

14 August 2021

## AIA Engineering

*Higher realisations lead to earnings revision; upgrading to a Buy*

**Higher realisations led to AIAE posting a better Q1 due to the pass-through of higher RM and freight costs. On the other hand, sales volumes (60,318 tons) were below our estimate, largely from lower mining volumes because of no exports to Canada. Also, travel restrictions continue to take a toll on marketing, leading to delayed customer additions and order bookings. From a long-term perspective, we expect AIAE to benefit from the lower penetration of high-chrome grinding media, its large global market-share and net-cash balance-sheet. With lower-than-expected sales volume, we trim our volume estimate but raise our realization estimate based on higher costs being passed on. With this, and the recent fall in stock price, we upgrade our rating to a Buy with a higher TP Rs2,283.**

**Volumes, lower than we estimated:** At 60,318 tons, Q1 sales volumes were 3.5% below our estimate on account of 10% y/y lower mining sales volumes of 36,967 tons. Non-mining volumes were better at 23,351 tons (ARe: 20,607 tons). Volumes were curtailed due to the Canadian issue and travel restrictions. With this, we have lowered our FY22e/FY23e sales volume by 2.7%/1.6%.

**Higher sales realisations due to increased costs:** Realisation per kg rose from Rs107 to Rs121. This was due to the passing on the higher costs to customers because of the spurt in raw material prices and higher freight costs. In line with this, we have raised our realisation estimates, leading to 8% and 9% greater revenue in FY22 and FY23, respectively.

**Valuations:** With the revised estimates, we expect 16% and 19% revenue and PAT CAGRs respectively over FY21-23. The stock trades at 27x/23x FY22e/FY23e P/E. Though short-term uncertainties persist, AIAE is likely to benefit in the medium to longer term from higher mining in various regions, deeper penetration globally and a renewed capex cycle. We upgrade our rating to a Buy with a higher target price of Rs2,238 (27x FY23e), earlier Rs2,094.

**Risks:** Adverse currency movements, sharp rise in raw-material prices.

| Key financials (YE Mar) | FY19   | FY20   | FY21   | FY22e  | FY23e  |
|-------------------------|--------|--------|--------|--------|--------|
| Sales (Rs m)            | 30,695 | 29,809 | 28,815 | 32,886 | 38,618 |
| Net profit (Rs m)       | 5,108  | 5,904  | 5,661  | 6,712  | 7,975  |
| EPS (Rs)                | 54.2   | 62.6   | 60.0   | 71.2   | 84.6   |
| P/E (x)                 | 35.6   | 28.7   | 32.2   | 27.1   | 22.8   |
| EV / EBITDA (x)         | 25.7   | 22.8   | 23.2   | 19.4   | 16.0   |
| P/BV (x)                | 5.2    | 4.6    | 4.3    | 3.8    | 3.3    |
| RoE (%)                 | 15.7   | 16.4   | 14.2   | 14.8   | 15.5   |
| RoCE (%)                | 20.1   | 18.9   | 17.5   | 18.1   | 19.0   |
| Dividend yield (%)      | 0.5    | 1.5    | 0.5    | 0.6    | 0.7    |
| Net debt / equity (x)   | -0.3   | -0.4   | -0.4   | -0.4   | -0.4   |

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price: Rs.2,283

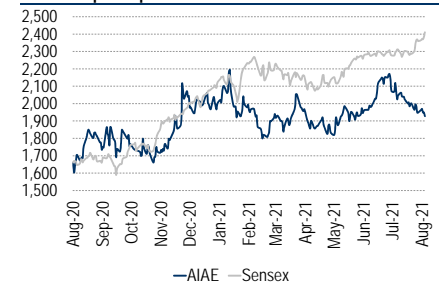
Share Price: Rs.1,930

| Key data           | AIAE IN / AIAE.BO    |
|--------------------|----------------------|
| 52-week high / low | Rs.2234 / 1620       |
| Sensex / Nifty     | 55437 / 16529        |
| 3-m average volume | \$1.1m               |
| Market cap         | Rs.182bn / \$2449.4m |
| Shares outstanding | 94m                  |

