

## Volumes disappoint, recovery to be gradual...

**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 include tube mill internals (grinding media, shell liners, diaphragm), HRCS castings & crusher parts for cement, mining and power
- The company is the second largest hi-chrome producer in the world

### Q3FY22 Results: AIA reported a poor set of Q3FY22 numbers.

- Revenue at ₹ 848.1 crore, up 21.4% YoY but below our estimates
- EBITDA at ₹ 161.2 crore, down 6.4% YoY. EBITDA margins declined 565 bps to 19% YoY impacted by higher commodity prices and sea freight
- Consequently, PAT came in at ₹ 138.5 crore, down 11.3% YoY
- Sales volumes were at 58111 tonnes in Q3FY22, declining 10.8% 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.

- However, growth can be a challenge in the next two to three quarters. Hence, we are changing our rating on the stock from BUY to HOLD

**Target Price and Valuation:** We value AIA at ₹ 1895 i.e. 28x P/E on FY24E EPS

### Key triggers for future price performance:

- New mining customer acquisition are expected to pick up as the travel situation has started to normalise in H1FY23E 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 a CAGR of ~8.2%, 12.9% over FY22-24E aided by sustained margins in the range of 20-22%
- Strong balance sheet, double digit returns ratios

**Alternate Stock Idea:** We also like NRB Bearings in our coverage.

- Leader in needle roller bearing, NRB is well geared up for recovery in auto cycle and doing a ₹ 200 crore capex to make inroads in hybrid /EV space
- BUY with a target price of ₹ 220

### Key Financial Summary

Particulars (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY16-FY21)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Net Sales	2,980.9	2,881.5	3,277.5	6.5%	3,493.3	3,840.2	8.2%
EBITDA	680.3	655.3	638.2	1.5%	686.1	813.0	12.9%
EBITDA Margin (%)	22.8	22.7	19.5		19.6	21.2	
Net Profit	590.3	563.5	535.7	4.3%	565.2	639.3	9.2%
EPS (₹)	62.6	59.7	56.8		59.9	67.8	
P/E (x)	29.6	31.0	32.6		30.9	27.3	
RoNW (%)	15.9	13.3	11.8		11.3	11.6	
RoCE (%)	18.7	16.4	14.4		14.2	14.5	

Source: Company, ICICI Direct Research



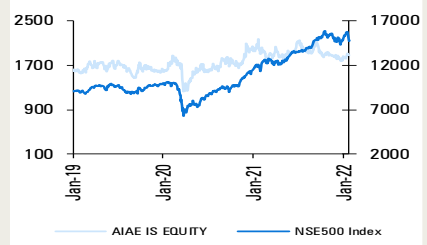
### Particulars

Particular	Amount
Market Capitalization	₹ 17590.8 Crore
Total Debt (FY21)	₹ 184.5 Crore
Cash and Inv. (FY21)	₹ 1946.9 Crore
EV	₹ 15828.4 Crore
52 week H/L	₹ 2222/ 1766
Equity capital	₹ 18.9 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	58.5	58.5	58.5	58.5
FII	18.8	19.0	19.1	18.8
DII	19.9	19.8	19.8	20.2
Others	2.9	2.7	2.7	2.6

### 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 takeaways of recent quarter & conference call highlights

### Q3FY22 Results

- AIA Engineering reported consolidated revenues at ₹ 848.1 crore (below our estimate of ₹ 906.5 crore), up 21.4% YoY. Sales volume de-grew 10.8% YoY. Realisation grew 36% to ₹ 143.3 per kg YoY, aided by successfully passing on 100% of the rise in input costs to clients
- EBITDA came in at ₹ 161.2 crore, declining 6.4% YoY (below our estimates of ₹ 190.4 crore). EBITDA margins declined 565 bps YoY to 19% (below our estimate of 21%)
- AIA reported PAT at ₹ 138.5 crore (below our estimate of ₹ 161.5 crore), down 11.3%, YoY

