

Growth in volumes visible...

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

Q2FY23 Results: AIA reported a strong set of Q2FY23 numbers.

- Revenue was at ₹ 1228.7 crore, up 50% YoY and above our estimates
- EBITDA was at ₹ 311.4 crore, up 92.3% YoY. EBITDA margins at 23.4% expanded 515 bps YoY
- Consequently, PAT came in at ₹ 244.3 crore, up 77% YoY
- Sales volumes were at 78500 tonnes in Q2FY23, up 13.7% 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 ₹ 3240 i.e. 35x P/E on FY24E EPS.

Key triggers for future price performance:

- New mining customer acquisition is expected to pick up as the travel situation has started to normalise 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 ~14.2%, 20.5%, respectively, in FY22-24E aided by sustained margins in range of 20-22%
- Strong balance sheet, double digit returns ratios

Alternate Stock Idea: We also like Grindwell Norton in our coverage.

- Ambition to maintain market share in abrasives and increase market share in ceramic & plastics with gradual penetration of new value added products
- BUY with a target price of ₹ 2460



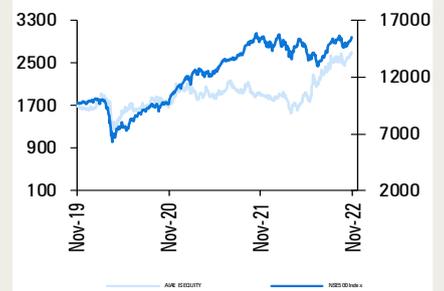
Particulars

Particular	Amount
Market Capitalization	₹ 25560.9 Crore
Total Debt (FY22)	₹ 2.8 Crore
Cash and Inv. (FY22)	₹ 1401.8 Crore
EV	₹ 24161.9 Crore
52 week H/L	₹ 2821/ 1475
Equity capital	₹ 18.9 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	58.5	58.5	58.5	58.5
FII	18.8	18.1	18.1	18.0
DII	20.2	20.8	20.7	20.7
Others	2.6	2.7	2.7	2.8

Price Performance



Recent Events & Key risks

- **Key Risks:** (i) Unfavourable decisions on anti-dumping duty in more international geographies

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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	3,566.5	6.5%	4,736.9	4,647.3	14.2%
EBITDA	680.3	655.3	720.9	1.5%	1,042.7	1,047.5	20.5%
EBITDA Margin (%)	22.8	22.7	20.2		22.0	22.5	
Net Profit	590.3	563.5	609.2	4.3%	846.6	872.8	19.7%
EPS (₹)	62.6	59.7	64.6		89.8	92.5	
P/E (x)	43.3	45.4	42.0		30.2	29.3	
RoNW (%)	15.9	13.3	13.2		15.8	14.3	
RoCE (%)	18.7	16.4	16.5		19.9	17.9	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results

- AIA Engineering reported consolidated revenues at ₹ 1328.7 crore (above our estimate of ₹ 1150.7 crore), up 50.1% YoY
- Absolute EBITDA came in at ₹ 311.4 crore, up 92.3% YoY (above our estimate of ₹ 252.6 crore). EBITDA margins expanded 515 bps YoY to 23.4% (above our estimate of 22%) while gross margins were at 56.5% (vs. 55.4% in Q2FY22)
- PAT came in at ₹ 244.3 crore (above our estimate of ₹ 211.5 crore), up 77.1% YoY though other income declined 10% YoY to ₹ 32.1 crore

