

**AIA ENGINEERING LIMITED**

Soft Quarter on expected lines, Long term growth opportunity intact

**LKP**  
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AIA Engineering's (AIAE) combined sales in Q4FY24 dropped by 9.7% YoY, totaling ₹11.5 bn, slightly below what was expected. This decrease was mainly due to lower prices per unit (₹158/kg compared to ₹170/kg in the same quarter last year) because of reduced raw material costs, as well as lower sales volume. Despite the decrease in sales, the gross margin increased by 160 basis points to 56.2%, and the EBITDA margin went up by 110 basis points to 25.9%, surpassing the expected margins. However, the net profit after taxes fell by 3% to ₹2.6 bn, which was in line with expectations. For the full fiscal year 2024, sales volume remained steady at 297,345MT, compared to 291,342 MT in the previous fiscal year, due to delayed production. AIAE plans to increase its annual sales volume by 30,000 to 40,000 metric tons over the medium term by tapping into conversion opportunities and targeting new customers. However, the process of converting customers to use their High Chrome media instead of forged media is taking longer than anticipated.

AIA Engineering has revised its target for capacity expansion downward to 36,000 metric tons from the previously guided 80,000 metric tons. However, it is still progressing with its debottlenecking efforts, which are expected to increase capacity by an additional 20,000 metric tons. After these adjustments, the total capacity is expected to reach 496,000 metric tons. The company is poised for continued growth due to its technological expertise in high chrome mill internals, significant opportunities in the mining sector, and robust financial performance metrics. We believe the structural growth story for AIA to continue given technological leadership over the years in high chrome mill internals, strong growth opportunity in mining sector and superior financial metrics of growth, margins, cash flows and ROIC are key business moats. Additionally AIA offers the possibility of incremental growth through acquisitions given its strong cash reserves (net cash ₹32.9bn as on Mar'24). Hence we maintain BUY and value the stock at 32x FY26E with a TP of ₹4,330

**Result snapshot Q4FY24**

Revenue declined 9.7% YoY to ₹11.5bn. Volume declined 2.8% YoY to 71,433 MT, due to decline in mining segment volume (down 6.9% YoY to 44,932 MT), while it grew for non-mining segment (up 4.9% YoY to 26,501 MT). Though the demand environment remained stable, targeted conversion of customers (from forged to high chrome media- market size 2.5 MT) is witnessing delay impacting volume growth.

Key Financials	FY22	FY23	FY24	FY25E	FY26E
Total Sales (₹ mn)	35,665	49,088	48,538	53,803	59,127
EBITDA Margins (%)	20.2	25.3	27.5	23.9	24.3
PAT Margins (%)	17.4	21.5	23.4	21.2	21.5
EPS (Rs)	65.7	112.0	120.6	121.0	135.1
P/E (x)	57.8	33.9	31.5	31.4	28.1
P/BV (x)	7.5	6.3	5.4	4.7	4.1
EV/EBITDA (x)	47.6	26.8	25.1	25.8	22.7
RoE (%)	13.7	20.2	18.4	16.0	15.6
RoCE (%)	13.4	19.4	17.2	15.2	14.9
Dividend Yield (%)	0.2	0.4	0.4	0.4	0.4

<b>Rating</b>	<b>BUY</b>
<b>Current Market Price (₹)</b>	<b>3,755</b>
<b>12M Price Target (₹)</b>	<b>4,330</b>
<b>Potential upside (%)</b>	<b>15</b>

**Stock Data**

Sector :	Industrial Products
FV (₹) :	2
Total Market Cap (₹ bn) :	353
Free Float Market Cap (₹ bn) :	148
52-Week High / Low (₹)	4,630 / 2,712
BSE Code / NSE Symbol	532683 / AIAENG
Bloomberg :	AIAE IN

**Shareholding Pattern**

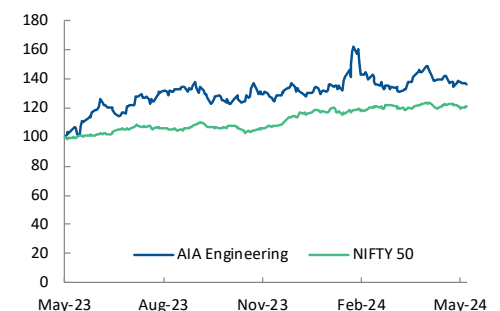
(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	58.47	58.47	58.47	58.47
MFs	17.60	17.66	17.38	18.02
FPIs	18.17	18.29	18.50	18.05
Insurance	2.46	2.38	2.48	2.45
Others	3.30	3.20	3.17	3.01

