

Reasonable performance amid challenges...

About the stock: AIA Engineering (AIA) is India's largest manufacturer and supplier of high chrome wear, corrosion and abrasion resistance castings used in cement, mining and thermal power plants (or mills).

- Products includes tube mill internals (grinding media, shell liners, diaphragm), HRCS castings & crusher parts for cement, mining and power
- Second largest hi-chrome producer in the world

Q2FY22 Results: AIA reported reasonable Q2FY22 results amid disruptions.

- Revenue at ₹ 885.2 crore, up 19.2% on YoY amid steady volumes
- EBITDA at ₹ 161.9 crore, down 14.9% YoY. EBITDA margins declined 730 bps to 18.3% YoY, impacted by higher commodity prices
- Consequently, PAT came in at ₹ 138 crore, down 6.2% YoY
- Sales volumes came in at 69064 MT in Q2FY22, up 0.7% YoY

What should investors do? Overall, AIA's strong balance sheet, decent cash flows, efficient working capital management are expected to support long term growth.

- We remain long term positive and retain our BUY rating on the stock.

Target Price and Valuation: We value AIA at ₹ 2230 i.e. 31x P/E on FY23E EPS

Key triggers for future price performance:

- New mining customer acquisitions are expected to pick up as travel situation has started to normalise in H2FY22E and will allow AIA to gain incremental volume growth in coming years despite likely base volume impact due to anti-dumping in Canada, South Africa
- We expect revenue, EBITDA to grow at CAGR of ~13.8%, 12.4%, respectively, in FY21-23E aided by sustained margins in range of 21-23%
- Strong balance sheet, double digit returns ratios

Alternate Stock Idea: We also like Elgi Equipment in our coverage.

- Amongst the leaders in domestic compressor market with strong b/s and return ratios, gaining traction in international markets to drive growth
- BUY with target price of ₹ 260



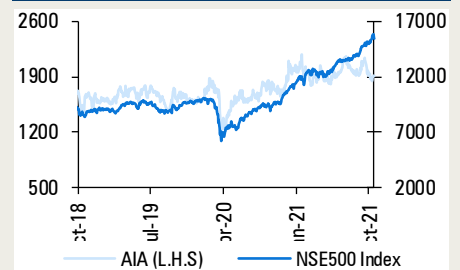
Particulars

Particular	Amount
Market Capitalization	₹ 18156.7 Crore
Total Debt (FY21)	₹ 184.5 Crore
Cash and Inv. (FY20)	₹ 1946.9 Crore
EV	₹ 16394.3 Crore
52 week H/L	₹ 2234/ 1621
Equity capital	₹ 18.9 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	58.5	58.5	58.5	58.5
FII	20.1	18.8	19.0	19.1
DII	18.6	19.9	19.8	19.8
Others	2.8	2.9	2.7	2.7

Price Performance



Recent Events & Key risks

- **Key Risks:** (i) Unfavourable decisions on anti-dumping duty in more International geographies. (ii) Sustained steep ferrochrome prices could have short-term impact

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Key Financial Summary

Particulars (₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 Year CAGR (FY21-FY23E)
Net Sales	3,069.5	2,980.9	2,881.5	6.5%	3,365.4	3,731.2	13.8%
EBITDA	660.4	680.3	655.3	1.5%	704.9	828.2	12.4%
EBITDA Margin (%)	21.5	22.8	22.7		20.9	22.2	
Net Profit	513.2	590.3	563.5	4.3%	579.9	679.2	9.8%
EPS (₹)	54.4	62.6	59.7		61.5	72.0	
P/E (x)	35.4	30.8	32.2		31.3	26.7	
RoNW (%)	14.6	15.9	13.3		12.6	13.3	
RoCE (%)	18.8	18.7	16.4		15.4	16.5	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Reasonable performance despite challenges....