Q2FY23 Earnings Conference Call highlights

- Net realisation per tonne increased 32.5% to ₹ 167 per kg YoY and 6.6% QoQ, owing to product mix and price increases to pass through higher input cost. The company was able to successfully pass on the rise in input costs and shipping cost to clients. On account of the same, there was a rise in realisations on a YoY and QoQ basis
- Sales volumes came in at 78500 tonnes in Q2FY23, up 13.7% YoY. Mining segment volumes increased 12% YoY to 54109 tonnes while cement & others segment volumes grew 17.7% YoY to 24391 tonnes
- The management has guided that realisations peaked at this level and is expected to come down from here as prices, shipping costs start their downward journey. A price reduction is expected to happen with a lag of a quarter like input cost pass through. The company is confident they will maintain EBITDA margin to the tune of ~20-22%, going forward
- The order book of the company was at ₹ 784 crore as on Q2FY23 (vs. ₹ 700 crore as on Q1FY23). The company's focus is currently on growth. It will maintain ~20% dividend payout ratio for the next one year
- Canada Border Services Agency (CBSA) has decided to carry out a review of the ongoing administration of the anti-dumping finding for export of certain grinding media to Canada. The company will continue to cooperate with CBSA in this process and comply with any new guidelines that will be published in this regard. This is a procedural thing, as per the management
- According to the management, every year incremental 30,000 tonnes volumes is expected to come for the next few years. It is visible from this quarter's numbers that volume growth started coming from new mill lining capacity. Additionally, the company is going for brownfield capacity expansion of grinding media. It plans to add ~80,000 MT of capacity at an estimated capex of ₹ 200 crore and commission it by the end of FY24. The total capacity is expected to become 520000 TPA
- During the quarter, AIA entered into a supply agreement for three years with SAL Steel (SAL) for supply of ferro chrome by SAL to the company on a non-exclusive basis
- Capex – AIA has planned a capex of ~₹ 300 crore including maintenance capex for FY23E. Out of this, ~₹ 112 crore has been done in H1FY23 while the remaining will take place in the second half of FY23

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (Chg %)	Q1FY23	QoQ (Chg %)	Comments
Sales	1,328.7	1,150.7	885.2	50.1	1,079.7	23.1	Mining segment volumes increased by 12% YoY and 18.4% QoQ
Other Income	32.1	51.2	35.7	-10.0	20.6	55.7	
Raw Materials Expenses	574.8	500.6	394.0	45.9	469.8	22.3	
Employee Cost	37.4	40.3	34.2	9.2	36.7	1.8	
Other Expenditure	404.5	356.7	295.0	37.1	326.0	24.1	
EBITDA	311.4	252.6	161.9	92.3	246.6	26.3	
EBITDA Margin (%)	23.4	22.0	18.3	515 bps	22.8	60 bps	
Depreciation	24.6	34.5	21.8	12.9	20.8	18.1	
Interest	3.9	1.6	0.8	379.5	1.1	254.1	
PBT	315.1	267.7	175.1	80.0	245.4	28.4	
Taxes	70.8	56.2	37.1	90.8	54.5	30.0	
PAT	244.3	211.5	138.0	77.1	190.9	28.0	
	22%	21%	21%		22%		

Key Metrics

Volume (in tonnes)	78,500	71,473	69,064	13.7	67,898	15.6	
Net Realisation (₹/tonne)	1,67,082	1,45,000	1,26,130	32.5	1,56,804	6.6	Net realisation increased owing to product mix and price increases to pass through higher input cost

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	4,181.2	4,736.9	13.3	4,414.1	4,647.3	5.3
EBITDA	916.9	1,042.7	13.7	979.2	1,047.5	7.0
EBITDA Margin (%)	21.9	22.0	11 bps	22.2	22.5	34 bps
PAT	753.1	846.6	12.4	811.5	872.8	7.6
EPS (₹)	79.8	89.8	12.5	86.0	92.5	7.6

Source: Company, ICICI Direct Research

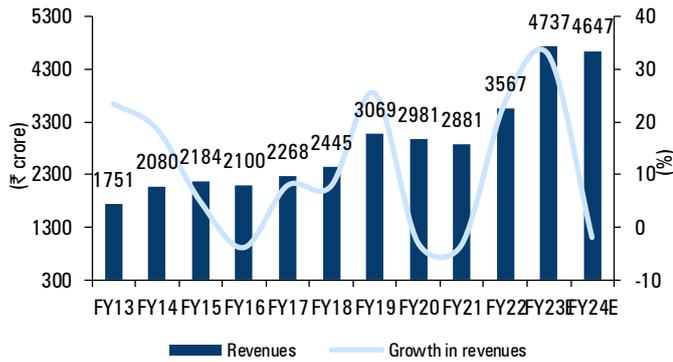
Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Overall Volumes (tonnes)	2,66,302	2,60,469	2,91,725	3,29,650	2,91,725	3,26,732	Revised volumes estimates in line with economic conditions
Mining Volumes (tonnes)	1,92,539	1,81,542	2,07,274	2,39,287	2,07,274	2,36,369	
Capacity	3,90,000	3,90,000	4,40,000	4,40,000	4,40,000	4,40,000	
Net Realisations	1,05,849	1,34,928	1,59,905	1,38,550	1,40,996	1,32,650	

