

Steady operational performance, reasonable volumes

AIA Engineering reported consolidated revenues at ₹ 860.2 crore (in line with our estimate of ₹ 859.6 crore), up marginally by 0.4% YoY owing to decline of 3.3% in volumes YoY. Realisations grew 6% to ₹ 107.1/kg YoY. EBITDA came in at ₹ 169.2 crore, down 8.4% YoY (vs. our estimate of ₹ 190.8 crore). EBITDA margins fell 190 bps YoY to 19.7% (below our estimate of 22.2%) impacted by commodity prices. PAT came in at ₹ 133.1 crore (below our estimate of ₹ 158.6 crore), declining 6.5% YoY partly impacted by lower other income, which declined 20.4% YoY to ₹ 23.2 crore.

Mining volumes expected to pick up from H2FY22E...

During the quarter, sales volume came in reasonable at 79377 MT, down 3.3% YoY. Mining segment volumes declined 9.9% to 49642 MT while cement & others segment volumes came in at 29735 MT, up 10% YoY aided by pent up demand in cement sector across geographies. Mining segment is further expected to pick up as economic activities and global travel activities are expected to normalise by Q3FY22E across the world including India while non-mining segment is also seeing good traction with revival in infrastructure, utilities. However, due to international travel restrictions developments of new mines still suffering and better demand expected in H2FY22E. Also, Canada Boarder Service Agency (CBA) has initiated investigation in December 2020 with respect to alleged dumping on AIA, which could have an impact on sale volumes of ~12000 MT in H1FY22.

Mill lining capacity expected to be added by FY22E...

Mill lining capacity addition of 50000 MT is expected to be completed by December 2021. AIA has done capex of ₹ 118 crore FY21 and is likely to do ~₹ 210 crore capex in FY22E. Majority includes payables towards mill liners capex, addition of 5.4 MW wind turbine and general capex. AIA has paused the capex of ₹ 250 crore towards grinding media expansion, as of now. Majority of sales for Q4FY21E came from existing customers as addition of new customers is still facing challenges amid global travel restrictions hindering meetings & finalisations amid pandemic. We build in volume of 273080 MT, 309400 MT for FY22E, FY23E, respectively.

Valuation & Outlook

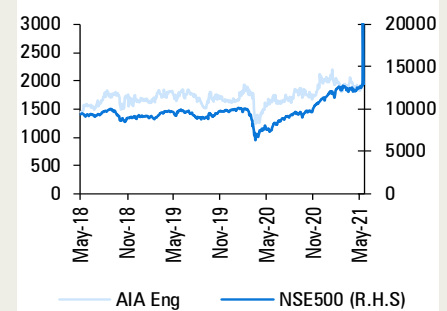
Despite challenging conditions, AIA reported reasonable volumes in Q4FY21. However, new customer engagement and acquisition are expected to pick up as the travel situation is expected to normalise in H2FY22E and will allow AIA to gain incremental volume growth in coming years despite likely short term challenges due CBA investigation on anti-dumping. 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 6.5%, 6.2%, respectively, in FY20-23E. We revise our target price to ₹ 2200/ share (earlier ₹ 2350), 31x FY23E EPS and maintain our **BUY** rating.



Particulars

Particular	Amount
Market Capitalization	₹ 17920.9 Crore
Total Debt (FY21)	₹ 184.5 Crore
Cash and Inv. (FY20)	₹ 1936.6 Crore
EV	₹ 16168.8 Crore
52 week H/L	₹ 2224/ 1568
Equity capital	₹ 18.9 Crore
Face value	₹ 2

Price Performance



Key risk to our call

- Unfavourable decision on CBSA investigation in Canada could have adverse impact on sales volumes in that geography.
- Sustained steep ferrochrome prices could have short-term impact on profitability