- AIA Engineering reported consolidated revenues at ₹ 885.2 crore (above our estimate of ₹ 827 crore) which grew by 19.2% on YoY basis owing to 3.4% growth in volumes on a YoY basis. While realisation grew 20.1% to ₹ 126.1 per kg YoY aided by forex gains and product mix
- EBITDA came in at ₹ 161.9 crore, down 14.9% YoY (below our estimates of ₹ 185.2 crore). EBITDA margins declined 730 bps YoY to 18.3% (below our estimate of 22.4%) impacted by significant decline in gross margins to 55.5% (Vs. 66.1% in Q2FY21) amid higher commodity prices being passed on with a lag time.
- AIA reported PAT at ₹ 138 crore (below our estimate of ₹ 157.7 crore), down 6.2% YoY, partly aided by higher other income which grew 44.2% YoY to ₹ 37.5 crore

Q2FY22 Earnings Conference Call highlights

- The net realisation per tonne increased 20.1% to ₹ 126.1 per kg YoY, owing to product mix and price increases to pass-through higher input cost
- Sales volume came in reasonable at 69064 MT in Q2FY22, up 0.7% YoY. Mining segment volumes up by 3.4% to 48333 MT while Cement & others segment volumes declined by 5% to 20731 MT on YoY
- In Q2FY22, gross margin declined by 1060 bps on YoY to 55.4% YoY impacted by product mix and pass-through amid higher commodity prices. However, there could be short term impact of recent run-up in Ferro chrome prices which are likely to gradually be passed on with few months' lag
- FY22 outlook: It expects mining, cement industry to see further pick-up in activity as the global economy further revives and travel normalises, driving AIA's product requirements while returning to normal by H2FY22E
- Canada Borders Service Agency (CBSA) 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. CBSA has completed its review and proposed to import 22% duties on certain grades of grinding media from India, subject to final decision by Canadian International Trade Tribunal (CIIT) w.r.t. determination of damage if any, expected soon. There could be an impact on sales volumes to the tune of ~12000 MT in H2FY22 till matter gets resolved. In Addition, South Africa has also applied anti-dumping duty where AIA is having exposure of ~20-25000 MT per annum and likely to see an impact in FY22E. For Q2FY22, Half of volume came in from new customers despite repeat customers being impacted due to anti-dumping duty in Canada and South Africa
- The order book of the company was at ₹ 772 crore as on Q2FY22 (Vs. ₹ 682 crore as on Q1FY22)
- Expansion plan - Mill lining capacity addition of 50000 MT is likely to be completed Q4FY22E. While the company has paused grinding media capacity addition (~50000 tonnes) capex as of now
- Capex - AIA has done capex of ₹ 88 crore in Q2FY22 and is likely to do ~₹ 200 crore capex in FY22E. Majority includes payables towards mill liners capex, addition of 5.4 MW wind turbine and general capex
- Working capital: - Overall working capital situation is quite stable and likely to hover around 110-120 days in the medium term.

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (Chg %)	Q1FY22	QoQ (Chg %)	Comments
Sales	885.2	827.0	742.3	19.2	739.9	19.6	Decent revenue aided by better volumes in mining segment and price pass-through
Other Income	35.7	42.9	24.8	44.2	39.5	-9.6	
Raw Materials Expenses	394.0	321.7	251.1	56.9	282.8	39.3	
Employee Cost	34.2	35.6	33.4	2.6	33.8	1.1	
Other Expenditure	295.0	284.5	267.6	10.2	251.4	17.3	
EBITDA	161.9	185.2	190.3	-14.9	171.9	-5.8	
EBITDA Margin (%)	18.3	22.4	25.6	-734 bps	23.2	-494 bps	EBITDA margins impacted significantly owing to higher commodity cost, freight costs
Depreciation	21.8	25.2	23.3	-6.7	24.2	-10.0	
Interest	0.8	0.8	1.2	-35.3	0.7	9.9	
PBT	175.1	202.2	190.5	-8.1	186.5	-6.1	
Taxes	37.1	44.5	43.3	-14.4	37.4	-0.8	
PAT	138.0	157.7	147.1	-6.2	149.1	-7.5	
	21%	22%	23%		20%		

Key Metrics

Volume (in tonnes)	69,064	66,806	68,575	0.7	60,318	14.5	Sales volumes slightly better than our estimates.
Net Realisation (₹/tonne)	1,26,130	1,19,000	1,04,978	20.1	1,21,079	4.2	Realisations up 20.1% YoY owing to foreign exchange and price pass-through.

