

## Better operational performance, healthy volumes...

AIA Engineering reported consolidated revenues at ₹ 742.3 crore (above our estimate of ₹ 649.9 crore), up 6.6% YoY owing to revival in economic activities in domestic, international markets. EBITDA was at ₹ 190.3 crore, up 23.5% YoY (vs our estimate of ₹ 139.7 crore). EBITDA margins expanded 350 bps YoY to 25.6% (above our estimate of 21.5%) partly due to revenue slipover of Q1 to Q2FY21. PAT was at ₹ 143.5 crore (above our estimate of ₹ 119.7 crore), declining 5.6% YoY owing to tax adjustment in base quarter, lower other income and exceptional item of ₹ 3.7 crore as impairment towards closure of its subsidiary, Welcast Steels (WSL). Other income declined 11.8% to ₹ 24.8 crore YoY.

### Pick up in mining volumes to continue over H2FY21E...

During the quarter, sales volumes came in robust at 68575 MT in Q2FY21, up 12% YoY led by mining segment volumes that grew 15.8% to 46750 MT. Cement & others segment volumes came in at 21825 MT, up 4.6%, YoY. Mining segment is further expected to pick up as economic activities are normalising across the world including India while non-mining segment is also seeing traction with revival in infrastructure, utilities spends across the world. Operations across all facilities, including India, have reach pre-Covid levels. The strong volumes were a result of already stocked up warehouses that allowed dispatches to customers despite lockdowns.

### Expansion of mill lining on track, grinding media in FY22E...

Mill lining capacity addition of 50000 MT is on track to be complete by March 2021. AIA has done capex of ₹ 65 crore H1FY21 and is likely to do ~ ₹ 175 crore capex in H2FY21E, which includes ₹ 125 crore towards mill liners capex, ₹ 50 crore towards maintenance capex. Capex of ₹ 250 crore towards grinding media expansion is likely in FY22E. Majority of sales for Q1FY21E came from existing customers due to travel restrictions. However, enquiries from developmental customers are gradually picking up and are likely to pick up further from Q3FY21E onwards. We build in volume of 249325 MT, 287721 MT for FY21E, FY22E, respectively.

### Valuation & Outlook

Despite challenging conditions, AIA reported better than expected volume numbers in Q2FY21. However, new customer engagement and acquisition to revive as travel situation is expected to normalise in H2FY21 and will allow AIA to gain incremental volume growth in coming years. AIA's strong balance sheet, decent cash balance and efficient working capital management are expected to support long term growth. We expect overall revenues, EBITDA to grow at 5.1%, 3.3%, respectively, in FY20-22E. We believe further penetration in the mining segment and gradual volume ramp-up with repeat customers would aid medium term growth. We remain cautiously optimistic and revise our target price to ₹ 1785/ share (29x FY22E EPS). We maintain our **HOLD** rating.

#### Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	2,445.1	3,069.5	2,980.9	2,732.2	3,292.3	5.1%
EBITDA	535.7	660.4	680.3	591.5	725.6	3.3%
EBITDA Margin (%)	21.9	21.5	22.8	21.6	22.0	
Net Profit	443.6	513.2	590.3	490.8	580.4	-0.8%
EPS (₹)	47.0	54.4	62.6	52.0	61.5	
P/E (x)	35.3	30.5	26.5	31.9	27.0	
RoNW (%)	14.7	14.6	15.9	12.1	12.9	
RoCE (%)	18.4	18.8	18.7	15.1	16.1	

Source: Company, ICICI Direct Research



#### Particulars

Particular	Amount
Market Capitalization	15657.2 Crore
Total Debt (FY 20)	₹96.9 Crore
Cash and Inv. (FY 20)	₹1572.4 Crore
EV	14181.7 Crore
52 week H/L	₹1985/ 1111
Equity capital	₹18.9 Crore
Face value	₹2

#### Key Highlights

- Overall Q2FY21 sales volume grew 12% to 68575 MT. Mining segment volumes up by 15.8% to 46750 MT
- The net realisation per tonne declined by 5.0% to ₹ 105.0 per kg, YoY
- While mill lining capacity addition of 50000 MT on track to be completed by March 2021. Grinding media capacity addition capex in FY22E
- Revise target price to ₹ 1785 (29x FY22E EPS). Maintain HOLD rating

