AIA ENGINEERING LIMITED

Facing headwinds, recovery remains anticipated

AIAE reported revenue of ₹11.6 bn, a moderate growth of 0.6% YoY. AIAE's volume were 68,741/ 255,443 MT in Q4/ FY25, declining by 3.8%/14% YoY respectively. The drop was primarily due to inventory corrections by key customers, logistics disruptions, and delayed new conversions, while one rare customer loss to competition due to the duty-related uncertainty, hence impacting volumes. Slower ramp-up in the mining liner segment and regional trade uncertainties further weighed on overall growth momentum. Realizations improved by 4.3%/3.1% YoY to ₹168 per kg in Q4/ FY25.

Despite multiple duties and tariffs, including a 9.6% dumping duty and other tariffs, the US business remains stable, with customers currently absorbing the additional costs. Management expects more clarity on US trade policies in the coming quarters, while the recent termination of Brazil's 12% dumping duty supports its fair pricing stance and offers a positive outlook in that market. Due to global volatility, management has refrained from providing volume growth guidance for FY26, though it continues to aim for a potential 25,000–30,000 MT annual addition based on the revised FY25 base. AIAE remains focused on securing new mine conversions and large contracts, with a potential breakthrough in Chile seen as a major opportunity—though management remains cautious, given past near-misses in the region.

AIAE continues its commitment to global supply chain optimization with progress on its planned 50,000-ton grinding media plants each in China and Ghana, aimed at reducing freight costs, shortening transit times, and improving market access in South America and West Africa, with a total investment of USD 50 mn over the next 2–2.5 years. Despite near-term headwinds from global uncertainties and customer-specific challenges, AIAE's strategic investments, resilient US operations, and focus on long-term growth opportunities position it well for recovery in the coming quarters and sustainable expansion. Given the challenges leading to decline in volumes, we have cut down out estimates for EPS in FY26 & FY27 but continue to maintain our **BUY** rating on the stock with a TP of ₹3,970, based on a 30x multiple of FY27E EPS.

Key Financials	FY23	FY24	FY25	FY26E	FY27E
Total Sales (Rs mn)	49,088	48,538	42,874	45,923	50,950
EBITDA Margins (%)	25.3	27.5	26.8	26.8	27.1
PAT Margins (%)	21.5	23.5	24.7	24.0	24.1
EPS (Rs)	112.0	120.7	113.5	118.0	131.5
P/E (x)	29.9	27.8	29.5	28.4	25.5
P/BV (x)	5.5	4.7	4.6	4.0	3.5
EV/EBITDA (x)	23.4	21.9	25.6	23.8	21.0
RoE (%)	20.2	18.4	15.6	14.9	14.6
RoCE (%)	19.4	17.2	14.5	14.0	13.9
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5

BUY

Current Market Price (₹)	:	3,360
12M Price Target (₹)	:	3,970
Potential Return (%)	:	18

Stock Data

Sector	:	Capital Goods
Face Value (₹)	:	2
Total MCap (₹ bn)	:	309
Free Float MCap (₹ bn)	:	128
52-Week High / Low (₹)	:	4,950 / 3,027
BSE Code / NSE Symbol	:	532683 / AIAENG
Bloomberg	:	AIAE IN
Sensex / Nifty	:	81,721 / 24,853

Shareholding Pattern

(%)	Mar-25	Dec-24	Sep-24	Jun-24
Promoter	58.50	58.50	58.50	58.47
MFs	20.48	20.36	18.84	18.47
FPIs	17.06	17.21	17.94	17.68
Insurance	1.16	1.14	1.56	1.99
Others	2.80	2.79	3.16	3.39

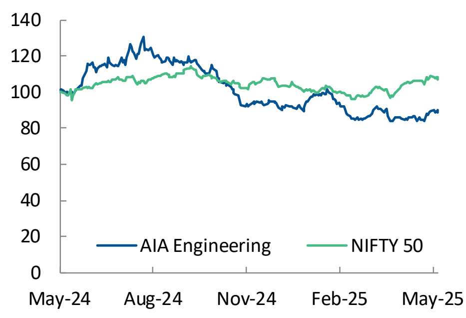
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
AIAENG	5.9%	-2.3%	-2.9%	-10.2%
Nifty 50	2.2%	9.0%	4.0%	8.2%

** To date / current date : May 23, 2025*

AIAENG vs Nifty 50



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Result Snapshot

In Q4 FY25, AIA Engineering reported revenue of ₹11.6 bn, reflecting a growth of 8.5%/0.6% on QoQ/YoY. EBITDA stood at ₹3 bn, improving by 6.5%/1.4% on QoQ/YoY. The EBITDA margin slightly decreased to 26.1% from 26.5% in Q3 FY25 but was below the 25.9% recorded in Q4 FY24. EBIT in Q4 FY25 rose to ₹3.7 bn, showing a 15.1%/4.7% rise on QoQ/YoY. Volumes in the mining segment improved by 3.4%/8.2% on YoY/QoQ to 46,452/ MT in Q4. The mill liner business is growing well with strong investment and now contributes double-digit volumes, though the grinding media business remains the main volume driver. APAT was ₹2.8 bn (+9.8%/7.7% QoQ/ YoY) with a margin of 24.2% (+30bps/ 160 bps QoQ/YoY). On the balance sheet front, gross debt increased to Rs.4.9 bn bringing the gross debt to equity to 0.1. AIAE showed strong growth of ~29% YoY in CF from operations which was Rs.11.6 bn. AIAE maintains a healthy cash position, supported by robust cash flows and strong liquid investments.