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,139.8	3,365.4	7.2	3,576.0	3,731.2	4.3	Factoring in volumes in H2FY22E
EBITDA	691.9	704.9	1.9	804.0	828.2	3.0	
EBITDA Margin (%)	22.0	20.9	-109 bps	22.5	22.2	-29 bps	
PAT	570.0	579.9	1.7	657.4	679.2	3.3	
EPS (₹)	60.4	61.5	1.8	69.7	72.0	3.3	

Source: Company, ICICI Direct Research

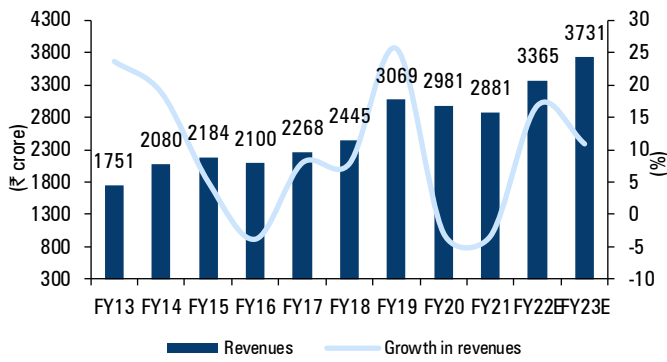
Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Overall Volumes (tonnes)	2,67,229	2,66,160	2,66,160	3,04,221	2,66,160	3,04,221	Revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	1,77,274	1,92,397	1,87,234	2,19,770	1,87,234	2,19,770	
Capacity	3,90,000	3,90,000	4,40,000	4,40,000	4,40,000	4,40,000	
Net Realisations	1,08,195	1,05,905	1,22,621	1,17,880	1,13,471	1,12,780	

Source: Company, ICICI Direct Research

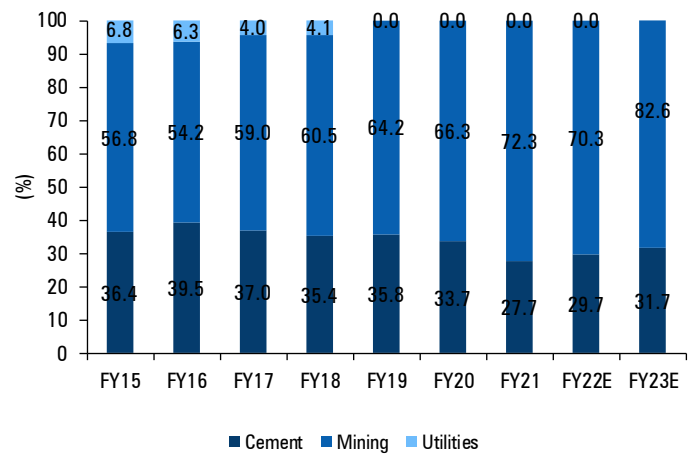
Financial Story in charts

Exhibit 4: Trend in revenues...



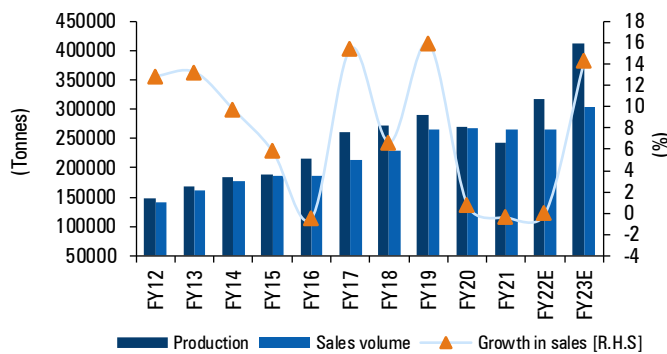
Source: ICICI Direct Research, Company

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



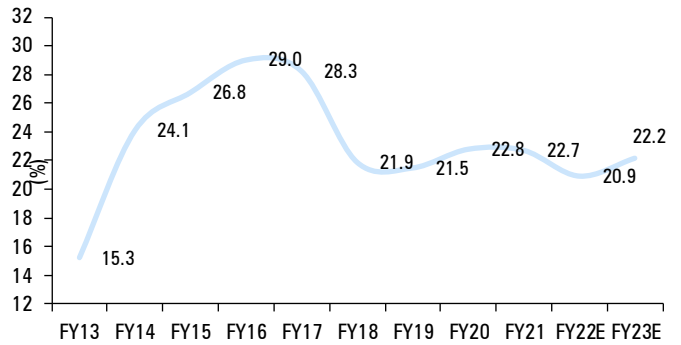
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