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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (Chg %)	Q1FY21	QoQ (Chg %)	Comments
Sales	742.3	649.9	696.6	6.6	580.3	27.9	Revenue growth led by better volumes which grew by 12% YoY
Other Income	24.8	46.3	28.1	-11.8	74.8	-66.9	
Raw Materials Expense	251.1	254.1	278.0	-9.7	227.8	10.2	
Employee Cost	33.4	35.1	34.3	-2.7	33.2	0.6	
Other Expenditure	267.6	221.0	230.2	16.2	195.9	36.6	
EBITDA	190.3	139.7	154.1	23.5	123.5	54.1	
EBITDA Margin (%)	25.6	21.5	22.1	352 bps	21.3	436 bps	EBITDA margins improved on the back of product mix and revenue slippage of Q1 to Q2.
Depreciation	23.3	26.6	22.2	5.0	25.1	-7.1	
Interest	1.2	1.4	1.5	-18.2	1.4	-11.3	
PBT	190.5	158.0	158.4	20.3	171.7	10.9	
Taxes	43.3	38.2	6.4	576.3	42.1	2.9	
PAT	147.1	119.7	152.0	-3.2	129.6	13.5	
	23%	24%	4%		25%		
<b>Key Metrics</b>							
Volume (in tonnes)	68,575	59,002	61,220	12.0	53,177	29.0	Sales volumes above our estimates
Net Realisation (₹/tonne)	104,978	106,000	110,478	-5.0	105,576	-0.6	Realizations down 5.0% YoY owing to product mix and price adjustment.

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21E			FY22E			Comments
(₹Crore)	Old	New	% Change	Old	New	% Change	
Revenue	2,698.8	2,732.2	1.2	3,245.5	3,292.3	1.4	revised estimated owing to better Q2 performance indicating revival
EBITDA	554.4	591.5	6.7	715.3	725.6	1.4	
EBITDA Margin (%)	20.5	21.6	111 bps	22.0	22.0	0 bps	
PAT	463.7	490.8	5.8	574.0	580.4	1.1	
EPS (₹)	49.2	52.0	5.8	60.9	61.5	1.0	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier		Comment
	FY 19	FY 20	FY 21E	FY 22E	FY 21E	FY 22E	
Overall Volumes (tonnes)	265,174	267,229	249,325	287,721	242,109	282,058	revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	170,224	177,274	175,562	208,794	144,958	177,134	
Capacity	340,000	340,000	390,000	440,000	390,000	440,000	
Net Realisations	111,905	108,195	105,117	109,560	106,478	110,100	Realisations likely to remain stable

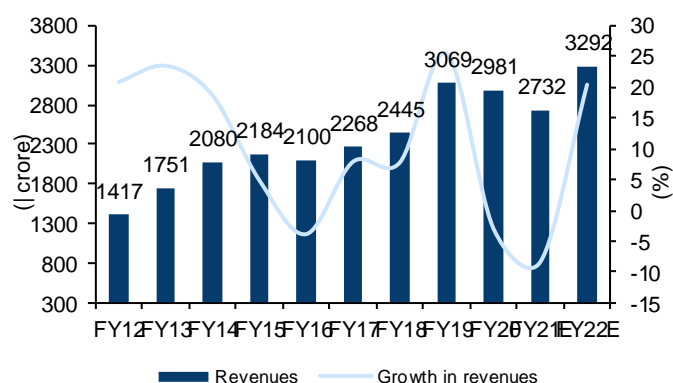
Source: Company, ICICI Direct Research

## Key results highlights

- The net realisation per tonne declined 5.0% to ₹ 105.0 per kg YoY, which is a function of product mix and cross currency rates
- During the quarter, sales volume came in at 68575 MT in Q2FY21, which grew 12% YoY led by mining segment volumes which grew by 15.8% to 46750 MT. Cement & others segment volumes came in at 21825 MT, up by 4.6%, YoY
- In Q2FY21, gross margins improved ~330 bps to at 63.8% due to product mix and favourable commodity prices. Margins are expected to be sustainable at around current levels in medium term
- **FY21 outlook:** Cautious stance on volume guidance for H2FY21. However, expect mining, cement industry to see further pick-up in activity as economy revives and, in turn, drive AIA's product requirements while returning to normal in H2FY21E
- Operations reached almost pre-Covid levels across geographies including India and expects complete normalcy in H2FY21. The company does not see much supply chain disruption or issue with dispatches to customers as it has already stocked up all its warehouses, which allowed dispatches despite lockdown
- AIA reported other income of ₹ 24.8 crore for Q2FY21, which declined 11.8% YoY. This includes ₹ 18 crore from treasury income and ₹ 4.5 crore from foreign exchange gains
- The order book of the company was at ₹ 545 crore as on Q2FY21
- **Expansion plan** – Mill lining capacity addition of 50000 MT is on track to be complete by March 2021. Grinding media capacity addition (~50000 tonnes) capex to start in FY22E
- **Capex** - AIA incurred capex of ₹ 65 crore in H1FY21. It has planned a capex of ₹ 175 crore for H2FY21E (₹ 125 crore for mill liner expansion, ₹ 50 crore maintenance capex)
- Net cash & cash equivalent as on Q2FY21 was at ~ ₹ 1847 crore (vs. ₹ 1754 crore in Q1FY21)
- **Working Capital:** - Net working capital days have improved, on sequential basis, inventory number of days has decreased by 8-9 days to 83 days while debtors' days has decreased by ~10 days to 82 days. Overall working capital situation is quite stable and likely to hover around 120-130 days in medium term.