| Shareholding pattern (%) | Jun-21 | Mar-21 | Dec-20 |
|--------------------------|--------|--------|--------|
| Promoters                | 58.5   | 58.5   | 58.5   |
| - of which, Pledged      | -      | -      | -      |
| Free float               | 41.5   | 41.5   | 41.5   |
| - Foreign institutions   | 19.0   | 18.8   | 20.1   |
| - Domestic institutions  | 19.8   | 19.9   | 18.6   |
| - Public                 | 2.7    | 2.9    | 2.8    |

| Estimates revision (%) | FY22e | FY23e |
|------------------------|-------|-------|
| Revenue                | 7.9   | 9.1   |
| EBITDA                 | 11.5  | 10.8  |
| EPS                    | 9.3   | 9.0   |

### Relative price performance



Source: Bloomberg

Ashwani Sharma  
Research Analyst

Rahul Jain  
Research Associate

## Quick Glance – Consolidated Financials and Valuations

**Fig 1 – Income statement (Rs m)**

| Year-end: Mar                 | FY19         | FY20         | FY21         | FY22e        | FY23e        |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Volumes (tonnes)              | 265,174      | 267,229      | 266,302      | 268,302      | 306,302      |
| Net revenues                  | 30,695       | 29,809       | 28,815       | 32,886       | 38,618       |
| <i>Growth (%)</i>             | 24.4         | -2.9         | -3.3         | 14.1         | 17.4         |
| Material cost                 | 12,253       | 12,210       | 11,426       | 12,727       | 15,254       |
| Employee, other expenses      | 11,844       | 10,796       | 10,836       | 12,498       | 14,321       |
| <b>EBITDA</b>                 | <b>6,599</b> | <b>6,803</b> | <b>6,552</b> | <b>7,661</b> | <b>9,043</b> |
| <i>EBITDA margins (%)</i>     | 21.5         | 22.8         | 22.7         | 23.3         | 23.4         |
| - Depreciation                | 788          | 979          | 935          | 1,112        | 1,236        |
| Other income                  | 1,209        | 1,419        | 1,722        | 2,100        | 2,464        |
| Interest expenses             | 75           | 56           | 43           | 44           | 46           |
| PBT                           | 6,944        | 7,187        | 7,296        | 8,605        | 10,225       |
| <i>Effective tax rate (%)</i> | 26.3         | 17.9         | 22.5         | 22.0         | 22.0         |
| + Associates / (Minorities)   | -6           | 0            | 4            | -            | -            |
| Net income                    | 5,108        | 5,904        | 5,661        | 6,712        | 7,975        |
| Adjusted income               | 5,108        | 5,904        | 5,661        | 6,712        | 7,975        |
| WANS                          | 94           | 94           | 94           | 94           | 94           |
| FDEPS (Rs / sh)               | 54.2         | 62.6         | 60.0         | 71.2         | 84.6         |
| <i>EPS growth (%)</i>         | 9.8          | 15.6         | -4.1         | 18.6         | 18.8         |

**Fig 3 – Cash-flow statement (Rs m)**

| Year-end: Mar                  | FY19   | FY20   | FY21   | FY22e  | FY23e  |
|--------------------------------|--------|--------|--------|--------|--------|
| PBT                            | 6,944  | 7,187  | 7,296  | 8,605  | 10,225 |
| + Non-cash items               | -345   | -384   | -744   | -943   | -1,182 |
| Oper. prof. before WC          | 6,599  | 6,803  | 6,552  | 7,661  | 9,043  |
| - Incr. / (decr.) in WC        | 4,038  | -1,070 | -497   | 1,636  | 2,729  |
| Others incl. taxes             | 766    | 1,523  | 1,836  | 1,893  | 2,249  |
| Operating cash-flow            | 1,794  | 6,349  | 5,214  | 4,132  | 4,064  |
| - Capex (tang. + intang.)      | -2,153 | -1,152 | -1,439 | -2,110 | -1,410 |
| Free cash-flow                 | -359   | 5,197  | 3,774  | 2,021  | 2,654  |
| Acquisitions                   | -      | -      | -      | -      | -      |
| - Div. (incl. buyback & taxes) | 1,074  | 2,991  | 849    | 1,006  | 1,196  |
| + Equity raised                | -      | -      | -      | -      | -      |
| + Debt raised                  | 48     | -309   | 875    | 50     | 50     |
| - Fin investments              | 527    | 2,739  | -6,099 | 500    | 500    |
| - Misc. (CFI + CFF)            | -1,425 | -228   | -2,506 | -2,046 | -2,408 |
| Net cash-flow                  | -487   | -615   | 12,406 | 2,611  | 3,417  |