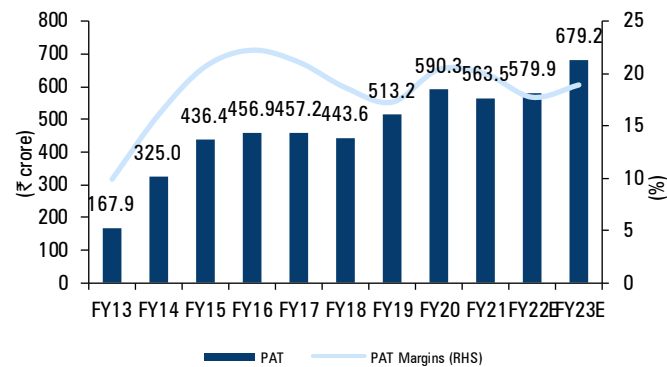
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA Margin...



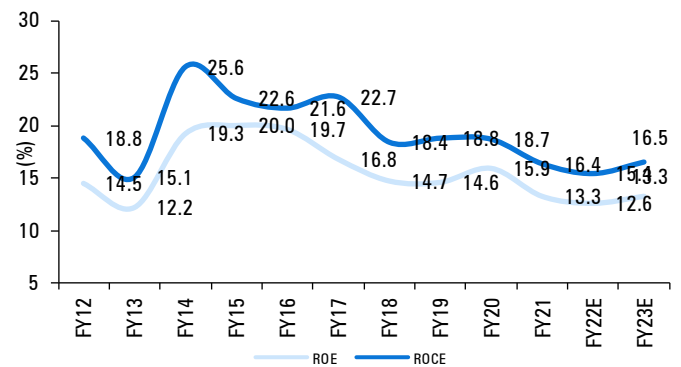
Source: Company, ICICI Direct Research

Exhibit 8: Volume and Margin recovery key to PAT...



Source: Company, ICICI Direct Research

Exhibit 9: RoE, RoCE trend...