Quarterly Performance

(₹ mn)	Q4 FY25	Q3 FY25	QoQ (%)	Q4 FY24	YoY (%)
Net Sales	11,413	10,501	8.7	11,310	0.9
Other Operating Income	157	162	-	193	-
Material Expenses	4,759	4,334	9.8	5,037	(5.5)
Gross Profit	6,811	6,328	7.6	6,465	5.4
Employee Expenses	464	465	(0.3)	442	5.0
Other Operating Expenses	3,331	3,032	9.9	3,049	9.2
EBITDA	3,016	2,831	6.6	2,974	1.4
Depreciation	279	262	6.7	245	13.9
EBIT	2,737	2,569	6.5	2,729	0.3
Other Income	922	673	37.0	765	20.6
Interest Cost	85	10	753.9	64	32.4
PBT	3,574	3,232	10.6	3,430	4.2
EO Items (Adj For Tax)	-	-	-	-	-
Tax	778	685	13.5	832	(6.6)
RPAT	2,796	2,547	9.8	2,597	7.7
APAT	2,796	2,547	9.8	2,597	7.7
Adj EPS (Rs)	30.2	27.5	10.0	27.6	9.5

Source: Company, LKP Research

Segment Revenue	Q4 FY25	Q3 FY25	QoQ (%)	Q4 FY24	YoY (%)
Volumes (MT)	68,741	60,592	13.4%	71,433	-3.8%
Net relisation (Rs/tonne)	1,68,319	1,75,968	-4.3%	1,61,021	4.5%

Source: Company, LKP Research

Margin Analysis	Q4 FY25	Q3 FY25	QoQ (bps)	Q4 FY24	YoY (bps)
Gross Margin (%)	59.7	60.3	(58.5)	57.2	251.3
Employee Exp. % of Sales	4.1	4.4	(36.5)	3.9	15.8
Other Op. Exp % of Sales	29.2	28.9	31.1	27.0	222.5
EBITDA Margin (%)	26.4	27.0	(53.1)	26.3	13.0
Tax Rate (%)	21.8	21.2	56.4	24.3	(251.1)
APAT Margin (%)	24.5	24.3	24.5	23.0	153.7

Source: Company, LKP Research

Outlook

As we look ahead, AIAE is projecting to maintain an incremental growth in volumes by 25,000 MT to 30,000 MT on a low base of FY25. Despite short-term challenges, the medium to long-term outlook remains positive, driven by AIAE's technological edge in high chrome mill internals, significant mining sector potential (with only 20% conversion), and strong financials. While near-term volumes may be subdued, growth opportunities could emerge as markets stabilize. Due to the FY25 volume decline, we revise down our FY26E and FY27E EPS estimates but maintain our **BUY** rating with a TP of ₹3,970, based on a 30x FY27E EPS multiple.

Key highlights from Earnings Call

- **Realizations:** Non-grinding media (e.g., mill liners, vertical mill parts) was ₹130–250/kg. Margin profiles are similar to grinding media but vary in cost due to chrome content, machining, and complexity.

- **Outlook and Guidance:** No official volume growth guidance for FY26 due to global volatility. Maintains aspiration for 25,000–30,000 MTPA volume addition based on the revised FY25 base.

  South America Focus: A potential breakthrough in Chile could be transformational; outcome expected within two quarters.

  Ongoing Initiatives: Actively pursuing new mines and large conversion contracts globally.

- **Macro Challenges:** Global Headwinds due to geopolitical tensions, wars, shipping disruptions, and tariffs have impacted planning and execution.

  Conversion Complexity led by varying adoption challenges across geographies for high chrome solutions due to cultural, regulatory, and risk differences.

  Freight prices remained volatile owing to post-COVID and Red Sea disruptions have increasing customer anxiety—reinforcing the need for geographically diversified production.

- **Tariffs and Trade Measures-** USA: Subject to ~9.6% anti-dumping and countervailing duty (CVD), plus Section 232 tariff and baseline duties. Sales continue despite duties (8-10% of total revenues) ; customers are absorbing the cost. Legal proceedings ongoing; clarity expected in 1–2 quarters.

  Brazil: 12% dumping duty removed; CVD of ~6% under review.

  Global Trend: Emerging protectionist policies are, in many cases, working in the AIAE's favor.

- **Volume and Customer Dynamics:** Volume Loss: 8,000–10,000 tons lost over the past year due to inventory corrections at 2–3 customers.