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

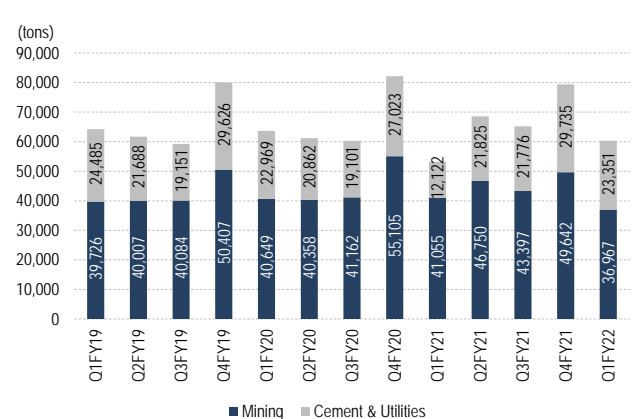
| Year-end: Mar            | FY19          | FY20          | FY21          | FY22e         | FY23e         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital            | 189           | 189           | 189           | 189           | 189           |
| Net worth                | 35,137        | 37,013        | 42,443        | 48,149        | 54,928        |
| Debt                     | 1,279         | 969           | 1,845         | 1,895         | 1,945         |
| Minority interest        | 93            | 93            | 88            | 88            | 88            |
| DTL / (Assets)           | 621           | 382           | 186           | 186           | 186           |
| <b>Capital employed</b>  | <b>37,130</b> | <b>38,457</b> | <b>44,562</b> | <b>50,317</b> | <b>57,147</b> |
| Net tangible assets      | 8,224         | 8,662         | 7,885         | 8,773         | 8,837         |
| Net intangible assets    | 25            | 35            | 30            | 40            | 50            |
| Goodwill                 | 198           | 200           | 199           | 199           | 199           |
| CWIP (tang. & intang.)   | 598           | 323           | 1,609         | 1,709         | 1,809         |
| Investments (strategic)  | 9             | 9             | 2,572         | 2,572         | 2,572         |
| Investments (financial)  | 11,437        | 14,176        | 5,514         | 6,014         | 6,514         |
| Current assets (ex cash) | 17,425        | 16,377        | 15,534        | 17,508        | 20,919        |
| Cash                     | 2,163         | 1,548         | 13,954        | 16,565        | 19,982        |
| Current liabilities      | 2,948         | 2,873         | 2,736         | 3,063         | 3,736         |
| Working capital          | 14,477        | 13,504        | 12,798        | 14,444        | 17,183        |
| <b>Capital deployed</b>  | <b>37,130</b> | <b>38,457</b> | <b>44,562</b> | <b>50,317</b> | <b>57,147</b> |
| Contingent liabilities   | 3,338         | -             | -             | -             | -             |

