**	**619**	**625**
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)	(1,415)	(2,358)
Extraordinary Items/Others	**698**	**(1,325)**	**0**	**(0)**
Chg. in Cash & Bank balance	**(487)**	**(615)**	**1,909**	**2,454**

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
Diluted adjusted EPS	54.2	62.6	56.8	68.1
Recurring Cash EPS	45.8	52.2	46.3	56.0
Dividend per share (DPS)	9.0	27.0	15.0	25.0
Book Value per share (BV)	373.5	393.4	435.2	478.3
Growth Ratios (%)				
Operating Income	24.4	(2.9)	(1.0)	17.4
EBITDA	23.2	3.1	(1.4)	21.9
Recurring Net Income	15.2	15.6	(9.2)	19.8
Diluted adjusted EPS	15.2	15.6	(9.2)	19.8
Diluted Recurring CEPS	14.3	14.0	(11.4)	21.2
Valuation Ratios				
P/E	32.4	28.0	30.8	25.7
P/CEPS	38.3	33.6	37.9	31.3
P/BV	4.7	4.5	4.0	3.7
EV / EBITDA	23.2	22.1	22.2	17.9
EV / Operating Income	5.0	5.1	5.0	4.2
EV / Op FCF (pre-capex)	101.7	21.0	31.2	23.4
Operating Ratios				
Raw Material/Sales (%)	39.9	39.4	38.0	38.0
SG&A/Sales (%)	4.9	5.2	5.5	5.0
Other Income / PBT (%)	17.4	19.7	17.7	15.2
Effective Tax Rate (%)	26.3	17.9	22.0	22.0
NWC / Total Assets (%)	37.5	33.1	32.3	30.9
Inventory Turnover (days)	79.6	95.8	102.1	89.7
Receivables (days)	77.7	82.9	80.3	74.3
Payables (days)	25.5	24.3	21.5	20.4
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	18.6
RoCE	20.1	19.0	16.9	18.4
RoNW	15.7	16.4	13.8	14.9
Dividend Payout Ratio	20.0	50.7	26.4	36.7
Dividend Yield (%)	0.5	1.5	0.9	1.4
EBITDA Margins	21.5	22.8	22.7	23.6

Source: Company data, I-Sec research

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