Source: Company, ICICI Direct Research

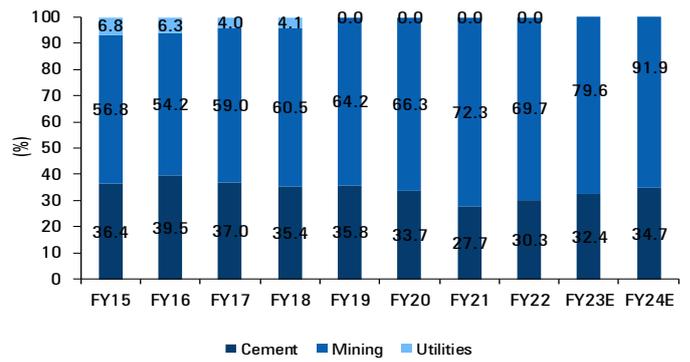
Financial story in charts

Exhibit 4: Trend in revenues...



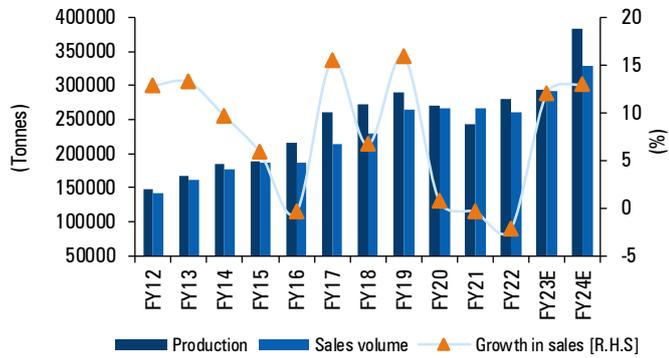
Source: ICICI Direct Research, Company

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



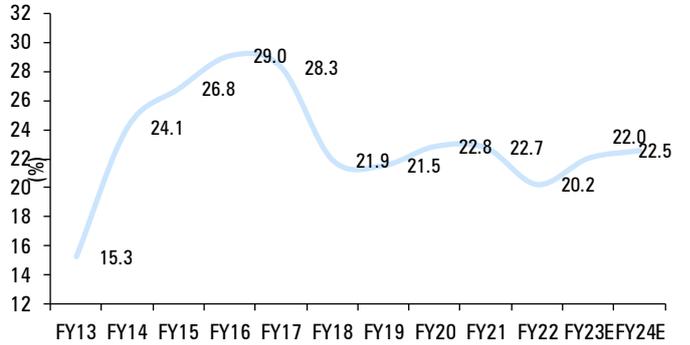
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



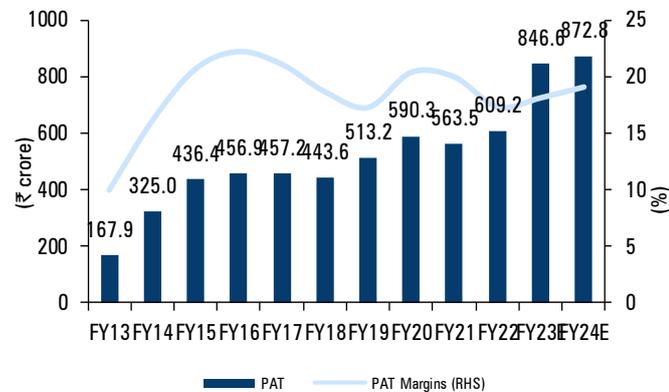
Source: Company, ICICI Direct Research

Exhibit 7: Trend in EBITDA margin...