**Fig 4 – Ratio analysis**

| Year-end: Mar                   | FY19 | FY20  | FY21 | FY22e | FY23e |
|---------------------------------|------|-------|------|-------|-------|
| P/E (x)                         | 35.6 | 28.7  | 32.2 | 27.1  | 22.8  |
| EV / EBITDA (x)                 | 25.7 | 22.8  | 23.2 | 19.4  | 16.0  |
| EV / Sales (x)                  | 5.5  | 5.2   | 5.3  | 4.5   | 3.8   |
| P/B (x)                         | 5.2  | 4.6   | 4.3  | 3.8   | 3.3   |
| RoE (%)                         | 15.7 | 16.4  | 14.2 | 14.8  | 15.5  |
| RoCE (%) - after tax            | 20.1 | 18.9  | 17.5 | 18.1  | 19.0  |
| RoIC (%) - after tax            | 24.5 | 25.5  | 24.9 | 28.0  | 29.8  |
| DPS (Rs /sh)                    | 10.0 | 27.0  | 9.0  | 10.7  | 12.7  |
| Dividend yield (%)              | 0.5  | 1.5   | 0.5  | 0.6   | 0.7   |
| Dividend payout (%) - incl. DDT | 21.0 | 50.7  | 15.0 | 15.0  | 15.0  |
| Net debt / equity (x)           | -0.3 | -0.4  | -0.4 | -0.4  | -0.4  |
| Receivables (days)              | 84   | 79    | 81   | 79    | 83    |
| Inventory (days)                | 93   | 95    | 96   | 95    | 95    |
| Payables (days)                 | 26   | 22    | 27   | 27    | 29    |
| CFO : PAT %                     | 35.1 | 107.6 | 92.1 | 61.6  | 51.0  |

Source: Company, Anand Rathi Research

**Fig 6 – Mining vs. Cement & utilities, volume trends**



Source: Company

## Result Highlights

Fig 7 – Sales volumes, realisations trend

|                           | Q2 FY19       | Q3 FY19       | Q4 FY19       | Q1 FY20       | Q2 FY20       | Q3 FY20       | Q4 FY20       | Q1 FY21       | Q2 FY21       | Q3 FY21       | Q4 FY21       | Q1 FY22       | Y/Y (%)     |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| Sales mix, in tonnes      |               |               |               |               |               |               |               |               |               |               |               |               |             |
| Mining                    | 40,007        | 40,084        | 50,407        | 40,649        | 40,358        | 41,162        | 55,105        | 41,055        | 46,750        | 43,397        | 49,642        | 36,967        | (10.0)      |
| Cement & Utilities        | 21,688        | 19,151        | 29,626        | 22,969        | 20,862        | 19,101        | 27,023        | 12,122        | 21,825        | 21,776        | 29,735        | 23,351        | 92.6        |
| <b>Total</b>              | <b>61,695</b> | <b>59,235</b> | <b>80,033</b> | <b>63,618</b> | <b>61,220</b> | <b>60,263</b> | <b>82,128</b> | <b>53,177</b> | <b>68,575</b> | <b>65,173</b> | <b>79,377</b> | <b>60,318</b> | <b>13.4</b> |
| Realisation (\$ / ton)    |               |               |               |               |               |               |               |               |               |               |               |               |             |
| Realisation (\$ / ton)    | 1,713         | 1,702         | 1,574         | 1,613         | 1,574         | 1,564         | 1,385         | 1,436         | 1,409         | 1,434         | 1,457         | 1,625         | 13.1        |
| Material cost (\$ / ton)  | 607           | 471           | 735           | 606           | 670           | 514           | 669           | 621           | 461           | 440           | 880           | 585           | (5.8)       |
| Average (Rs / \$)         | 70.1          | 72.1          | 70.4          | 69.5          | 70.2          | 71.2          | 73.0          | 73.5          | 74.5          | 73.5          | 73.5          | 74.5          |             |
| EBITDA / ton (Rs)         | 23,958        | 27,894        | 23,900        | 26,504        | 25,168        | 28,684        | 22,495        | 23,221        | 27,747        | 26,431        | 21,320        | 28,499        | 22.7        |
| <i>EBITDA margins (%)</i> | <i>20.0</i>   | <i>22.7</i>   | <i>21.6</i>   | <i>23.0</i>   | <i>22.1</i>   | <i>24.9</i>   | <i>21.6</i>   | <i>21.3</i>   | <i>25.6</i>   | <i>24.7</i>   | <i>19.7</i>   | <i>23.2</i>   |             |