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Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	3,069.5	2,980.9	2,881.5	3,113.3	3,601.3	6.5%
EBITDA	660.4	680.3	655.3	685.3	813.8	6.2%
EBITDA Margin (%)	21.5	22.8	22.7	22.0	22.6	
Net Profit	513.2	590.3	565.6	561.8	669.4	4.3%
EPS (₹)	54.4	62.6	60.0	59.6	71.0	
P/E (x)	35.7	31.0	32.3	32.6	27.3	
RoNW (%)	14.6	15.9	13.3	12.3	13.3	
RoCE (%)	18.8	18.7	16.5	15.4	16.6	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (Chg %)	Q3FY21	QoQ (Chg %)	Comments
Sales	860.2	859.6	856.9	0.4	698.7	23.1	Revenue growth impacted by volume decline of 3.3%, YoY
Other Income	23.2	42.5	29.2	-20.4	49.4	-53.0	
Raw Materials Expenses	403.8	319.8	375.5	7.5	238.4	69.4	
Employee Cost	32.5	41.3	34.4	-5.3	34.4	-5.5	
Other Expenditure	254.6	307.7	262.3	-2.9	253.6	0.4	
EBITDA	169.2	190.8	184.7	-8.4	172.3	-1.7	
EBITDA Margin (%)	19.7	22.2	21.6	-188 bps	24.7	-498 bps	EBITDA margins impacted by commodity prices
Depreciation	22.0	27.5	26.9	-17.9	23.0	-4.3	
Interest	0.7	1.2	1.4	-49.7	1.0	-27.9	
PBT	169.8	204.6	185.7	-8.6	197.7	-14.1	
Taxes	36.6	46.0	43.3	-15.5	41.6	-12.0	
PAT	133.1	158.6	142.4	-6.5	156.1	-14.7	
	22%	23%	23%		21%		

Key Metrics

Volume (in tonnes)	79,377	79,235	82,128	-3.3	65,173	21.8	Sales volumes in line with our estimates
Net Realisation (₹/tonne)	105,200	105,200	101,098	4.1	105,433	-0.2	Realisations up 4.1% YoY owing to foreign exchange movement and price adjustments

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	3,281.4	3,113.3	-5.1	3,782.8	3,601.3	-4.8	Factoring in volume impact in H2FY22E
EBITDA	723.2	685.3	-5.2	860.3	813.8	-5.4	
EBITDA Margin (%)	22.0	22.0	-3 bps	22.7	22.6	-10 bps	
PAT	586.0	561.8	-4.1	691.9	669.4	-3.2	
EPS (₹)	62.1	59.6	-4.1	73.4	71.0	-3.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comment
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Overall Volumes (tonnes)	267,229	266,160	273,080	309,400	288,522	-	Revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	177,274	192,397	194,154	224,949	209,595	-	
Capacity	390,000	390,000	440,000	440,000	440,000	-	
Net Realisations	108,195	105,905	108,880	111,710	108,880	-	Realisations likely to remain stable

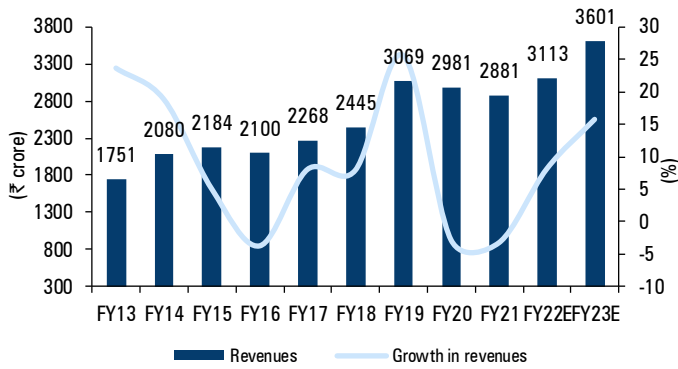
Source: Company, ICICI Direct Research

Key results highlights

- The net realisation per tonne declined 4.1% to ₹ 105.2 per kg YoY, which is a function of product mix and cross currency rates
- Sales volume came in reasonable at 79377 MT in Q4FY21, down 3.3% YoY. Mining segment volumes declined 9.9% to 49642 MT while cement & others segment volumes came in at 29735 MT, up 10% YoY
- In Q4FY21, gross margin declined 310 bps to 53% YoY impacted by product mix and commodity prices. Margins are expected to be sustainable at around current levels in the medium term. However, there could be short term impact of recent steep rise in ferro chrome prices, which are unsustainable in the long term and expected to revert to mean in a few months
- **FY22 outlook:** Cautious stance on volume guidance. However, it expects mining, cement industry to see further pick-up in activity as the global economy further revives and travel normalises, which will drive AIA's product requirements while returning to normal by H2FY22E
- Canada Borders Service Agency (CBA) has initiated investigation in December 2020 with respect to alleged dumping and subsidising of certain media grinding from India being the subject matter. AIA has 25000 MT annual sale exposure to Canada. The company is fully cooperating on the same and expects final adjudication by August 2021. Interim duties of 32.2% got applied for imports of grinding media from India. If it is a sizable cost increase it will be passed on to customers. There could be an impact on sales volumes to the tune of ~12000 MT in H1FY22 till matter gets resolved
- The order book of the company was at ₹ 632 crore as on Q4FY21
- **Expansion plan** – Mill lining capacity addition of 50000 MT is likely to be completed by December 2021. While the company has paused grinding media capacity addition (~50000 tonnes) capex as of now
- **Capex** - AIA has done capex of ₹ 118 crore in FY21 and is likely to do ~₹ 210 crore capex in FY22E. Majority includes payables towards mill liners capex, addition of 5.4 MW wind turbine and general capex
- Net cash & cash equivalent as on FY21 was at ~ ₹ 2000 crore
- **Working capital:** - For Q4FY21, inventory number of days was at 75 days as AIA inventory build-up was utilised during the period while debtors' days decreased by three days to 83 days. Overall working capital situation is quite stable and likely to hover around 110-120 days in the medium term