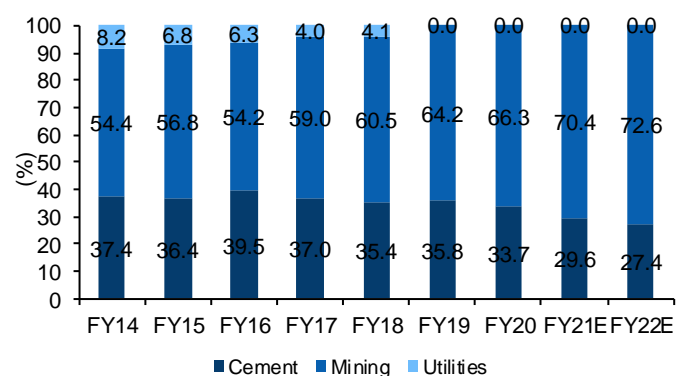
## Financial story in charts

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



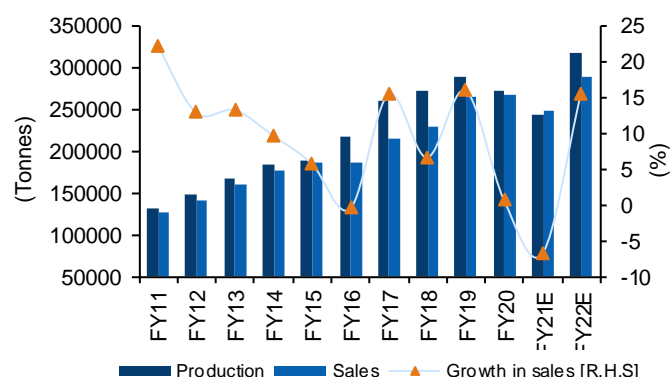
Source: ICICI Direct Research, Company

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



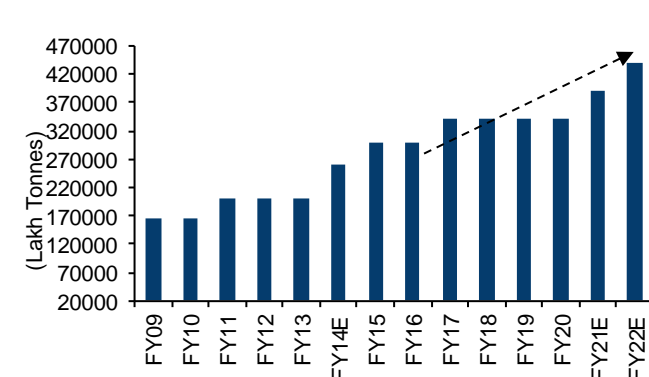
Source: ICICI Direct Research, Company

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



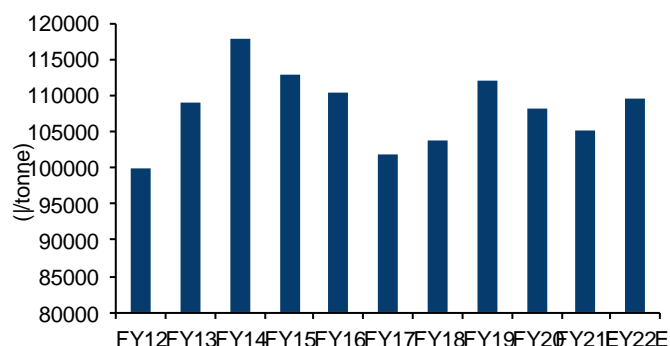
Source: Company, ICICI Direct Research

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



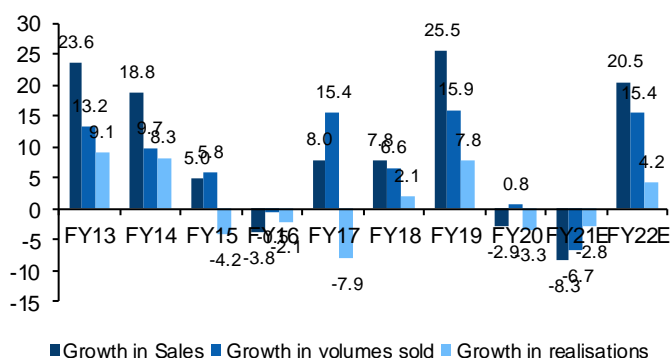
Source: Company, ICICI Direct Research

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



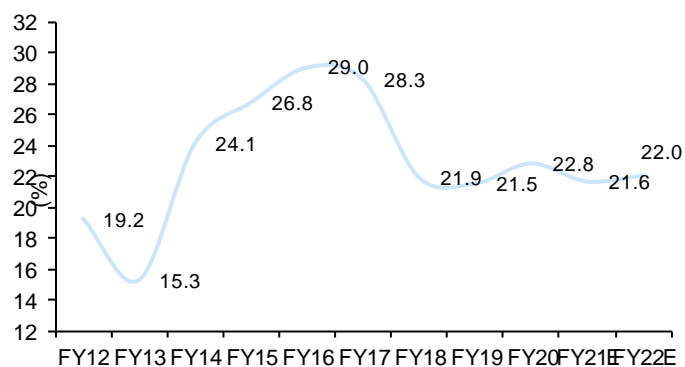
Source: Company, ICICI Direct Research

**Exhibit 9: Volume growth to lead revenue CAGR in FY20-22E**



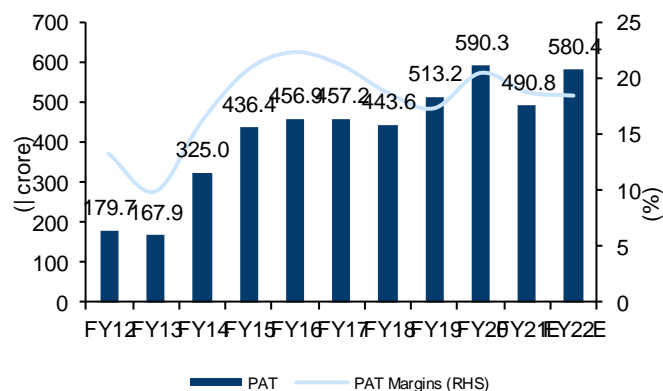
Source: Company, ICICI Direct Research

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