Source: Company

Fig 8 – Quarterly results trend

| YE Mar (Rs m)           | Q2 FY19     | Q3 FY19     | Q4 FY19     | Q1 FY20     | Q2 FY20     | Q3 FY20     | Q4 FY20     | Q1 FY21     | Q2 FY21     | Q3 FY21     | Q4 FY21     | Q1 FY22     | Y/Y (%)       |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Sales                   | 7,406       | 7,264       | 8,872       | 7,333       | 6,966       | 6,941       | 8,569       | 5,803       | 7,423       | 6,987       | 8,602       | 7,399       | 27.5          |
| EBITDA                  | 1,478       | 1,652       | 1,913       | 1,686       | 1,541       | 1,729       | 1,847       | 1,235       | 1,903       | 1,723       | 1,692       | 1,719       | 39.2          |
| <i>EBITDA margins %</i> | <i>20.0</i> | <i>22.7</i> | <i>21.6</i> | <i>23.0</i> | <i>22.1</i> | <i>24.9</i> | <i>21.6</i> | <i>21.3</i> | <i>25.6</i> | <i>24.7</i> | <i>19.7</i> | <i>23.2</i> | <i>196bps</i> |
| Interest                | 17          | 20          | 20          | 14          | 15          | 13          | 14          | 14          | 12          | 10          | 7           | 7           | (47.8)        |
| Depreciation            | 181         | 216         | 227         | 236         | 222         | 252         | 269         | 251         | 233         | 230         | 220         | 242         | (3.8)         |
| Other income            | 482         | 289         | 236         | 386         | 281         | 460         | 292         | 748         | 248         | 494         | 232         | 395         | (47.1)        |
| PBT                     | 1,762       | 1,705       | 1,903       | 1,822       | 1,584       | 1,924       | 1,857       | 1,717       | 1,905       | 1,977       | 1,698       | 1,865       | 8.6           |
| Tax                     | 547         | 413         | 344         | 427         | 64          | 360         | 433         | 424         | 433         | 416         | 366         | 374         | (11.7)        |
| PAT                     | 1,215       | 1,292       | 1,559       | 1,395       | 1,520       | 1,564       | 1,416       | 1,293       | 1,434       | 1,591       | 1,338       | 1,493       | 15.5          |

Source: Company

Fig 9 – Quarterly and annual performances

| (Rs m)                    | Q1 FY22     | Q1 FY21     | Y/Y (%)        | Q4 FY21     | Q/O (%)       | FY21        | FY20        | Y/Y (%)       |
|---------------------------|-------------|-------------|----------------|-------------|---------------|-------------|-------------|---------------|
| Production (tons)         | 64,893      | 49,922      | 30.0           | 62,431      | 3.9           | 262,969     | 271,274     | (3.1)         |
| Sales (tons)              | 60,318      | 53,177      | 13.4           | 79,377      | (24.0)        | 266,302     | 267,229     | (0.3)         |
| Net revenue               | 7,399       | 5,803       | 27.5           | 8,602       | (14.0)        | 28,815      | 29,809      | (3.3)         |
| EBITDA                    | 1,719       | 1,235       | 39.2           | 1,692       | 1.6           | 6,552       | 6,803       | (3.7)         |
| <i>EBITDA margins (%)</i> | <i>23.2</i> | <i>21.3</i> | <i>196bps</i>  | <i>19.7</i> | <i>356bps</i> | <i>22.7</i> | <i>22.8</i> | <i>-9bps</i>  |
| Other income              | 395         | 748         | (47.1)         | 232         | 70.0          | 1,722       | 1,419       | 21.3          |
| Depreciation              | (242)       | (251)       | (3.8)          | (220)       | 9.7           | (935)       | (979)       | (4.5)         |
| Interest                  | (7)         | (14)        | (47.8)         | (7)         | 7.2           | (43)        | (56)        | (23.2)        |
| Profit before Tax         | 1,865       | 1,717       | 8.6            | 1,698       | 9.9           | 7,296       | 7,187       | 1.5           |
| Tax                       | (374)       | (424)       | (11.7)         | (366)       | 2.2           | (1,639)     | (1,284)     | 27.7          |
| Reported PAT              | 1,493       | 1,293       | 15.5           | 1,338       | 11.6          | 5,661       | 5,904       | (4.1)         |
| Adjusted PAT              | 1,493       | 1,293       | 15.5           | 1,338       | 11.6          | 5,661       | 5,904       | (4.1)         |
| <i>Net margins (%)</i>    | <i>20.2</i> | <i>22.3</i> | <i>-211bps</i> | <i>15.6</i> | <i>463bps</i> | <i>19.6</i> | <i>19.8</i> | <i>-16bps</i> |
| EPS (Rs)                  | 15.8        | 13.7        | 15.5           | 14.2        | 11.6          | 60.0        | 62.6        | (4.1)         |