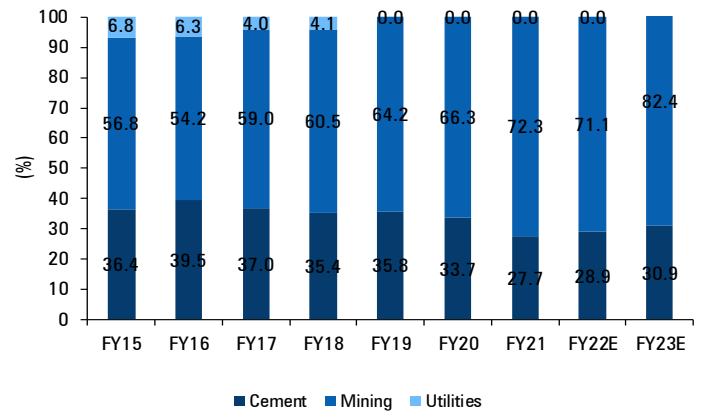
Financial Story in charts

Exhibit 4: Trend in revenues...



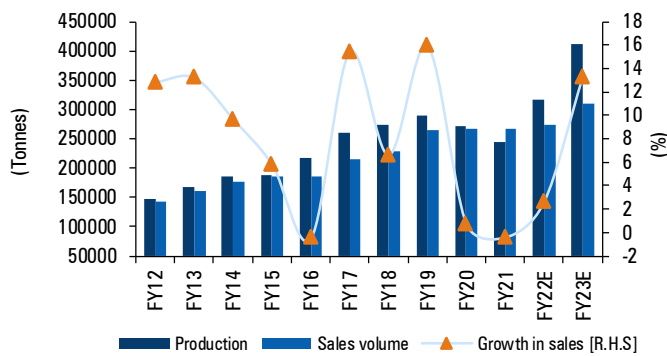
Source: ICICI Direct Research, Company

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



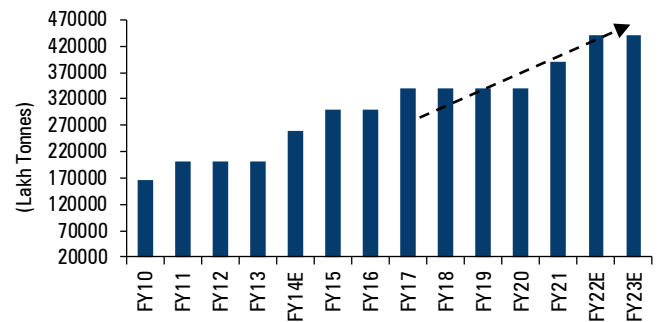
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



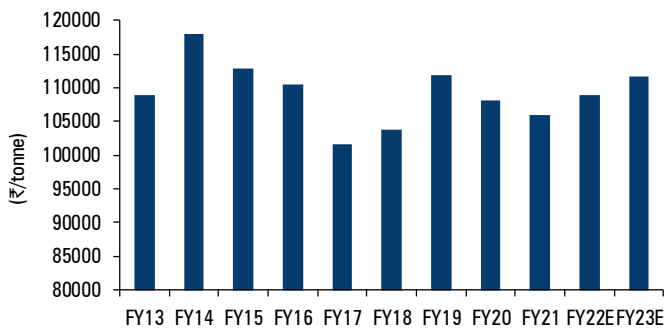
Source: Company, ICICI Direct Research

Exhibit 7: Trend in capacity...