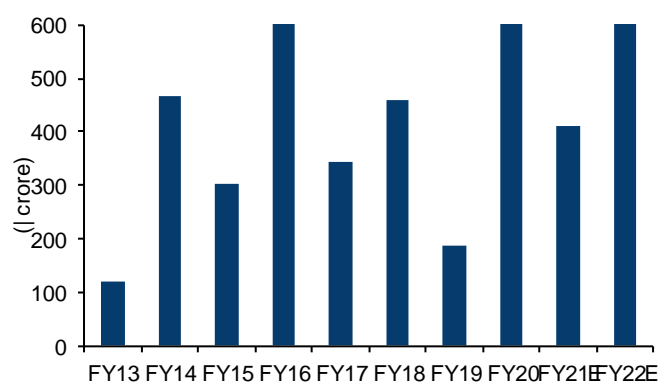
Source: Company, ICICI Direct Research

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



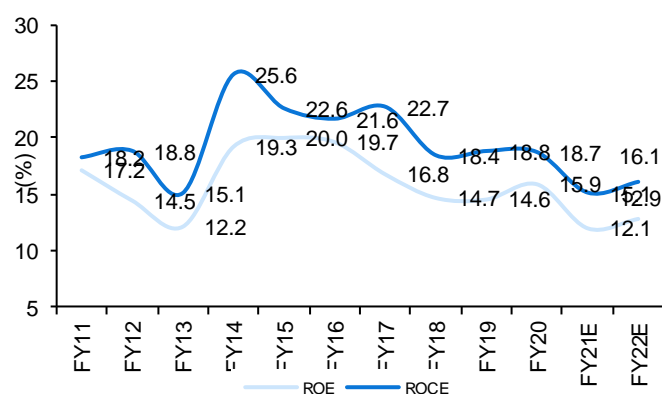
Source: Company, ICICI Direct Research

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



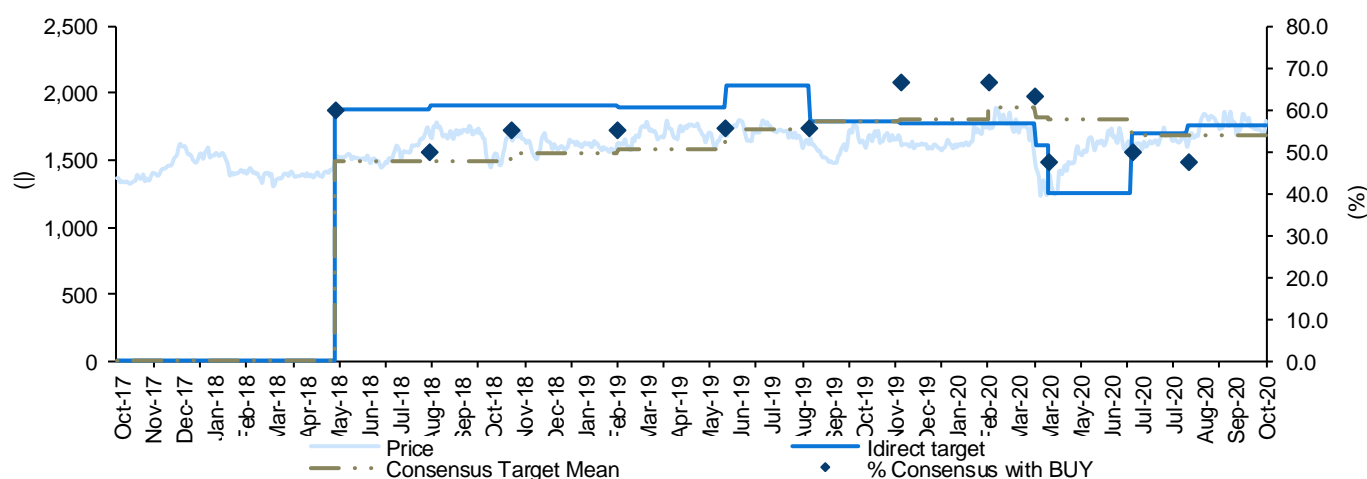
Source: Company, ICICI Direct Research

**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	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Shah Bhadresh Kantil	30-Jun-20	58.5	55.13m	0.00m
2	Nalanda India Equity	30-Jun-20	9.7	9.13m	0.00m
3	Hdfc Asset Managemen	30-Sep-20	2.9	2.72m	0.00m
4	Pinebridge Investmen	30-Jun-20	2.1	1.96m	(0.87)m
5	Sbi Funds Management	30-Sep-20	1.9	1.79m	0.00m
6	L&T Mutual Fund	30-Sep-20	1.8	1.68m	(0.04)m
7	Kotak Mahindra Asset	30-Sep-20	1.8	1.66m	(0.00)m
8	Dsp Blackrock Invest	30-Sep-20	1.7	1.62m	0.52m
9	Goldman Sachs Group	30-Sep-20	1.5	1.39m	(0.01)m
10	Vanguard Group	30-Sep-20	1.3	1.23m	(0.01)m

Source: Reuters, ICICI Direct Research