### Q3FY22 Earnings Conference Call highlights

- Net realisation per tonne increased 36% to ₹ 143.3 per kg YoY, owing to product mix and price increases to pass through higher input cost. Realisations mostly account for the pass through of the increase in ferro-chrome prices on to the customer. Over Q2FY22-Q3FY22, the company has successfully passed on 100% of the rise in input costs to clients. The same is the reason for a significant rise in realisations on a QoQ and YoY basis
- Sales volume came in at 58111 tonnes in Q3FY22, down 10.8% YoY. Mining segment volumes declined 5.2% to 41147 tonnes while cement & others segment volumes declined 22.1% to 16964 tonnes on a YoY basis. On account of supply chain issues, the stock in transit was at 15-17000 tonnes, which impacted the performance of Q3FY22. The same will get accounted in volumes over the next two to three quarters
- The company lost ~23000 MT of volume from Canada and South Africa owing to its new custom duty structure and supply chain disruption. In FY24, AIA is hopeful it may recover ~30% of lost volume from these regions
- On a 9MFY22 basis, the company recovered the lost volume of 23000 tonnes (South Africa and Canada) by getting incremental traction from Americas, Chile (Copper mines), Australia and some African nations. Despite the loss, volumes on a 9M basis were flat YoY
- The company still faces headwinds in terms of higher sea freight charges and the same impacted EBITDA by ₹20 crore which could not be passed on. The same had an impact of ~2.5% on EBITDA margins for the quarter
- Business outlook: It expects mining and cement industries to pick up activity as the global economy settles and adjusts to the new normal and travel normalises, driving AIA's product requirements.
- The order book of the company was at ₹ 682 crore as on Q3FY22 (vs. ₹ 772 crore as on Q2FY22). By the end of the Q3FY22, AIA had net cash of ₹ 1862 crore. The company's focus is currently on growth. They will maintain ~20% payout ratio for the next one year
- Expansion plan - Mill lining capacity addition of 50000 MT is likely to be completed in April 2022. The company has paused grinding media capacity addition (~50000 tonnes) capex as of now. AIA has done capex of ₹ 107 crore in 9MFY22 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**

	Q3FY22	Q3FY22E	Q3FY21	YoY (Chg %)	Q2FY22	QoQ (Chg %)	Comments
Sales	848.1	649.9	698.7	21.4	885.2	-4.2	
Other Income	42.3	46.3	49.4	-14.4	35.7	18.4	
Raw Materials Expenses	320.7	254.1	238.4	34.6	394.0	-18.6	
Employee Cost	35.5	35.1	34.4	3.1	34.2	3.6	
Other Expenditure	330.7	221.0	253.6	30.4	295.0	12.1	
EBITDA	161.2	139.7	172.3	-6.4	161.9	-0.5	
EBITDA Margin (%)	19.0	21.5	24.7	-565 bps	18.3	71 bps	
Depreciation	24.9	26.6	23.0	8.1	21.8	14.5	
Interest	2.5	1.4	1.0	163.8	0.8	210.8	
PBT	176.1	158.0	197.7	-10.9	175.1	0.6	
Taxes	37.6	38.2	41.6	-9.7	37.1	1.2	
PAT	138.5	119.7	156.1	-11.3	138.0	0.4	
	21%	24%	21%		21%		

**Key Metrics**

Volume (in tonnes)	58,111	69,202	65,173	-10.8	69,064	-15.9	Loss of volumes from Canada and South Africa on imposition of duties in those countries
Net Realisation (₹/tonne)	143,354	125,500	105,433	36.0	126,130	13.7	The company has successfully passed on 100% of rise in input costs to clients

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY23E			FY24E	
(₹ Crore)	Old	New	% Change	Old	New
Revenue	3,731.2	3,493.3	-6.4	-	3,840.2
EBITDA	828.2	686.1	-17.2	-	813.0
EBITDA Margin (%)	22.2	19.6	-256 bps	-	21.2
PAT	679.2	565.2	-16.8	-	639.3
EPS (₹)	72.0	59.9	-16.8	-	67.8