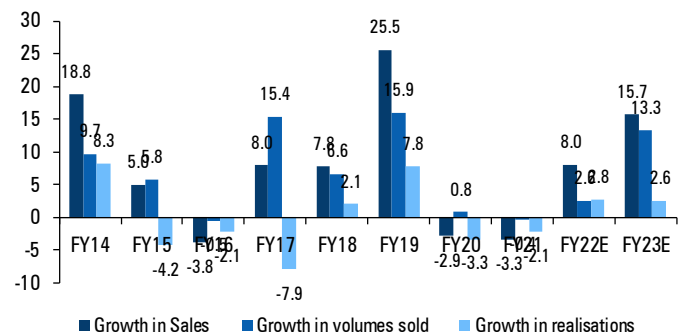
Source: Company, ICICI Direct Research

Exhibit 8: Trend in realisation...



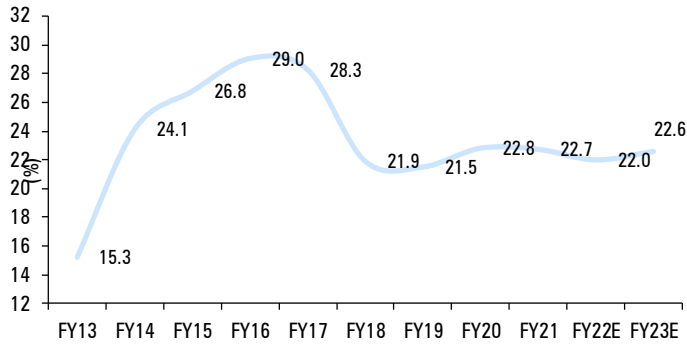
Source: Company, ICICI Direct Research

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



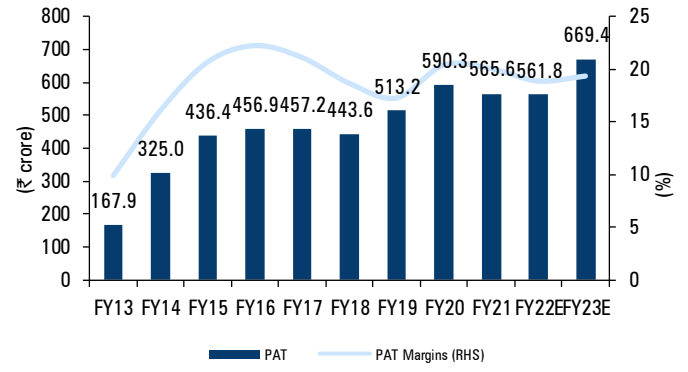
Source: Company, ICICI Direct Research

Exhibit 10: Trend in EBITDA margin...



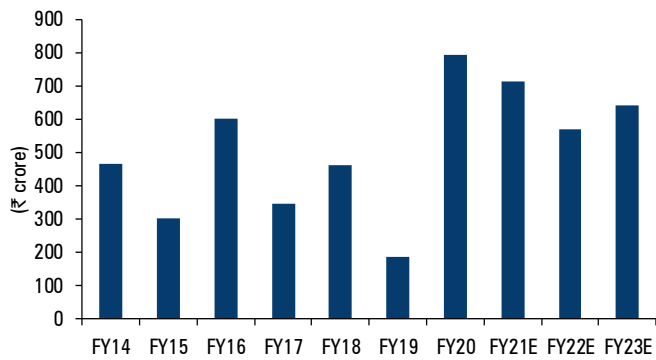
Source: Company, ICICI Direct Research

Exhibit 11: Volume and margin recovery key to PAT



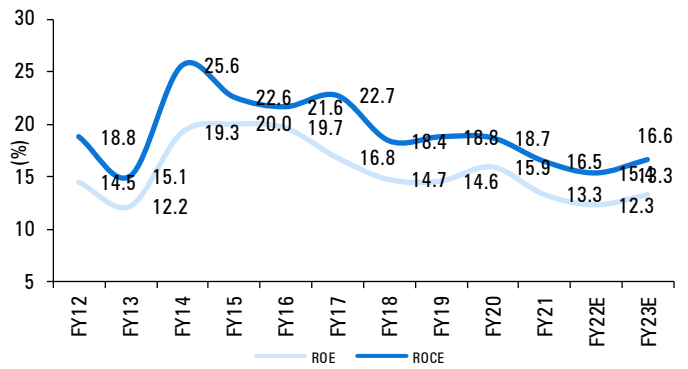
Source: Company, ICICI Direct Research

Exhibit 12: Trend in cash flows...



Source: Company, ICICI Direct Research

Exhibit 13: RoE, RoCE trend...