**Exhibit 16: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	58.5	58.5	58.5	58.5	58.5
FII	21.6	21.4	21.3	21.2	20.5
DII	16.3	16.7	17.8	17.6	18.3
Others	3.6	3.4	2.4	2.7	2.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating Incon</b>	<b>3,069.5</b>	<b>2,980.9</b>	<b>2,732.2</b>	<b>3,292.3</b>
Growth (%)	25.5	-2.9	-8.3	20.5
Raw Material Expenses	1,225.0	1,173.5	1,026.3	1,271.2
Employee Expenses	126.4	134.4	131.5	143.6
Other expenses	1,057.7	992.7	982.9	1,152.0
Total Operating Expendi	2,409.1	2,300.6	2,140.7	2,566.7
<b>EBITDA</b>	<b>660.4</b>	<b>680.3</b>	<b>591.5</b>	<b>725.6</b>
Growth (%)	23.3	3.0	-13.1	22.7
Depreciation	79.1	97.9	107.1	125.1
Interest	6.1	5.6	4.1	4.6
Other Income	120.9	141.9	159.2	156.4
PBT	696.2	718.7	639.5	752.2
Others	0.0	0.0	0.0	0.0
Total Tax	183.0	128.4	148.7	171.8
<b>PAT</b>	<b>513.2</b>	<b>590.3</b>	<b>490.8</b>	<b>580.4</b>
Growth (%)	15.7	15.0	-16.9	18.3
<b>EPS (₹)</b>	<b>54.4</b>	<b>62.6</b>	<b>52.0</b>	<b>61.5</b>