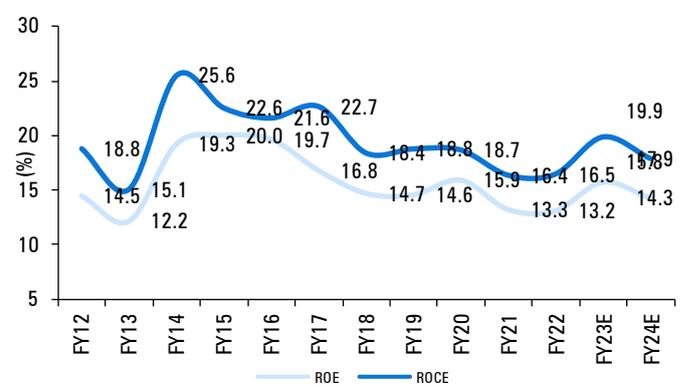
Source: Company, ICICI Direct Research

Exhibit 8: Volume, margin recovery key for 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	FY22	FY23E	FY24E
Total operating Income	2,881.5	3,566.5	4,736.9	4,647.3
Growth (%)	-3.3	23.8	32.8	-1.9
Raw Material Expenses	1,121.0	1,471.1	1,958.2	1,739.7
Employee Expenses	133.5	139.4	167.3	162.7
Other expenses	971.7	1,235.1	1,568.8	1,697.5
Total Operating Expenditure	2,226.2	2,845.6	3,694.3	3,599.8
EBITDA	655.3	720.9	1,042.7	1,047.5
Growth (%)	-3.7	10.0	44.6	0.5
Depreciation	93.5	106.3	113.5	126.8
Interest	6.8	0.1	0.1	0.1
Other Income	172.2	156.3	149.7	182.7
PBT	727.2	770.8	1,078.9	1,103.4
Others	0.0	0.0	0.0	0.0
Total Tax	163.7	161.7	232.3	230.5
PAT	563.5	609.2	846.6	872.8
Growth (%)	-4.5	8.1	39.0	3.1
EPS (₹)	59.7	64.6	89.8	92.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	563.5	609.2	846.6	872.8
Add: Depreciation	93.5	106.3	113.5	126.8
(Inc)/dec in Current Assets	59.3	-653.3	-372.5	400.5
Inc/(dec) in CL and Provisions	-5.6	42.3	118.0	-55.5
Others	3.3	3.0	5.0	5.0
CF from operating activities	710.7	104.5	705.6	1,344.5
(Inc)/dec in Investments	-256.4	256.7	-256.7	0.0
(Inc)/dec in Fixed Assets	-143.9	-169.1	-270.0	-27.3
Others	0.0	0.0	0.0	0.0
CF from investing activities	-464.2	-63.0	-719.4	-249.5
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	87.5	-181.6	-1.3	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
CF from financing activities	67.2	-406.3	-109.5	-136.5
Net Cash flow	313.8	-364.8	-123.3	958.6
Opening Cash	148.5	462.2	97.5	-25.8
Closing Cash	462.2	97.5	-25.8	932.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	4,225.4	4,610.0	5,348.4	6,084.7
Total Shareholders funds	4,244.3	4,628.8	5,367.2	6,103.6
Total Debt	184.5	2.8	1.6	1.6
Deferred Tax Liability	47.0	39.0	47.0	47.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	4,498.1	4,697.0	5,446.6	6,187.9
Assets				
Gross Block	1,252.8	1,462.8	1,602.8	1,830.1
Less: Acc Depreciation	464.3	569.7	682.3	808.2
Net Block	788.5	893.1	920.5	1,021.9
Capital WIP	160.9	120.0	250.0	50.0
Total Fixed Assets	949.5	1,013.1	1,170.5	1,071.9
Investments	1,484.6	1,304.3	1,784.6	2,034.6
Inventory	754.8	1,226.0	1,278.9	973.4
Debtors	638.5	800.1	1,086.3	1,051.1
Loans and Advances	3.2	1.9	6.2	5.9
Other Current Assets	116.0	137.6	166.7	107.3
Cash	462.2	97.5	-25.8	932.8
Total Current Assets	1,974.6	2,263.1	2,512.4	3,070.5
Creditors	165.8	196.7	249.2	244.0
Provisions	15.2	6.5	46.1	45.1
Total Current Liabilities	260.1	302.4	420.5	365.0
Net Current Assets	1,714.5	1,960.7	2,091.9	2,705.6
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	4,498.1	4,697.0	5,446.6	6,187.9

