AIA ENGINEERING LIMITED

Lower volumes impact performance; volumes uptick awaited

LKP Since 1948

Trust • Invest • Grow

AIA Engineering Limited (AIAE) reported a 9% YoY decline in consolidated sales, totaling ₹10.7 bn, which was below consensus expectations. This drop was primarily due to an 11% fall in volumes to 65.8 KT, though realizations saw a positive uptick, rising 3% YoY (9MFY25: 186.7 KT, down 17% YoY). Contributing factors included a slowdown in demand from certain mining clients—reflecting both systemic and cyclical trends—inventory de-stocking by major customers, and rising freight costs (easing gradually) amid ongoing shipping challenges. The transition from forged media to high chrome grinding media has been delayed as a result of these issues. On the margin front, gross margins improved by 40 bps YoY to 59.3%, and EBITDA margins remained nearly unchanged at 26.5% (-7bps YoY). As a result, PAT dropped 7% YoY to ₹2.6 bn, further impacted by a 19% YoY decline in other income, falling short of estimates. Management also revealed a strategic shift to manufacturing outside India, driven by recent logistics challenges. This includes plans to set up 100 KTpa of high chrome grinding media (50 KTpa each in China and Ghana), with a total capex of USD50 mn, rolled out in phases.

Looking ahead, AIAE expects a reduction in FY25 volumes by 25,000 MT to 30,000 MT. However, the medium to long-term outlook remains strong, as the company is targeting significant contracts that could significantly increase volumes, and is focused on converting several mines in the next couple of quarters. With supply chain issues gradually improving, management's decision to establish production outside India should help mitigate future supply chain disruptions. Given the volume decline and the 9MFY25 performance, we have revised our EPS estimates downward for FY25E and FY26E, while rolling over our valuations to FY27estimates. Consequently, we are maintaining our BUY rating with a revised target price of ₹4,230 (30x FY27E EPS), reflecting the current near-term challenges.

Result snapshot Q3FY25: AIAE's consolidated sales declined by 9% YoY to ₹10.7 bn, with total volumes falling 11% YoY to 65.8 KT. Mining volumes were down 20% YoY, while non-mining volumes grew 10% YoY. Despite the overall decline, per KG realization remained stable, increasing by 3% YoY. The drop in volume was largely due to a slowdown among some mining clients, reflecting both systemic and cyclical factors, inventory de-stocking by several large clients (which is expected to recover in the coming quarters), and shipping challenges, along with volatile freight costs that are gradually easing.

Key Financials	FY23	FY24	FY25E	FY26E	FY27E
Total Sales (₹ mn)	49088	48538	42501	48182	54967
EBITDA Margins (%)	25.3	27.5	27.0	27.2	27.4
PAT Margins (%)	21.5	23.4	24.0	23.6	23.8
EPS (₹)	112.0	120.6	108.2	120.5	139.0
P/E (x)	32.7	30.3	33.8	30.4	26.3
P/BV (x)	6.1	5.2	4.6	4.1	3.6
EV/EBITDA (x)	25.7	24.1	27.6	23.9	20.4
RoE (%)	20.2	18.4	14.4	14.2	14.5
RoCE (%)	19.4	17.2	13.7	13.6	14.0
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4

BUY	
Current Market Price (₹)	3,658
12M Price Target (₹)	4,230
Potential upside (%)	16

Stock Data	
Sector :	Capital Goods
FV (₹) :	2
Total Market Cap (₹ bn) :	340
Free Float Market Cap (₹ bn) :	140
52-Week High / Low (₹)	4,940 / 3,279
BSE Code / NSE Symbol	532683 / AIAENG
Bloomberg :	AIAE IN

Shareholding Pattern

(%)	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	58.50	58.50	58.47	58.47
MFs	20.36	18.84	18.47	17.60
FPIs	17.21	17.94	17.68	18.17
Insurance	1.14	1.56	1.99	2.46
Others	2.79	3.16	3.39	3.30

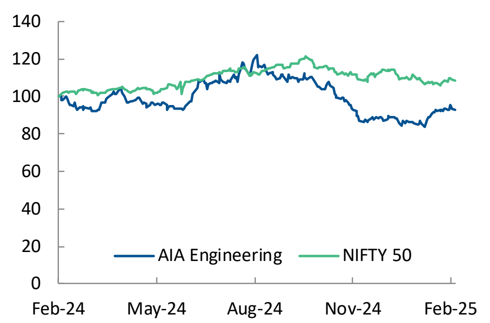
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
AIAE	8.7%	0.0%	-22.3%	-7.0%
Nifty 50	-0.2%	-3.2%	-4.0%	8.2%