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	513.2	590.3	490.8	580.4
Add: Depreciation	79.1	97.9	107.1	125.1
(Inc)/dec in Current Asse	-355.7	125.1	-214.6	-97.9
Inc/(dec) in CL and Provis	-49.3	-20.0	26.5	56.3
Others	3.3	3.0	5.0	5.0
<b>CF from operating acti</b>	<b>187.3</b>	<b>793.3</b>	<b>409.7</b>	<b>663.9</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-215.7	-115.4	-117.7	-325.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing acti</b>	<b>-155.9</b>	<b>-419.4</b>	<b>-244.5</b>	<b>-411.9</b>
Issue/(Buy back) of Equit	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	4.6	-30.9	20.0	15.0
Dividend paid & dividend	0.0	-399.1	-99.7	-121.9
Inc/(dec) in Sec. premium	0.1	0.2	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing acti</b>	<b>-4.3</b>	<b>-433.6</b>	<b>-104.6</b>	<b>-131.9</b>
Net Cash flow	27.1	-59.8	60.6	120.2
Opening Cash	181.2	208.2	148.5	209.1
<b>Closing Cash</b>	<b>208.2</b>	<b>148.5</b>	<b>209.1</b>	<b>329.2</b>

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	3,494.6	3,682.3	4,048.4	4,481.9
Total Shareholders func	3,513.5	3,701.1	4,067.3	4,500.8
Total Debt	127.9	96.9	116.9	131.9
Deferred Tax Liability	87.0	67.4	72.4	77.4
Minority Interest / Other:	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3,746.9</b>	<b>3,896.3</b>	<b>4,279.2</b>	<b>4,733.7</b>
<b>Assets</b>				
Gross Block	1,127.1	1,263.1	1,343.1	1,618.1
Less: Acc Depreciation	304.8	396.9	503.2	627.6
Net Block	822.4	866.2	839.9	990.5
Capital WIP	59.8	32.4	70.0	120.0
Total Fixed Assets	882.2	898.5	909.9	1,110.5
Investments	1,151.7	1,424.0	1,519.0	1,609.0
Inventory	785.9	778.1	830.3	862.5
Debtors	706.4	648.2	728.8	777.3
Loans and Advances	3.7	4.3	4.1	4.3
Other Current Assets	200.8	141.1	223.2	240.2
Cash	208.2	148.5	209.1	329.2
Total Current Assets	1,905.0	1,720.2	1,995.4	2,213.5
Creditors	173.6	132.2	143.6	181.4
Provisions	18.7	24.2	27.3	36.3
Total Current Liabilities	285.7	265.7	292.2	348.5
Net Current Assets	1,619.3	1,454.5	1,703.2	1,865.0
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3,746.9</b>	<b>3,896.3</b>	<b>4,279.2</b>	<b>4,733.7</b>

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	54.4	62.6	52.0	61.5
Cash EPS	62.8	73.0	63.4	74.8
BV	372.5	392.4	431.2	477.2
DPS	0.0	36.0	9.0	11.0
Cash Per Share	22.1	15.7	22.2	34.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	21.5	22.8	21.6	22.0
PBT / Total Operating inc	23.5	24.9	24.4	23.9
PAT Margin	17.3	20.4	18.7	18.4
Inventory days	96.7	98.2	115.6	99.9
Debtor days	86.9	81.8	101.5	90.0
Creditor days	21.4	16.7	20.0	21.0
<b>Return Ratios (%)</b>				
RoE	14.6	15.9	12.1	12.9
RoCE	18.8	18.7	15.1	16.1
RoIC	26.0	26.8	20.7	23.8
<b>Valuation Ratios (x)</b>				
P/E	29.5	25.6	30.8	26.1
EV / EBITDA	21.1	20.1	22.9	18.4
EV / Net Sales	4.7	4.7	5.2	4.2
Market Cap / Sales	5.1	5.2	5.8	4.8
Price to Book Value	4.3	4.1	3.7	3.4
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	0.1	0.2	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.9	5.9	6.1	5.4
<b>Quick Ratio</b>	<b>3.2</b>	<b>3.0</b>	<b>3.3</b>	<b>2.9</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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