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	59.7	64.6	89.8	92.5
Cash EPS	69.7	75.9	101.8	106.0
BV	450.0	490.8	569.0	647.1
DPS	9.0	11.0	12.0	15.0
Cash Per Share	49.0	10.3	-2.7	98.9
Operating Ratios (%)				
EBITDA Margin	22.7	20.2	22.0	22.5
PBT / Total Operating income	25.8	21.9	23.1	24.2
PAT Margin	20.0	17.3	18.1	19.1
Inventory days	97.7	127.3	100.1	77.8
Debtor days	82.7	83.1	85.0	84.0
Creditor days	21.5	20.4	19.5	19.5
Return Ratios (%)				
RoE	13.3	13.2	15.8	14.3
RoCE	16.4	16.5	19.9	17.9
RoIC	24.4	22.3	28.2	30.2
Valuation Ratios (x)				
P/E	45.4	42.0	30.2	29.3
EV / EBITDA	36.3	33.5	22.8	21.6
EV / Net Sales	8.4	6.9	5.1	4.9
Market Cap / Sales	9.1	7.3	5.5	5.6
Price to Book Value	6.0	5.5	4.8	4.2
Solvency Ratios				
Debt/EBITDA	0.3	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.8	7.2	6.0	5.9
Quick Ratio	2.9	3.1	3.0	3.2

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,989	2,355	Buy	279096	56.8	66.1	76.7	35.0	30.1	25.9	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,877	3,660	Buy	102452	29.5	36.7	50.5	97.6	78.3	57.0	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,731	3,239	Buy	25759	64.6	89.8	92.5	42.3	30.4	29.5	16.5	19.9	17.9	13.2	15.8	14.3
Thermax (THERMA)	2,284	2,536	Hold	27215	36.5	51.7	61.0	62.5	44.2	37.4	14.6	18.3	18.7	11.4	14.3	14.4
KEC International (KECIN)	411	515	Buy	10554	12.9	15.4	30.3	31.8	26.6	13.5	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	155	209	Buy	3574	0.7	3.5	3.6	218.4	43.9	43.3	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	504	520	Hold	15982	7.2	9.4	11.4	70.5	53.7	44.2	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	106	135	Buy	77411	3.2	3.8	4.5	33.1	27.9	23.5	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyards (COCSHI)	659	745	Buy	8673	42.9	38.6	42.8	15.4	17.1	15.4	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,825	5,215	Buy	23853	77.0	108.7	130.3	62.7	44.4	37.0	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,927	3,561	Buy	22016	43.5	61.3	71.2	67.3	47.7	41.1	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	148	220	Buy	1438	7.8	9.2	12.1	19.0	16.1	12.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	332	365	Buy	3948	8.8	15.1	19.2	37.7	22.0	17.3	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1397	1,555	Buy	7250	18.1	22.0	30.4	77.2	63.6	46.0	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,484	2,860	Buy	83062	151.9	130.9	143.1	16.4	19.0	17.4	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,030	3,275	Buy	64208	25.5	38.9	43.7	119.0	77.9	69.4	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	865	890	Buy	1176	33.2	37.5	49.3	26.0	23.0	17.5	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	922	1,200	Buy	16906	27.3	33.0	42.7	33.8	28.0	21.6	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	802	562	Buy	16174	30.3	31.2	40.1	26.5	25.7	20.0	20.0	18.1	20.9	16.1	14.6	16.6
Solar Industries India (SOLIN)	4,027	4,701	Buy	36440	48.8	76.6	99.7	82.6	52.6	40.4	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	882	1,085	Buy	873	62.7	49.5	72.3	14.1	17.8	12.2	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	419	520	Buy	684	24.7	28.7	34.6	16.9	14.6	12.1	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,862	2,180	Buy	6478	43.7	50.0	62.2	42.6	37.2	29.9	15.7	16.0	18.3	14.7	14.9	15.9

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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