Source: BSE

**Price Performance**

(%)	1M	3M	6M	12M
AIAE	-1.4%	-2.4%	4.8%	36.4%
Nifty 50	-0.3%	1.3%	12.8%	20.7%

\* To date / current date : May 15, 2024

**AIAE vs Nifty 50**

Management expects additional volume of 30,000 MT for FY25, which will be driven by mill liner, increased volume from Canada, backed with healthy demand scenario for mining industry. Realisations declined 7% YoY to ₹158/kg. EBITDA declined 5.8% YoY to ₹3bn while EBITDA margins expanded 110bps YoY, mainly due to gross margins expansion (160bps YoY to 56.2%) and lower power & fuel cost (6.4% vs 8.2% YoY). PAT declined 3% YoY to ₹2.6bn aided by higher other income (up 20% YoY at ₹765mn).

AIAE's competitor Magotteaux has filed a petition with US Dept. of Commerce seeking levy of import duties on shipment from India (verdict will take 9-10 months). AIAE sales to US in CY23 was at 27,000. AIAE believes customers prefer to have a diversified supplier base and hence eventually volumes get recovered.

### Outlook

We believe the structural growth story for AIA to continue given technological leadership over the years in high chrome mill internals, strong growth opportunity in mining sector and superior financial metrics of growth, margins, cash flows and ROIC are key business moats. Additionally AIA offers the possibility of incremental growth through acquisitions given its strong cash reserves (net cash ₹32.9bn as on Mar'24). Hence we maintain BUY and value the stock at 32x FY26E with a TP of ₹4,330

### Concerns/Risks

- **Forex fluctuations:** AIA derives nearly 73% of product sales through exports while imports are largely domestically sourced. Any sharp appreciation in Rs is likely to result in compression in operating margins.
- **Sharp increase in commodity prices:** While AIAE has ability to pass impact of increase in raw material and freight costs but the same happens with a 3-6mth lag. In the interim any sharp movement in these costs can lead to compression in margins.
- **Protectionist policies/anti-dumping duties in export markets:** AIAE uses its India based facilities as a manufacturing hub for exports around the world. In the recent past anti-dumping duties imposed by its target countries like Canada, Brazil and South Africa have impacted the company's sales volumes. Any increase in such protectionist measures can lead to volume disruption in future as well.
- AIAE's competitor Magotteaux has filed a petition with US Dept. of Commerce seeking levy of import duties on shipment from India and if it fructifies then it can affect volumes

## Quarterly Performance

(₹ mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Net Sales</b>	<b>11,502</b>	<b>12,736</b>	<b>-9.7</b>	<b>11,692</b>	<b>-1.6</b>
Expenditure	8,528	9,578	-11.0	8,579	-0.6
<b>EBITDA</b>	<b>2,974</b>	<b>3,157</b>	<b>-5.8</b>	<b>3,112</b>	<b>-4.4</b>
EBITDA (%)	25.9	24.8	110bps	26.6	-80bps
Other income	765	638	19.9	831	-8.0
Depreciation	245	232	5.6	270	-9.1
EBIT	3,493	3,563	-2.0	3,673	-4.9
Interest	64	99	-35.4	71	-9.7
Extraordinary item	0	0		0	
PBT after Eol	3,430	3,464	-1.0	3,603	-4.8
Tax	832	788.0	5.7	811	2.6
Tax rate (%)	24.3	22.7	160bps	22.5	180bps
Tax on Eol (assumed)	0	0	-	0	-
PAT before MI/SA	2,597	2,677	-3.0	2,791	-7.0
Minority/Share of associates	-8	-5		-5	75.7
<b>Adjusted PAT</b>	<b>2,605</b>	<b>2,682</b>	<b>-2.9</b>	<b>2,796</b>	<b>-6.8</b>
Adjusted EPS (₹)	27.6	28.4	-2.9	29.6	-6.8
<b>Cost Breakup</b>					
COGS	5,037	5,777	-12.8	4,806	4.8
as a % of sales	43.8	45.4	-160bps	41.1	270bps
Staff Cost	442	399	10.7	432	2.3
as a % of sales	3.8	3.1	70bps	3.7	10bps
Other Expenditure	3,049	3,402	-10.4	3,341	-8.7
as a % of sales	26.5	26.7	-20bps	28.6	210bps