Source: Company

## Concall highlights

- Production was not shut during the second wave. Mining volumes declined 10% y/y, 25.5% q/q, due to reduced sales to a Canadian customer because of import duty. The company is working with various countries to increase business; however travel restrictions have delayed matters. It added a few customers, but not too many. Mining takes place in about 30 countries and the company already has operations in those.
- In India, cement companies are investing in expanding capacities. Also, gold and copper mining companies are investing due to higher prices of the metals.
- In Brazil, the company sold 1,200 tons in Q1 FY22.
- Chile, a very large copper-producing country, is an important and focused market for the company. The response from here has been positive. However, Covid-19 has delayed matters, though the company has started commercial supplies.
- Canada: In the quarter, the CBSA completed its review and proposed imposing 22% import duty on certain grades of grinding media exported from India into Canada, subject to a final decision by The Canadian International Trade Tribunal (CIIT) with respect to determination of injury/damage if any, expected by end-Aug'21. The company has taken appropriate steps to defend its position before the Tribunal.
- Realisation per kg rose from Rs107 to Rs121, largely attributable to the passing on of the higher raw material and freight costs. (Freight costs were passed on in some cases.) It also increased with the change in the product mix toward greater volumes of large castings. The company is making efforts to pass on the rising raw material costs over the next few quarters and 70-75% of the increase has already been passed on to customers. Shipping costs, which had risen due to container shortages, is expected to cool down in coming quarters.
- M2M gains and a weakening rupee led to the sequential increase in Treasury income.
- The company did not provide firm guidance for FY22; however its internal target is to reach last year's volumes, then grow from there.
- It would incur Rs2bn capex in FY22, of which Rs1.1bn will be spent on mill-lining capacity, Rs300m on wind power (2 x 2.7MW) and the balance on general capex. The mill-lining-capacity commissioning will be delayed as machines imported from Europe have yet to be installed and as engineers from Europe have been unable to visit due to travel restrictions. The company hopes to commission the plant by end-FY22.
- RODTEP (replacement of MEIS) rates for export incentives should come out soon. If the eligibility allows, the company will book RODTEP benefits for nine months.
- The order book at end-Jun'21 was Rs6.82bn.
- Cash at end-Jun'21: Rs27.3bn.