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	2,980.9	2,881.5	3,113.3	3,601.3
Growth (%)	-2.9	-3.3	8.0	15.7
Raw Material Expenses	1,173.5	1,121.0	1,202.0	1,384.3
Employee Expenses	134.4	133.5	138.4	148.0
Other expenses	992.7	971.7	1,087.6	1,255.2
Total Operating Expenditure	2,300.6	2,226.2	2,428.0	2,787.5
EBITDA	680.3	655.3	685.3	813.8
Growth (%)	3.0	-3.7	4.6	18.8
Depreciation	97.9	91.3	109.5	123.4
Interest	5.6	6.8	5.6	4.5
Other Income	141.9	172.2	156.1	176.6
PBT	718.7	729.3	726.2	862.4
Others	0.0	0.0	0.0	0.0
Total Tax	128.4	163.7	164.4	193.0
PAT	590.3	565.6	561.8	669.4
Growth (%)	15.0	-4.2	-0.7	19.2
EPS (₹)	62.6	60.0	59.6	71.0

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	590.3	565.6	561.8	669.4
Add: Depreciation	97.9	91.3	109.5	123.4
(Inc)/dec in Current Assets	125.1	62.4	-164.4	-199.7
Inc/(dec) in CL and Provisions	-20.0	-5.7	63.5	47.1
Others	3.3	3.0	5.0	5.0
CF from operating activities:	793.3	713.7	570.4	640.3
(Inc)/dec in Investments	0.0	-256.3	0.0	0.0
(Inc)/dec in Fixed Assets	-115.4	-141.5	-234.1	-230.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-419.4	-475.3	-348.0	-403.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-30.9	87.6	-25.0	-30.0
Dividend paid & dividend tax	-399.1	-99.7	-121.9	-199.5
Inc/(dec) in Sec. premium	0.2	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-433.6	65.2	-274.1	-224.5
Net Cash flow	-59.8	303.6	-51.7	11.9
Opening Cash	208.2	148.5	452.0	400.3
Closing Cash	148.5	452.0	400.3	412.2

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	3,682.3	4,225.5	4,538.2	5,013.2
Total Shareholders funds	3,701.1	4,244.3	4,557.1	5,032.0
Total Debt	96.9	184.5	159.5	129.5
Deferred Tax Liability	67.4	42.0	47.0	52.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,896.3	4,484.4	4,778.1	5,229.1
Assets				
Gross Block	1,263.1	1,276.0	1,551.0	1,781.0
Less: Acc Depreciation	396.9	487.4	596.2	718.8
Net Block	866.2	788.5	954.8	1,062.2
Capital WIP	32.4	160.9	120.0	120.0
Total Fixed Assets	898.5	949.4	1,074.8	1,182.2
Investments	1,424.0	1,484.6	1,574.6	1,724.6
Inventory	778.1	754.8	833.7	870.8
Debtors	648.2	638.5	692.4	795.4
Loans and Advances	4.3	3.2	4.7	4.5
Other Current Assets	141.1	112.8	142.9	202.7
Cash	148.5	452.0	400.3	412.2
Total Current Assets	1,720.2	1,961.3	2,074.0	2,285.6
Creditors	132.2	165.8	166.2	189.4
Provisions	24.2	15.2	28.3	40.7
Total Current Liabilities	265.7	260.0	323.5	370.6
Net Current Assets	1,454.5	1,701.3	1,750.5	1,915.0
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	3,896.3	4,484.4	4,778.1	5,229.1

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
(Year-end March)	FY21E	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	62.6	60.0	59.6	71.0
Cash EPS	73.0	69.7	71.2	84.1
BV	392.4	450.0	483.1	533.5
DPS	36.0	9.0	11.0	18.0
Cash Per Share	15.7	47.9	42.4	43.7
Operating Ratios (%)				
EBITDA Margin	22.8	22.7	22.0	22.6
PBT / Total Operating income	24.9	25.9	24.4	25.0
PAT Margin	20.4	20.1	18.9	19.4
Inventory days	98.2	97.7	102.3	92.0
Debtor days	81.8	82.7	85.0	84.0
Creditor days	16.7	21.5	20.4	20.0
Return Ratios (%)				
RoE	15.9	13.3	12.3	13.3
RoCE	18.7	16.5	15.4	16.6
RoIC	26.8	24.6	22.5	24.5
Valuation Ratios (x)				
P/E	31.0	32.3	32.6	27.3
EV / EBITDA	24.7	25.3	24.1	20.0
EV / Net Sales	5.8	5.9	5.5	4.7
Market Cap / Sales	6.3	6.5	6.2	5.3
Price to Book Value	4.9	4.3	4.0	3.6
Solvency Ratios				
Debt/EBITDA	0.1	0.3	0.2	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.9	5.8	5.2	5.1
Quick Ratio	3.0	2.9	2.6	2.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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