** To date / current date : February 10, 2025*

AIAE vs Nifty 50



Avinash Kumar Pathak | avinash_kumar@lkpsec.com
+91 22 66351213

These issues have delayed the shift from forged media to high chrome grinding media, though AIAE views this as a cyclical, rather than structural issue. On the margin side, gross margins improved by 40 bps YoY to 59.3%, while EBITDA margins were nearly unchanged at 26.5% (-7 bps YoY). As a result, PAT declined by 7% YoY to ₹2.6 bn, further impacted by a 19% YoY drop in other income.

Shift in Strategy: AIAE is shifting its strategy by moving production facilities outside of India, abandoning its previous "Make in India, ship to the world" model. With current capacity in India fixed at 460,000 tonne and no plans for expansion, the previously announced 80,000 tonne plant has been canceled. This shift is driven by volatile freight costs, with rates increasing up to five times, making global shipping unpredictable, as well as longer lead times to regions like South America. The new approach aims to bring production closer to key markets, reducing shipping expenses and transit times. Two modular grinding media plants will be established—one in China to serve nearby markets and expected to begin operations in the second half of next year, and another in Ghana to cater to West Asia's gold customers, expected within 18 months. Both plants will have a 50,000-tonne capacity and require a combined capital expenditure of $50 million, utilizing advanced manufacturing technologies and automation for efficiency.

Quarterly Performance

(₹ mn)	Q3FY25	Q3FY24	*YoY Growth*	Q2FY24	*QoQ Growth*
Revenues	**10,662**	**11,692**	***-8.8%***	**10,442**	***2.1%***
Material cost	4,334	4,806	*-9.8%*	4,295	*0.9%*
Employee cost	465	432	*7.7%*	465	*0.0%*
Other expenditure	3,032	3,341	*-9.3%*	2,925	*3.6%*
Operating Expenses	7,832	8,579	*-8.7%*	7,685	*1.9%*
EBITDA	**2,831**	**3,112**	***-9.0%***	**2,757**	***2.7%***
EBITDA margins	*26.5%*	*26.6%*	*-7bps*	*26.4%*	*15bps*
Depreciation	262	270	*-3.0%*	236	*11.1%*
Other income	673	831	*-19.0%*	901	*-25.3%*
EBIT	3,242	3,673	*-11.7%*	3,422	*-5.3%*
Interest	10	71	*-86.0%*	53	*-81.2%*
PBT	3,232	3,603	*-10.3%*	3,369	*-4.1%*
Tax	685	811	*-15.5%*	809	*-15.3%*
Effective tax rate	21.2%	22.5%		24.0%	
PAT (Excl. EI)	**2,592**	**2,796**	***-7.3%***	**2,567**	***1.0%***
PAT margin	*24.3%*	*23.9%*	*40bps*	*24.6%*	*-27bps*
EPS (₹)	27.5	29.6	*-7.3%*	27.2	*1.0%*

Source: Company, LKP Research

Outlook:

As we look ahead, AIAE is projecting a decline in FY25 volumes by 25,000 MT to 30,000 MT. Despite this short-term challenge, the medium to long-term outlook remains optimistic, supported by the company's technological edge in high chrome mill internals, substantial growth potential in the mining sector (with only 20% conversion achieved), and robust financial performance. While volumes may remain subdued in the near term, opportunities for growth could arise as the market stabilizes. Considering the expected volume drop and 9MFY25 performance, we have revised our EPS estimates downward for FY25E and FY26E and introduced FY27E rolling over our estimates to the same. Consequently, we are maintaining a BUY rating, with a revised target price of ₹4,230 (30x FY27E EPS) reflecting the current near-term challenges.

Concerns/Risks

- Forex fluctuations: AIAE derives nearly 73% of product sales through exports while imports are largely domestically sourced. Any sharp appreciation in ₹ is likely to result in likely 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

Concall Highlights

Guidance:

- Expected volume between 250,000 and 260,000 tonne. This is notably lower than the previous year's 290,000 tonne.
- The company anticipates returning to a growth trajectory of 25,000-35,000 tonne of incremental annual volume, but visibility for this is expected to improve over the next 2-3 quarters.
- Continued focus on converting more mines to their Hi-Chrome solutions. They expect good conversions in the next one or two quarters.
- The company believes that they should do better than the historical 21%-22% margin on a medium to long-term basis.
- However, they are not providing any specific margin guidance for the next few quarters

Factors Affecting Volume:

- Destocking: Some destocking by large customers has impacted volumes, but this is expected to recover in the coming quarters.
- Freight Rates: While shipping freight rates are easing, they have been volatile and have impacted the company's strategy.
- Conversion: The company is focused on converting mines to use their Hi-Chrome solutions, which will contribute to growth.