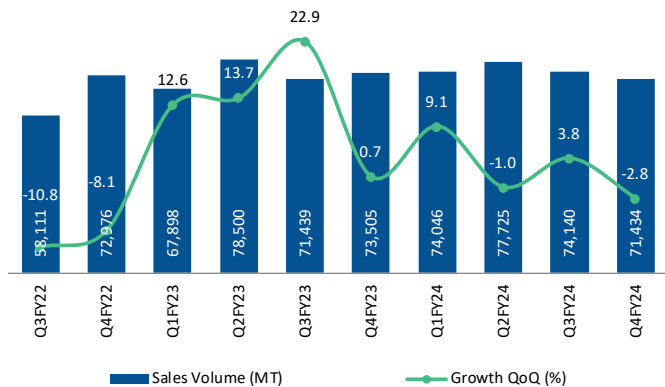
Source: Company, LKP Research

### Concall Highlights

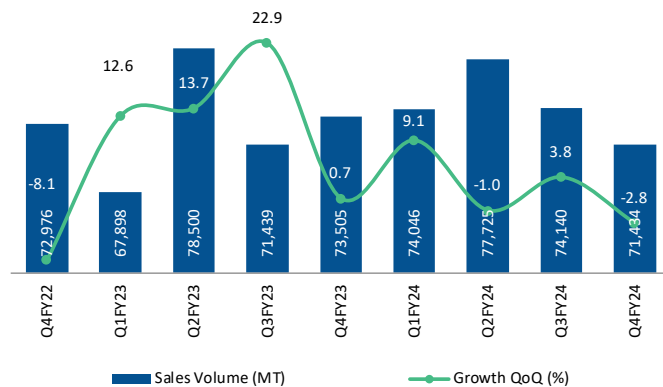
- AIA will continue to base its manufacturing in India with no plans for overseas facilities. The focus is on incremental capacity additions of 30,000 MT to 40,000 MT per year.
- The conversion of 1.5 to 2 mn MT of grinding media is underway, with optimism for growth in gold, iron ore, and copper sectors.
- AIA is working to incrementally add 8,000 to 10,000 MT of mill liners annually, aiming to fully utilize the plant in 4-5 years. The design of the mill liners, rather than the metallurgy, provides benefits to consumers through improved throughput.
- The sustainable long-term EBITDA margin is expected to be in the 22-23% range.
- Red-sea shipment issues have normalized, reducing shipping rates without volume losses in Q4.
- Despite import duties, AIA believes consumers will continue to buy from them to maintain a diversified supplier base.
- The net cash stands at Rs31 bn.
- For FY25, capex is set at Rs2 bn, allocated as Rs900 mn for grinding media, Rs350 mn for power, and Rs750 mn for de-bottlenecking.
- Investments of Rs300 mn to Rs400 mn are planned for a captive power renewable scheme, aiming to meet more than 50% of power needs from captive sources.
- The tax rate will remain at 22-23%.
- AIA spent Rs2.1 bn on capex in FY24, adding 20,000 MT of capacity through brownfield de-bottlenecking in non-grinding media, reaching a total capacity of 460,000 MT.
- Of the planned 80,000 MT greenfield expansion for grinding media, a 36,000 MT module will be added in FY25 within 3-4 months, while the remaining expansion is on hold due to supplier challenges in Europe but can be resolved within 6-9 months if necessary.
- AIA covers all consumables related to grinding operations in the mining sector through grinding media and mill liners.
- AIA is exploring opportunities in Chile and Peru, hoping for positive developments soon.
- Magotteaux has petitioned the US Dept. of Commerce to impose import duties on shipments from India. AIA's sales to the USA were 27,000 MT in CY23, and a duty decision is expected in 9-10 months.
- Brazil's import duty is under a sunset review, with results expected in 4-6 weeks.
- Duties in Canada, Brazil, and South Africa led to a volume loss of 50,000 MT to 60,000 MT.
- Canadian volumes fell from 24,000 MT to zero after duty imposition but have since risen to 7,000 MT, with further increases expected in FY25.
- AIA acquired a 43% stake in MPS for Rs640 mn, enhancing its mill liner application expertise.
- Mill liner volume additions were less than 10,000 MT in FY24 but are expected to accelerate in FY25.
- Aims to add 8,000 to 10,000 MT volumes of mill liner per year & would be utilized in 4-5 yrs.