Source: Company, ICICI Direct Research

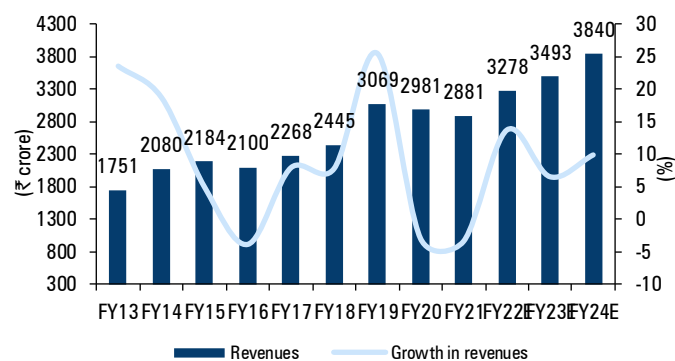
**Exhibit 3: Assumptions**

	Current				Earlier		Comment
	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	
Overall Volumes (tonnes)	266,160	242,206	261,582	300,819	266,160	304,221	Revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	192,397	163,279	177,131	210,456	187,234	219,770	
Capacity	390,000	390,000	440,000	440,000	440,000	440,000	
Net Realisations	105,905	132,895	131,100	125,000	122,621	117,880	

Source: Company, ICICI Direct Research

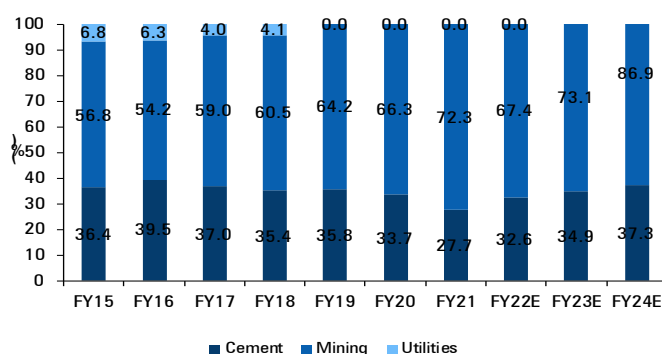
## Financial Story in charts

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



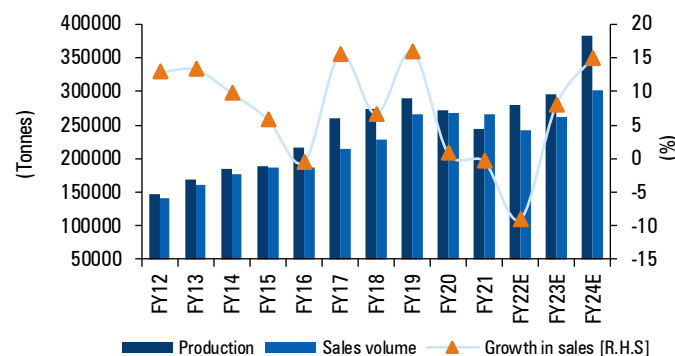
Source: ICICI Direct Research, Company

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



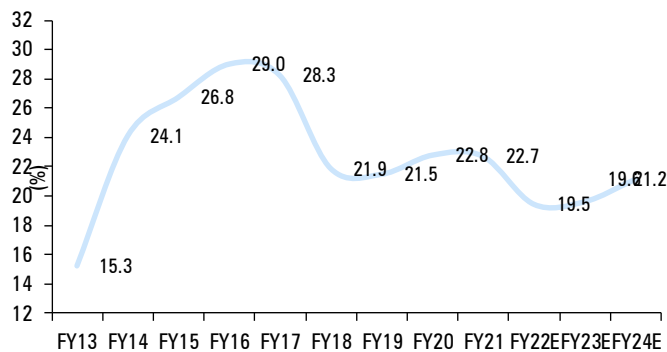
Source: ICICI Direct Research, Company

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



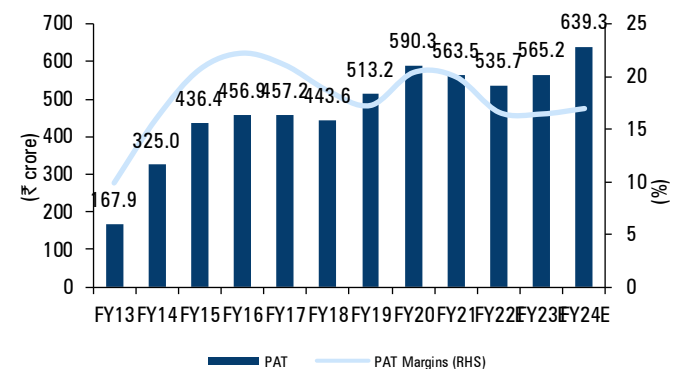
Source: Company, ICICI Direct Research

**Exhibit 7: Trend in EBITDA margin...**



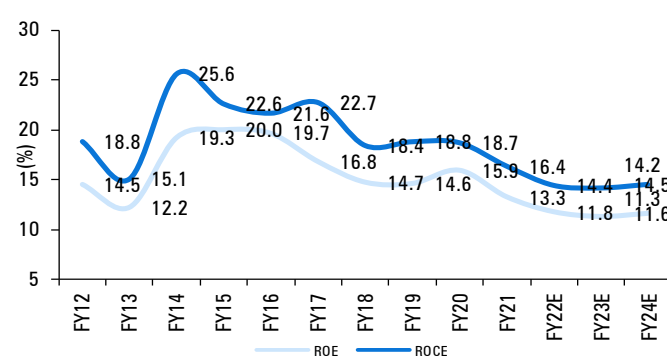
Source: Company, ICICI Direct Research

**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)	FY21	FY22E	FY23E	FY24E
<b>Total operating Income</b>	<b>2,881.5</b>	<b>3,277.5</b>	<b>3,493.3</b>	<b>3,840.2</b>
Growth (%)	-3.3	13.7	6.6	9.9
Raw Material Expenses	1,121.0	1,312.8	1,354.1	1,438.9
Employee Expenses	133.5	135.7	144.5	153.6
Other expenses	971.7	1,190.8	1,308.7	1,434.7
Total Operating Expenditure	2,226.2	2,639.4	2,807.2	3,027.2