Current Margins:

- The company has been consistently achieving better margins.
- Even when excluding treasury and other income, the operating margins are in the range of 27% to 28%.
- This strong margin performance is attributed to multiple factors, including product mix

Global Production:

- New Strategy: AIAE is shifting its mindset to set up production facilities outside of India, a major change from their “make in India, ship to the world” approach.
- Capacity in India: Current capacity remains at 460,000 tonne, with no further expansion planned. The previously announced 80,000 tonne plant has been scaled back and then cancelled.

Rationale: The change is motivated by:

- Volatile freight environment with rates going up as much as 5x, making global shipping unreliable for their business.
- Longer lead times to certain markets like South America.
- Desire to get production closer to markets, reducing shipping costs and transit times.

Capex:

- Capex incurred till Nine Months FY –2025 : ₹1290 mn.
- CapEx for the next year will be around INR 500 mn for renewable energy, ₹500 mn for maintenance
- New Facilities: Two modular grinding media plants will be established:
- China: Serves markets with shorter lead time, with an expectation of contributing in the second half of next year.
- Ghana: Caters to West Asian opportunities, primarily for gold customers; expected to be operational within 18 months.
- Modular Plants: These will be modular plants with a capacity of 50,000 tonnes each.
- Capital Expenditure: Combined CapEx for both plants is estimated at $50 million.
- Technology: The plants will utilize the latest manufacturing technology and automation methods to ensure capital efficiency.

Mill Liners Business:

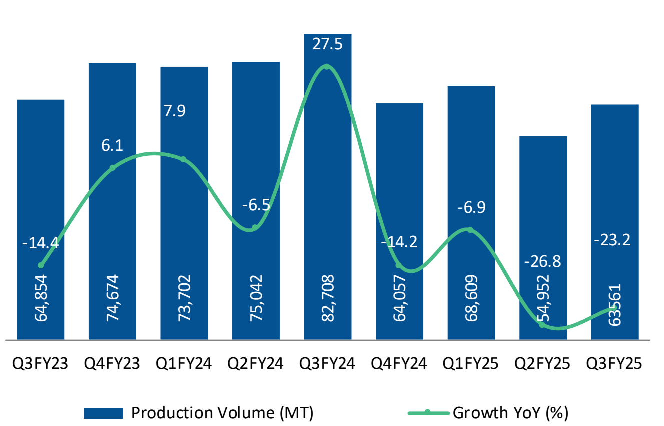
- Traction: The mill liner business has been slower than expected.
- Mill liners are seen as an important tool for breaking into customer relationships, particularly with the new grinding media production.
- Rubber and Composites: Deliveries of rubber and composite liners have started in small quantities, with ramp-up expected over the next year.

Competitive Landscape:

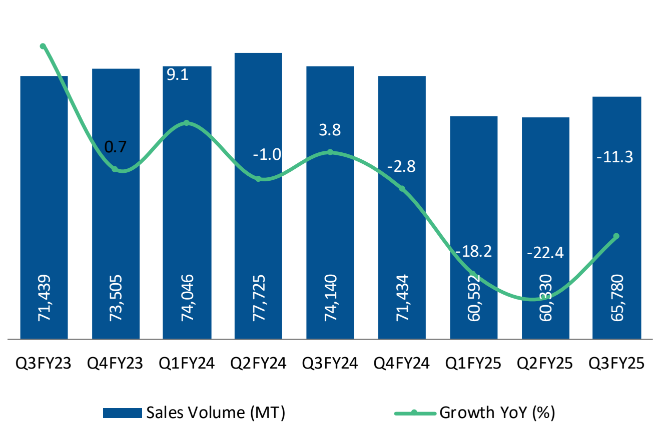
- Magotteaux: The company is aware of competitor Magotteaux’s global presence, but aims to avoid their margin challenges by adopting modular plants, automation, and efficient designs.
- Other Competitors: While management acknowledges the presence of other large players in the industry, they do not perceive them as an immediate threat.