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	2,980.9	2,881.5	3,365.4	3,731.2
Growth (%)	-2.9	-3.3	16.8	10.9
Raw Material Expenses	1,173.5	1,121.0	1,355.4	1,446.3
Employee Expenses	134.4	133.5	146.7	154.9
Other expenses	992.7	971.7	1,158.4	1,301.8
Total Operating Expenditure	2,300.6	2,226.2	2,660.4	2,903.0
EBITDA	680.3	655.3	704.9	828.2
Growth (%)	3.0	-3.7	7.6	17.5
Depreciation	97.9	93.5	106.3	118.6
Interest	5.6	6.8	6.5	6.5
Other Income	141.9	172.2	149.2	177.1
PBT	718.7	727.2	741.4	880.2
Others	0.0	0.0	0.0	0.0
Total Tax	128.4	163.7	161.5	201.0
PAT	590.3	563.5	579.9	679.2
Growth (%)	15.0	-4.5	2.9	17.1
EPS (₹)	62.6	59.7	61.5	72.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	590.3	563.5	579.9	679.2
Add: Depreciation	97.9	93.5	106.3	118.6
(Inc)/dec in Current Assets	125.1	59.3	-271.1	-80.8
Inc/(dec) in CL and Provisions	-20.0	-5.6	69.7	35.1
Others	3.3	3.0	5.0	5.0
CF from operating activities	793.3	710.7	484.8	752.1
(Inc)/dec in Investments	0.0	-256.4	0.0	0.0
(Inc)/dec in Fixed Assets	-115.4	-143.9	-169.1	-280.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-419.4	-464.2	-288.3	-394.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-30.9	87.5	0.0	0.0
Dividend paid & dividend tax	-399.1	-84.9	-103.8	-169.8
Inc/(dec) in Sec. premium	0.2	-0.1	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing activities	-433.6	67.2	-224.7	-164.8
Net Cash flow	-59.8	313.8	-28.1	192.6
Opening Cash	208.2	148.5	462.2	434.1
Closing Cash	148.5	462.2	434.1	626.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	3,682.3	4,225.4	4,580.7	5,095.1
Total Shareholders funds	3,701.1	4,244.3	4,599.5	5,114.0
Total Debt	96.9	184.5	184.5	184.5
Deferred Tax Liability	67.4	47.0	52.0	57.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	3,896.3	4,498.1	4,861.8	5,386.2
Assets				
Gross Block	1,263.1	1,252.8	1,462.8	1,742.8
Less: Acc Depreciation	396.9	464.3	569.7	687.4
Net Block	866.2	788.5	893.1	1,055.4
Capital WIP	32.4	160.9	120.0	120.0
Total Fixed Assets	898.5	949.5	1,013.1	1,175.4
Investments	1,424.0	1,484.6	1,574.6	1,694.6
Inventory	778.1	754.8	872.6	895.9
Debtors	648.2	638.5	751.1	795.8
Loans and Advances	4.3	3.2	5.5	4.0
Other Current Assets	141.1	116.0	154.3	168.5
Cash	148.5	462.2	434.1	626.7
Total Current Assets	1,720.2	1,974.6	2,217.6	2,490.9
Creditors	132.2	165.8	183.3	191.6
Provisions	24.2	15.2	29.9	35.4
Total Current Liabilities	265.7	260.1	329.9	365.0
Net Current Assets	1,454.5	1,714.5	1,887.8	2,126.0
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	3,896.3	4,498.1	4,861.8	5,386.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	62.6	59.7	61.5	72.0
Cash EPS	73.0	69.7	72.8	84.6
BV	392.4	450.0	487.7	542.2
DPS	36.0	9.0	11.0	18.0
Cash Per Share	15.7	49.0	46.0	66.4
Operating Ratios (%)				
EBITDA Margin	22.8	22.7	20.9	22.2
PBT / Total Operating income	24.9	25.8	22.7	24.5
PAT Margin	20.4	20.0	17.8	18.9
Inventory days	98.2	97.7	97.6	91.2
Debtor days	81.8	82.7	84.0	81.0
Creditor days	16.7	21.5	20.5	19.5
Return Ratios (%)				
RoE	15.9	13.3	12.6	13.3
RoCE	18.7	16.4	15.4	16.5
RoIC	26.8	24.4	23.0	25.2
Valuation Ratios (x)				
P/E	30.8	32.2	31.3	26.7
EV / EBITDA	24.5	25.0	23.2	19.3
EV / Net Sales	5.8	5.8	5.0	4.5
Market Cap / Sales	6.3	6.4	5.6	5.1
Price to Book Value	4.9	4.3	3.9	3.6
Solvency Ratios				
Debt/EBITDA	0.1	0.3	0.3	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.9	5.8	5.4	5.1
Quick Ratio	3.0	2.9	2.8	2.7

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1810	2,150	Buy	253979	81.9	51.9	52.9	22.1	34.8	34.2	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2245	2,550	Buy	79949	28.3	37.9	45.1	79.4	59.2	49.8	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1925	2,230	Buy	18157	59.7	60.4	69.7	32.2	31.9	27.6	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1400	1,680	Buy	16682	17.3	26.8	40.0	80.8	52.2	35.0	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	400	455	Hold	6189	41.3	25.8	37.8	9.7	15.5	10.6	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	455	550	Buy	11698	21.5	19.9	32.3	21.2	22.8	14.1	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	134	150	Hold	3098	0.4	2.4	5.4	299.0	54.8	24.9	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	199	260	Buy	6306	3.2	3.9	6.2	61.5	50.8	32.3	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	199	250	Buy	48488	8.5	9.6	11.3	23.5	20.7	17.6	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	350	500	Buy	4760	46.4	44.0	55.6	7.5	8.0	6.3	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3320	3,960	Buy	17596	67.6	78.1	98.9	49.1	42.5	33.6	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1780	1,740	Hold	11392	19.0	28.2	36.3	93.5	63.1	49.0	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	130	175	Buy	1261	5.6	8.0	9.8	23.2	16.3	13.3	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	252	300	Buy	2848	7.1	9.4	13.7	35.5	26.8	18.4	26.9	25.8	30.7	15.3	17.1	20.3

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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