<b>EBITDA</b>	<b>655.3</b>	<b>638.2</b>	<b>686.1</b>	<b>813.0</b>
Growth (%)	-3.7	-2.6	7.5	18.5
Depreciation	93.5	106.3	118.6	135.6
Interest	6.8	4.4	4.4	4.4
Other Income	172.2	152.1	168.8	150.4
PBT	727.2	679.6	731.9	823.4
Others	0.0	0.0	0.0	0.0
Total Tax	163.7	143.9	166.7	184.2
<b>PAT</b>	<b>563.5</b>	<b>535.7</b>	<b>565.2</b>	<b>639.3</b>
Growth (%)	-4.5	-4.9	5.5	13.1
<b>EPS (₹)</b>	<b>59.7</b>	<b>56.8</b>	<b>59.9</b>	<b>67.8</b>

Source: Company, ICICI Direct Research

**Exhibit 11: Cash flow statement**

₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	563.5	535.7	565.2	639.3
Add: Depreciation	93.5	106.3	118.6	135.6
(Inc)/dec in Current Assets	59.3	-234.5	-46.9	-268.0
Inc/(dec) in CL and Provisions	-5.6	64.1	22.4	28.9
Others	3.3	3.0	5.0	5.0
<b>CF from operating activities</b>	<b>710.7</b>	<b>471.5</b>	<b>659.3</b>	<b>535.8</b>
(Inc)/dec in Investments	-256.4	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-143.9	-169.1	-280.0	-187.2
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-464.2</b>	<b>-300.8</b>	<b>-475.1</b>	<b>-452.3</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	87.5	-59.5	0.0	0.0
Dividend paid & dividend tax	-84.9	-103.8	-113.2	-141.5
Inc/(dec) in Sec. premium	-0.1	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
<b>CF from financing activities</b>	<b>67.2</b>	<b>-284.2</b>	<b>-108.2</b>	<b>-136.5</b>
Net Cash flow	313.8	-113.5	76.0	-53.0
Opening Cash	148.5	462.2	348.8	424.8
<b>Closing Cash</b>	<b>462.2</b>	<b>348.8</b>	<b>424.8</b>	<b>371.8</b>