Financial Charts

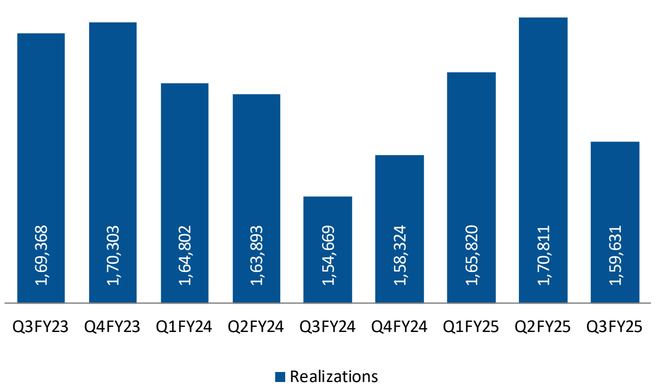
Production volumes



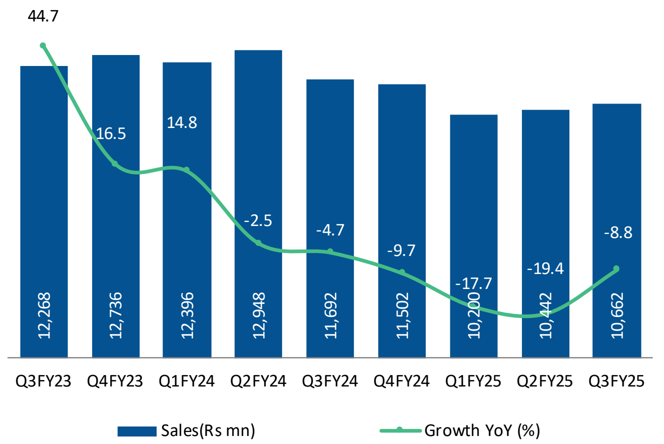
Sales volume



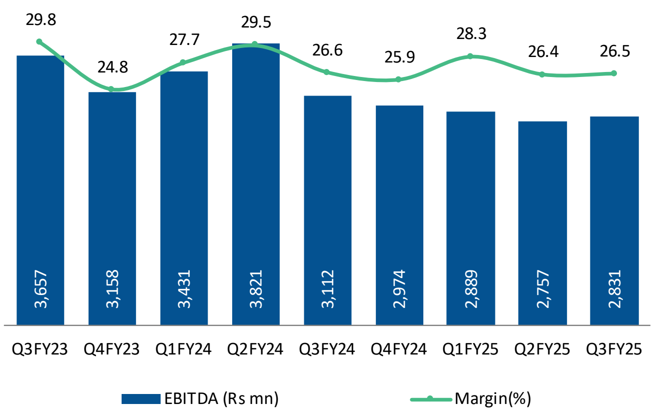
Realisations



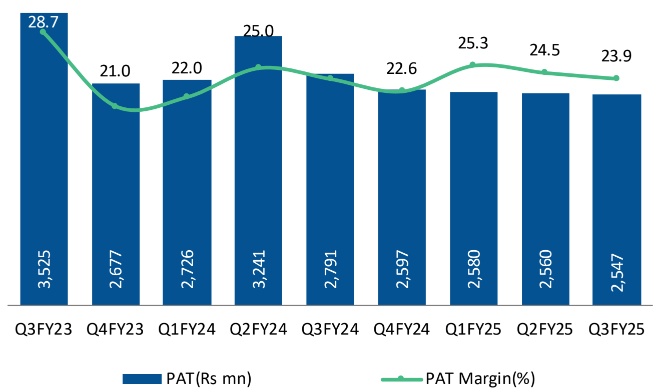
Revenue growth



EBITDA & EBITDA Margin trend-Quarter



Adjusted Profit & Profit Margin trend-Quarter



Source: Company, LKP Research

LKP Since 1948 Trust • Invest • Grow

Income Statement

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	49,088	48,538	42,501	48,182	54,967
Gross profit	27,722	26,992	24,457	27,768	31,617
EBITDA	12,407	13,338	11,465	13,083	15,047
Depreciation	930	1,003	1,071	1,161	1,276
EBIT	11,476	12,335	10,394	11,922	13,771
Other Income	2,345	2,814	3,057	3,053	3,454
Interest expense	201	284	221	242	230
PBT	13,620	14,865	13,230	14,732	16,994
Reported PAT	10,559	11,369	10,203	11,361	13,104
Adj PAT	10,559	11,369	10,203	11,361	13,104
EPS (₹.)	112.0	120.6	108.2	120.5	139.0