## Story in charts

Production volumes

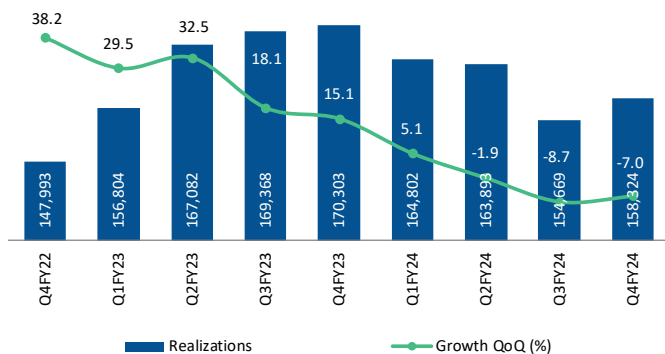


Sales volume

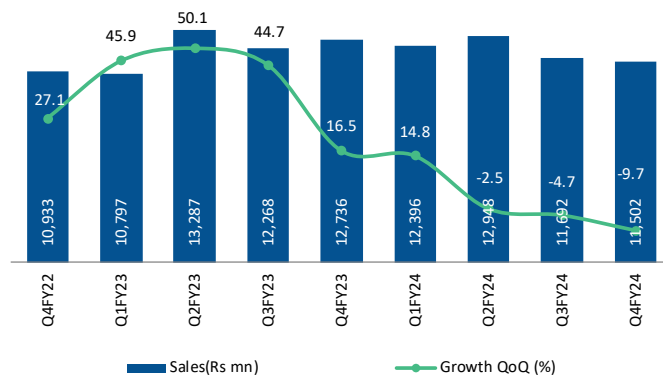


Source: LKP Research

Realisations

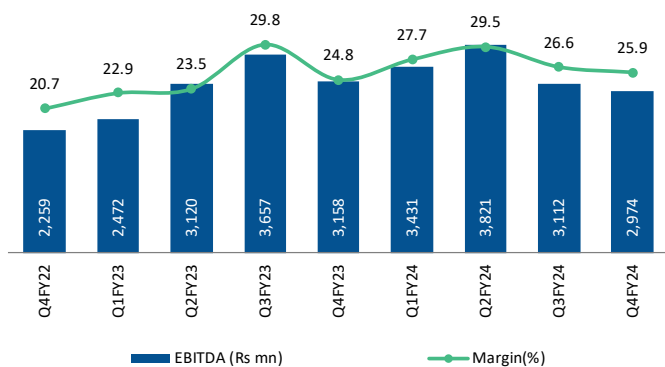


Sales growth

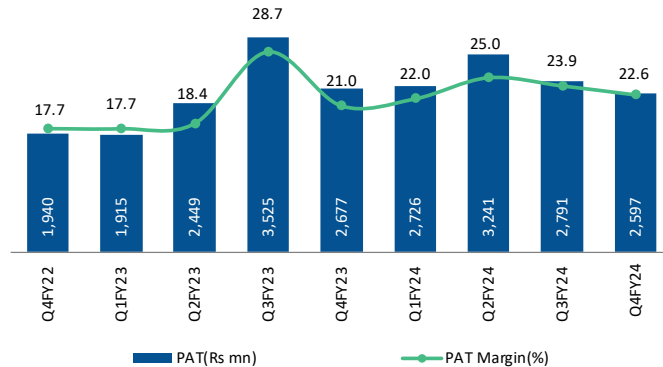


Source: LKP Research

EBITDA &amp; EBITDA Margin trend-Quarter



Adjusted Profit &amp; Profit Margin trend-Quarter



Source: LKP Research

## Profit and Loss Statement

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Revenue</b>	<b>35,665</b>	<b>49,088</b>	<b>48,538</b>	<b>53,803</b>	<b>59,127</b>
Gross profit	20,434	27,722	26,992	29,671	32,361
EBITDA	7,210	12,407	13,338	12,862	14,358
Depreciation	921	930	1,003	1,079	1,170
EBIT	6,288	11,476	12,335	11,783	13,187
Other Income	1,563	2,345	2,814	3,291	3,605
Interest expense	39	201	284	272	269
Exceptional items	0	0	0	0	0
PBT	7,813	13,620	14,865	14,803	16,523
Reported PAT (after minority interest)	6,197	10,559	11,369	11,414	12,740
<b>Adj PAT</b>	<b>6,197</b>	<b>10,559</b>	<b>11,369</b>	<b>11,414</b>	<b>12,740</b>
<b>EPS (Rs.)</b>	<b>65.7</b>	<b>112.0</b>	<b>120.6</b>	<b>121.0</b>	<b>135.1</b>