Source: Company, ICICI Direct Research

**Exhibit 12: Balance sheet**

₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	4,225.4	4,536.4	4,993.5	5,496.2
Total Shareholders funds	4,244.3	4,555.3	5,012.3	5,515.1
Total Debt	184.5	125.0	125.0	125.0
Deferred Tax Liability	47.0	47.0	47.0	47.0
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>4,498.1</b>	<b>4,753.1</b>	<b>5,215.1</b>	<b>5,722.9</b>
<b>Assets</b>				
Gross Block	1,252.8	1,462.8	1,742.8	1,930.0
Less: Acc Depreciation	464.3	569.7	687.4	822.1
Net Block	788.5	893.1	1,055.4	1,107.8
Capital WIP	160.9	120.0	120.0	120.0
Total Fixed Assets	949.5	1,013.1	1,175.4	1,227.8
Investments	1,484.6	1,584.6	1,784.6	2,034.6
Inventory	754.8	850.2	841.0	1,013.4
Debtors	638.5	740.8	770.4	844.8
Loans and Advances	3.2	5.4	3.7	6.3
Other Current Assets	116.0	150.5	178.7	197.4
Cash	462.2	348.8	424.8	371.8
Total Current Assets	1,974.6	2,095.7	2,218.6	2,433.6
Creditors	165.8	180.8	183.2	200.9
Provisions	15.2	29.5	33.9	37.2
Total Current Liabilities	260.1	324.2	346.6	375.5
Net Current Assets	1,714.5	1,771.4	1,872.0	2,058.1
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>4,498.1</b>	<b>4,753.1</b>	<b>5,215.1</b>	<b>5,722.9</b>

Source: Company, ICICI Direct Research

**Exhibit 13: Key ratios**

₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	59.7	56.8	59.9	67.8
Cash EPS	69.7	68.1	72.5	82.2
BV	450.0	483.0	531.4	584.7
DPS	9.0	11.0	12.0	15.0
Cash Per Share	49.0	37.0	45.0	39.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	22.7	19.5	19.6	21.2
PBT / Total Operating income	25.8	21.1	21.3	21.9
PAT Margin	20.0	16.6	16.5	17.0
Inventory days	97.7	96.4	89.5	98.4
Debtor days	82.7	84.0	82.0	82.0
Creditor days	21.5	20.5	19.5	19.5
<b>Return Ratios (%)</b>				
RoE	13.3	11.8	11.3	11.6
RoCE	16.4	14.4	14.2	14.5
RoIC	24.4	20.7	20.6	22.2
<b>Valuation Ratios (x)</b>				
P/E	31.0	32.6	30.9	27.3
EV / EBITDA	23.9	24.5	22.4	18.7
EV / Net Sales	5.6	4.9	4.5	4.0
Market Cap / Sales	6.2	5.4	5.1	4.6
Price to Book Value	4.1	3.8	3.5	3.2
<b>Solvency Ratios</b>				
Debt/EBITDA	0.3	0.2	0.2	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.8	5.4	5.2	5.5
<b>Quick Ratio</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.8</b>

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (Capital Goods)**

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1928	2,150	Buy	270537	81.9	51.9	52.9	23.5	37.1	36.4	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2321	2,550	Buy	82656	29.5	37.3	45.0	78.7	62.3	51.6	13.9	15.9	17.4	10.1	11.7	12.9
AIA Engineering (AIAENG)	1837	1,896	Hold	17327	59.7	60.4	69.7	30.7	30.4	26.4	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1993	1,800	Buy	23748	17.3	26.7	40.0	115.0	74.7	49.8	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	398	455	Hold	6158	41.3	25.8	37.8	9.6	15.4	10.5	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	494	550	Buy	12701	21.5	19.9	32.3	23.0	24.8	15.3	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	212	150	Hold	4901	0.4	2.4	5.4	473.1	86.7	39.3	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	323	260	Buy	10236	3.2	3.9	6.2	99.9	83.1	52.5	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	209	250	Buy	50925	8.5	9.6	11.3	24.7	21.7	18.5	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	341	500	Buy	4638	46.4	44.0	55.6	7.3	7.8	6.1	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3792	3,960	Buy	20098	67.6	78.1	98.9	56.1	48.6	38.3	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1969	2,240	Hold	12602	19.0	30.8	40.0	103.4	63.9	49.2	13.7	19.4	25.1	10.7	15.1	19.6
NRB Bearing (NRBBEA)	166	220	Buy	1617	5.6	8.2	9.8	30.2	20.6	17.3	11.8	15.8	16.8	10.4	13.4	13.9
Action Construction (ACTCON)	223	320	Buy	2520	7.1	9.7	13.9	31.4	23.0	16.0	26.9	22.3	26.2	15.3	14.9	17.9

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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