Key Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth ratios					
Revenue	37.6%	-1.1%	-12.4%	13.4%	14.1%
EBITDA	72.1%	7.5%	-14.0%	14.1%	15.0%
Adj PAT	70.4%	7.7%	-10.3%	11.4%	15.3%
Margin ratios					
Gross	56.5%	55.6%	57.5%	57.6%	57.5%
EBITDA	25.3%	27.5%	27.0%	27.2%	27.4%
Adj PAT	21.5%	23.4%	24.0%	23.6%	23.8%
Performance ratios					
Pre-tax OCF/EBITDA (%)	94.5%	92.2%	134.7%	105.1%	101.5%
OCF/IC (%)	28.3%	21.1%	26.8%	20.2%	19.9%
RoE (%)	20.2%	18.4%	14.4%	14.2%	14.5%
RoCE (%)	19.4%	17.2%	13.7%	13.6%	14.0%
RoCE (Pre-tax)	25.0%	22.6%	17.7%	17.7%	18.2%
RoIC (Pre-tax)	37.6%	33.6%	23.3%	24.4%	25.4%
Fixed asset turnover (x)	3.4	2.9	2.2	2.3	2.5
Total asset turnover (x)	0.9	0.7	0.5	0.6	0.6
Financial stability ratios					
Net Debt to Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt to EBITDA (x)	(2.1)	(1.8)	(2.5)	(2.5)	(2.5)
Interest cover (x)	43.2	31.8	56.2	42.9	49.4
Cash conversion days	135	143	153	150	150
Working capital days	154	179	197	191	189
Valuation metrics					
P/E (x)	32.7	30.3	33.8	30.4	26.3
P/OCF(x)	39.8	38.2	27.8	33.2	30.3
EV/ EBITDA (x)	25.7	24.1	27.6	23.9	20.4
EV/ OCF(x)	36.8	35.6	25.5	30.1	26.9
FCF Yield (%)	2.0%	2.0%	2.9%	2.7%	3.0%
Price to BV (x)	6.1	5.2	4.6	4.1	3.6
Dividend pay-out (%)	14.3%	13.3%	14.8%	13.3%	11.5%
Dividend yield (%)	0.4%	0.4%	0.4%	0.4%	0.4%

Balance Sheet

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Worth	57,003	66,680	75,057	84,590	95,865
Deferred Tax	399	581	581	581	581
Total debt	4,960	4,546	4,296	4,046	3,896
Other liabilities & provisions	1,337	1,358	1,494	1,643	1,808
Total Networth & liabilities	**63,698**	**73,165**	**81,428**	**90,861**	**1,02,150**
Gross Fixed assets	15,837	17,707	20,207	21,107	22,007
Net fixed assets	9,485	10,352	11,782	11,521	11,144
Capital work-in-progress	1,074	922	922	922	922
Goodwill	543	718	718	718	718
Investments	22,543	30,431	33,431	36,431	39,431
Cash and bank balances	8,060	5,536	10,180	14,360	19,657
Loans & advances	3,817	6,143	6,629	7,163	7,751
Net working capital	18,176	19,063	17,767	19,746	22,526
Total assets	**63,697**	**73,165**	**81,428**	**90,861**	**1,02,150**
Capital Employed	62,360	71,807	79,934	89,217	1,00,342
Invested Capital	30,691	42,814	46,297	51,400	57,228
Net debt	(25,635)	(23,525)	(28,419)	(32,849)	(38,297)

Cash Flow

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
CFO (Pre-tax)	11,719	12,303	15,444	13,744	15,267
CFO(post-tax)	8,677	9,027	12,426	10,383	11,388
Capex	(1,948)	(2,108)	(2,500)	(900)	(900)
Free cash flows	6,730	6,920	9,926	9,483	10,488
Free cash flows (post interest costs)	6,562	6,647	9,705	9,241	10,258
Cash flows from Investing	(12,083)	(8,185)	(5,500)	(3,900)	(3,900)
Cash flows from Financing	3,950	(2,110)	(2,282)	(2,302)	(2,191)
Total cash	8,060	5,536	10,180	14,360	19,657

DISCLAIMERS AND DISCLOSURES

LKP Sec. ltd. (CIN-L67120MH1994PLC080039, www. Lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited(NSE), MCX Stock Exchange Limited (MCX-SX).LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report-:

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.