## Valuation

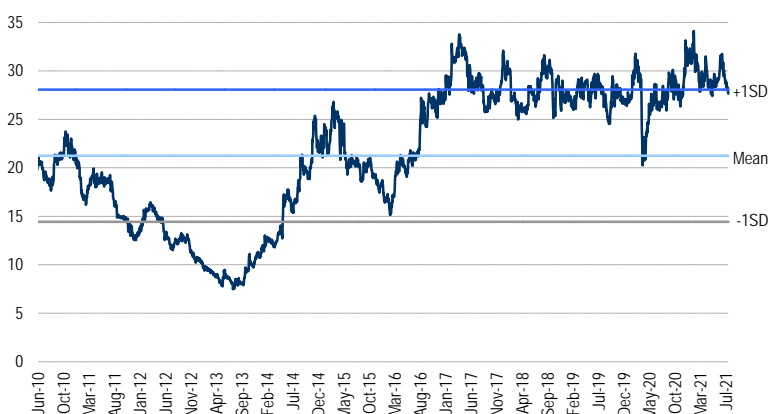
We expect AIAE to benefit from its strong business moat, its huge market share and sound opportunities in deepening penetration of high-chrome grinding media. In the longer term, with more customers, greater profitability would kick in. With the higher Q1 realisations, largely sustainable because of the passing on of higher costs, we have raised our sales realisations estimates, leading to FY22e/FY23e revenue increasing 8%/9% and earnings 9.3%/9%. In all, we expect revenue/PAT CAGRs of 16%/19% over FY21-23. The stock trades at 27x/23x FY22e/FY23e earnings. We upgrade our rating to a Buy with a higher target price of Rs2,283 (27x FY23e), earlier Rs2,094.

Fig 10 – Change in estimates

| (Rs m)   | Old estimates |        | Revised estimates |        | Change % |      |
|----------|---------------|--------|-------------------|--------|----------|------|
|          | FY22          | FY23   | FY22              | FY23   | FY22     | FY23 |
| Revenue  | 30,476        | 35,388 | 32,886            | 38,618 | 7.9      | 9.1  |
| EBITDA   | 6,874         | 8,161  | 7,661             | 9,043  | 11.5     | 10.8 |
| EPS (Rs) | 65.1          | 77.6   | 71.2              | 84.6   | 9.3      | 9.0  |

Source: Anand Rathi Research

Fig 11– One-year-forward PER



Source: Company, Anand Rathi Research

### Key risks

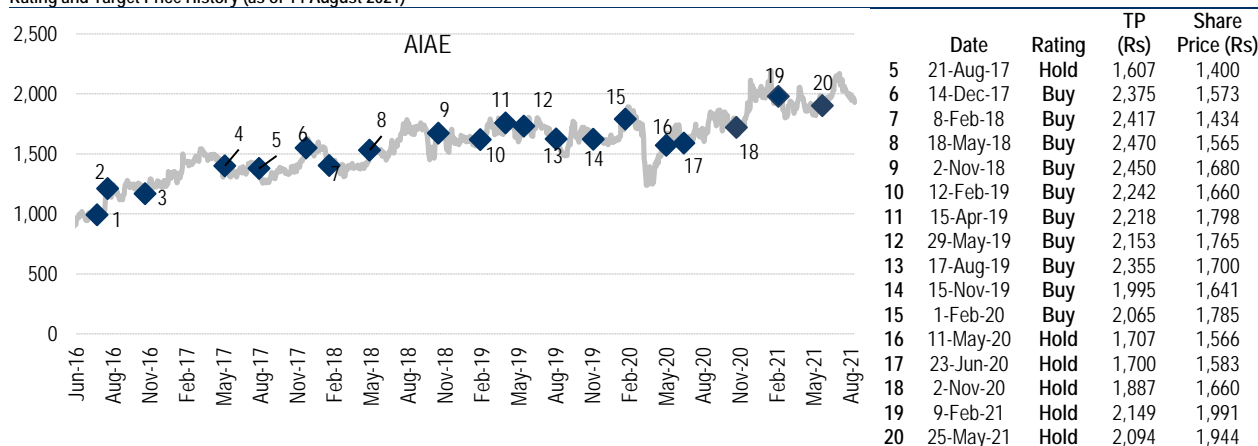
- **Adverse currency movements; higher raw-material prices:** 25% (by sales value) of the raw material required by the company is imported. 75% of its sales are exports. Hence, a net 50% of sales is exposed to currency volatility. To mitigate this currency risk, the company hedges short-term (quarterly) sales.
- **On higher returns, keener competition:** Higher return ratios in mining-grinding media would lead to keener competition and, hence, might cut into profitability.

## Appendix

### Analyst Certification

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|---------------------------|------|-------|------|
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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.  
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.