  One significant customer switched to a competitor—described as a rare event in 20 years. Believed to be linked to tariff-related uncertainty. One major customer expected to normalize volume in the next quarter.

- **Expansion:** AIAE plans to set up two new 50,000-ton plants in China and Ghana to improve supply chain efficiency and reduce freight costs. The China plant is expected to start partial operations within 12 months, while Ghana is in the approval stage with clarity expected in two quarters. These strategic moves aim to support faster customer conversion and regional growth.

  In addition, the company has earmarked a capital expenditure of ₹1.2-1.3 bn for investments in renewable energy projects and routine maintenance activities in FY26.

Income Statement

(₹ mn)	FY24	FY25	FY26E	FY27E
Revenue	48,538	42,874	45,923	50,950
Gross profit	26,992	24,889	26,446	29,263
EBITDA	13,338	11,492	12,323	13,792
Depreciation	1,003	1,031	1,185	1,305
EBIT	12,335	10,461	11,138	12,487
Other Income	2,814	3,316	3,409	3,653
Interest expense	284	211	242	205
PBT	14,865	13,567	14,305	15,935
Reported PAT	11,384	10,594	11,015	12,270
Adj PAT	11,384	10,594	11,015	12,270
EPS (₹)	120.7	113.5	118.0	131.5

Key Ratios

	FY24	FY25	FY26E	FY27E
Growth ratios				
Revenue	-1.1%	-11.7%	7.1%	10.9%
EBITDA	7.5%	-13.8%	7.2%	11.9%
Adj PAT	7.8%	-6.9%	4.0%	11.4%
Margin ratios				
Gross	55.6%	58.1%	57.6%	57.4%
EBITDA	27.5%	26.8%	26.8%	27.1%
Adj PAT	23.5%	24.7%	24.0%	24.1%
Performance ratios				
Pre-tax OCF/EBITDA (%)	92.2%	123.4%	104.6%	110.2%
OCF/IC (%)	21.1%	24.5%	17.2%	18.4%
RoE (%)	18.4%	15.6%	14.9%	14.6%
RoCE (%)	17.2%	14.5%	14.0%	13.9%
RoCE (Pre-tax)	22.6%	18.7%	18.2%	18.0%
RoIC (Pre-tax)	33.6%	23.2%	21.5%	21.0%
Fixed asset turnover (x)	2.8	2.2	2.1	2.0
Total asset turnover (x)	0.7	0.6	0.6	0.6
Financial stability ratios				
Net Debt to Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)
Net Debt to EBITDA (x)	(1.8)	(1.9)	(1.9)	(2.0)
Interest cover (x)	31.8	55.1	39.8	56.3
Cash conversion days	143	140	152	152
Working capital days	207	166	178	176
Valuation metrics				
P/E (x)	27.8	29.5	28.4	25.5
P/OCF(x)	35.0	27.2	32.9	27.4
EV/ EBITDA (x)	21.9	25.6	23.8	21.0
EV/ OCF(x)	32.4	25.3	30.5	25.0
FCF Yield (%)	2.2%	3.2%	1.8%	2.9%
Price to BV (x)	4.7	4.6	4.0	3.5
Dividend pay-out (%)	13.3%	14.1%	13.6%	12.2%
Dividend yield (%)	0.5%	0.5%	0.5%	0.5%

Balance Sheet

(₹ mn)	FY24	FY25	FY26E	FY27E
Net Worth	66,680	69,371	78,893	89,670
Deferred Tax	581	966	966	966
Total debt	4,546	4,850	4,450	4,100
Other liabilities & provisions	1,358	1,187	1,325	1,480
Total Networth & liabilities	**73,165**	**76,374**	**85,634**	**96,216**
Gross Fixed assets	18,226	19,905	23,705	26,105
Net fixed assets	10,872	11,519	14,134	15,229
Capital work-in-progress	922	769	769	769
Goodwill	199	199	199	199
Investments	30,431	39,185	42,185	45,685
Cash and bank balances	5,536	4,375	5,057	8,667
Loans & adv & other assets	6,143	3,861	4,165	4,449
Net working capital	19,063	16,465	19,124	21,218
Total assets	**73,165**	**76,374**	**85,634**	**96,216**
Capital Employed	71,807	75,187	84,309	94,736
Invested Capital (CE - cash - CWIP)	42,814	47,507	55,947	62,765
Net debt	(23,525)	(22,060)	(23,142)	(27,102)

Cash Flow

(₹ mn)	FY24	FY25	FY26E	FY27E
Cash flows from Operations (Pre-tax)	12,303	14,185	12,888	15,201
Cash flows from Operations (post-tax)	9,027	11,623	9,617	11,558
Capex	(2,108)	(1,371)	(3,800)	(2,400)
Free cashflows	6,920	10,252	5,817	9,158
Free cashflows (post interest costs)	6,647	10,091	5,575	8,953
Cash flows from Investing	(8,185)	(1,941)	(6,800)	(5,900)
Cash flows from Financing	(2,110)	(7,427)	(2,135)	(2,048)
Total cash & liquid investments	28,071	26,910	27,592	31,202

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