## Balance Sheet

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Net Worth	47,634	57,003	66,680	76,268	87,180
Deferred Tax	390	399	581	581	581
Total debt	28	4,960	4,546	4,506	4,466
Other liabilities and provisions	1,236	1,337	1,358	1,494	1,643
<b>Total Networth and liabilities</b>	<b>49,288</b>	<b>63,698</b>	<b>73,165</b>	<b>82,849</b>	<b>93,870</b>
Gross Fixed assets	12,759	15,837	17,707	18,607	19,507
Net fixed assets	7,337	9,485	10,352	10,173	9,903
Capital work-in-progress	2,102	1,074	922	922	922
Goodwill	563	543	718	718	718
Investments	10,554	22,543	30,431	33,431	36,431
Cash and bank balances	5,061	8,060	5,536	8,484	14,502
Loans & advances and other assets	5,322	3,817	6,143	6,629	7,163
Net working capital	18,348	18,176	19,063	22,492	24,231
<b>Total assets</b>	<b>49,288</b>	<b>63,697</b>	<b>73,165</b>	<b>82,849</b>	<b>93,870</b>
Capital Employed	48,052	62,360	71,807	81,355	92,227
Invested Capital (CE - cash - CWIP)	30,340	30,691	42,814	49,414	54,268
Net debt	(15,582)	(25,635)	(23,525)	(26,513)	(32,571)

## Key Ratios

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Growth ratios</b>					
Revenue	23.8%	37.6%	-1.1%	10.8%	9.9%
EBITDA	10.0%	72.1%	7.5%	-3.6%	11.6%
Adj PAT	9.5%	70.4%	7.7%	0.4%	11.6%
<b>Margin ratios</b>					
Gross	57.3%	56.5%	55.6%	55.1%	54.7%
EBITDA	20.2%	25.3%	27.5%	23.9%	24.3%
Adj PAT	17.4%	21.5%	23.4%	21.2%	21.5%
<b>Performance ratios</b>					
Pre-tax OCF/EBITDA (%)	17.1%	94.5%	92.2%	96.0%	110.1%
OCF/IC (%)	-1.3%	28.3%	21.1%	18.2%	22.2%
RoE (%)	13.7%	20.2%	18.4%	16.0%	15.6%
RoCE (%)	13.4%	19.4%	17.2%	15.2%	14.9%
RoCE (Pre-tax)	16.9%	25.0%	22.6%	19.7%	19.3%
RoIC (Pre-tax)	23.2%	37.6%	33.6%	25.6%	25.4%
Fixed asset turnover (x)	2.9	3.4	2.9	3.0	3.1
Total asset turnover (x)	0.7	0.9	0.7	0.7	0.7
<b>Financial stability ratios</b>					
Net Debt to Equity (x)	(0.3)	(0.4)	(0.4)	(0.3)	(0.4)
Net Debt to EBITDA (x)	(2.2)	(2.1)	(1.8)	(2.1)	(2.3)
Interest cover (x)	(10.2)	43.2	31.8	33.0	44.7
Cash conversion days	188	135	143	153	150
Working capital days	230	154	179	187	184
<b>Valuation metrics</b>					
Fully Diluted Shares (mn)	94	94	94	94	94
Market cap (Rs.mn)	358,340	358,340	358,340	358,340	358,340
P/E (x)	57.8	33.9	31.5	31.4	28.1
P/OCF(x)	(912.4)	41.3	39.7	40.0	29.8
EV (Rs.mn) (ex-CWIP)	342,836	332,783	334,893	331,905	325,847
EV/ EBITDA (x)	47.6	26.8	25.1	25.8	22.7
EV/ OCF(x)	(872.8)	38.4	37.1	37.0	27.1
FCF Yield (%)	-0.5%	1.9%	1.9%	2.3%	3.1%
Price to BV (x)	7.5	6.3	5.4	4.7	4.1
Dividend pay-out (%)	13.7%	14.3%	13.3%	13.2%	11.8%
Dividend yield (%)	0.2%	0.4%	0.4%	0.4%	0.4%

## Cash Flows

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations (Pre-tax)	1,232	11,719	12,303	12,351	15,811
Cash flows from Operations (post-tax)	(393)	8,677	9,027	8,970	12,037
Capex	(1,255)	(1,948)	(2,108)	(900)	(900)
Free cashflows	(1,648)	6,730	6,920	8,070	11,137
Free cashflows (post interest costs)	(1,678)	6,562	6,647	7,799	10,868
Cash flows from Investing	999	(12,083)	(8,185)	(3,900)	(3,900)
Cash flows from Financing	(2,675)	3,950	(2,110)	(2,122)	(2,120)
Total cash & liquid investments	15,610	30,595	28,071	31,019	37,037



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