

AIA Engineering (AIA) is a niche player in the global grinding mill internal market (grinding media, liners, diagraphs etc.) for cement, mining and thermal power generation industries. The current capacity of the company stands at 340,000 MTPA.

Investment Rationale

☞ Healthy growth in revenue

Revenue registered strong 26% YoY growth in Q1FY19 led by healthy increase in both volume and realisation. 14.6% YoY growth in mining volumes (62% of overall volume) and 11.1% growth in others drove 13.2% growth in overall volumes. Realisation/t was up 10% YoY during the quarter. EBITDA clocked growth of 20% YoY as EBITDA margin declined by 103 bps YoY to 21.8% owing to higher other overheads. However, EBITDA/ton witnessed an increase of 6% YoY in Q1FY19. PAT growth was restricted to 18% YoY in Q1FY19 mainly due to higher tax rate.

☞ Strong volume growth visibility

The overall consumable wear parts demand in mining sector is estimated to be in the range of 2.5 to 3 million MT per annum. With high chrome cast media segment constituting less than 20% of the overall market (the balance being served by conventional products like forged grinding media), we believe there exists a huge potential (conversion opportunity) for the company to exploit. Further, strong capex outlay by key major players in the copper and gold mining businesses should continue to support growth. Besides, the management has maintained its guidance of incremental sales volume from mining segment between 40,000-50,000 MTPA from FY19E onwards. With strong growth momentum in mining expected to continue, we factor volume CAGR of 18% over FY18-20E.

☞ Capacity expansion to support growth

The company is pursuing aggressive capacity expansion to reach 440,000 MTPA of high chrome mill internals by FY21 from 340,000 MTPA currently. The incremental capacity will be commissioned in two phases with the first phase of 50,000 MT coming-up in FY19 and the balance in FY20. Apart from this, it is also setting up a greenfield facility to manufacture 50,000 MT of "mill liners". To reduce its power cost (11% of topline), the company is also investing in wind mills and has already ordered two turbines of 2.1 MW each. The total combined outlay for all these investments is close to Rs. 800 crores, of which, Rs. 500 cr. will be spent in FY19 and the balance in FY20. The company will fund this capex through internal accruals.

Valuation: Given, AIA's established global footprint with major mining companies, strong replacement demand in mining segment and capacity expansion, we expect strong revenue/PAT CAGR of 22%/17% for FY18-20E. Hence, we recommend 'BUY' rating on the stock with TP of Rs. 1,934 at 30x FY20E EPS.

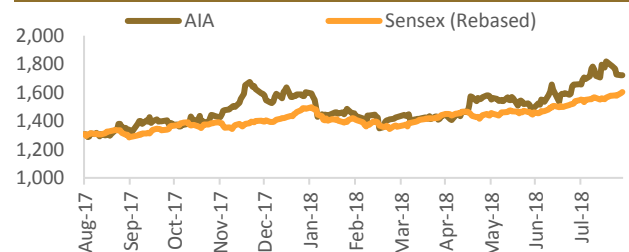
Market Data

Rating	BUY
CMP (Rs.)	1,750
Target (Rs.)	1,934
Potential Upside(%)	11%
Duration	Long Term
Face Value (Rs.)	2.0
52 week H/L (Rs.)	1,887/1,294
Decline from 52WH (%)	7.2
Rise from 52WL (%)	35.2
Beta	0.6
Mkt. Cap (Rs.Cr)	16,506

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Revenue (Rs.Cr)	2,246	2,445	3,020	3,624
Net profit (Rs.Cr)	457	444	502	608
EPS (Rs.)	48.5	47.0	53.2	64.5
P/E (x)	36.1	37.2	32.9	27.1
P/BV (x)	6.1	5.5	4.8	4.2
ROE (%)	18.1	15.4	15.6	16.5

One year Price Chart



Shareholding Pattern

	Jun-18	Mar-18	Chg.
Promoters (%)	58.5	61.7	(3.2)
FII (%)	23.0	23.1	(0.1)
DII (%)	13.4	10.5	2.9
Public (%)	2.3	2.1	0.2
Other (%)	2.8	2.6	0.2

AIA Engineering Ltd: Business Overview

AIA Engineering (AIA) is a niche player in the global grinding mill internal market (grinding media, liners, diagraphs etc.) for cement, mining and thermal power generation industries. It is engaged in designing, developing, manufacturing and installing abrasion and corrosion resistant castings for grinding and crushing operations. The company caters to more than 500 customers globally including global mining and cement majors such as Anglo, Rio Tinto, Vale, Arcelor Mittal, Barrick Gold, Holcim, Lafarge, Cemex, etc. The current capacity of the company stands at 340,000 MTPA.

AIA's customers base across industries



Mining

Rio Tinto | Anglo American | BHP
Billiton | Vale | Arcelor Mittal |
Newmont Mining Corporation



Cement Plants

Lafarge | Holcim | Heidelberg |
Cemex | Italcementi | Polysius |
Votorantim



Thermal Power

National Thermal Power
Corporation | All State Electricity
Boards in India | Bharat Heavy
Electricals Limited | Doosan
Corporation | Larsen and Turbo
Hitachi and Alstom

Source: Company, In-house research

Quarterly Financials (Consolidated)

(Rs cr)	Q1FY19	Q1FY18	YoY		QoQ	
			Growth %	Q4FY18	Growth %	
Sales	715	570	25.5	744	(3.8)	
EBITDA	156	130	19.8	167	(6.6)	
EBITDA Margin (%)	21.8	22.8	(103bps)	22.4	(64bps)	
Depreciation	17	18	(6.9)	14	18.3	
EBIT	139	112	24.0	153	(8.9)	
Interest	2	1	30.7	3	(35.7)	
Other Income	20	18	9.0	50	(59.3)	
Exceptional Items	-	-	-	-	-	
PBT	157	129	21.8	199	(21.0)	
Tax	53	40	29.8	47	10.6	
PAT	105	89	18.2	152	(30.9)	
Minority Interest	-	-	-	-	-	
Reported PAT	105	89	18.2	152	(30.9)	
Adjustment	-	-	-	-	-	
Adj PAT	105	89	18.2	152	(30.9)	
EPS (Rs)	16.1	12.2	31.7	12.4	30.2	

Source: Company, In-house research

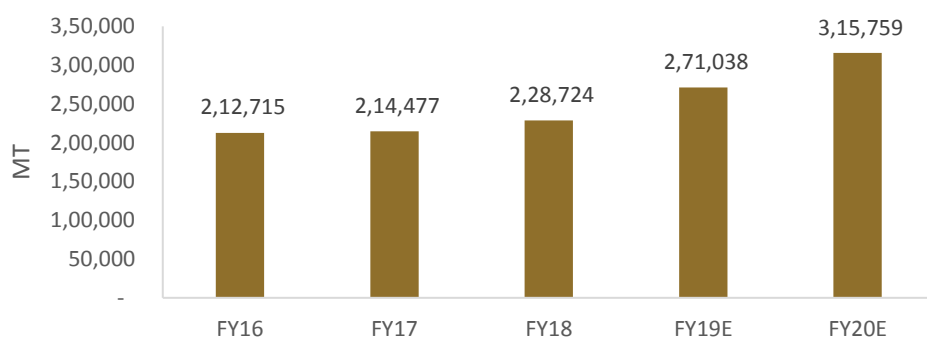
Healthy growth in revenue

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Strong volume growth visibility

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Sales volume to grow at a robust CAGR of ~18% over FY18-20E

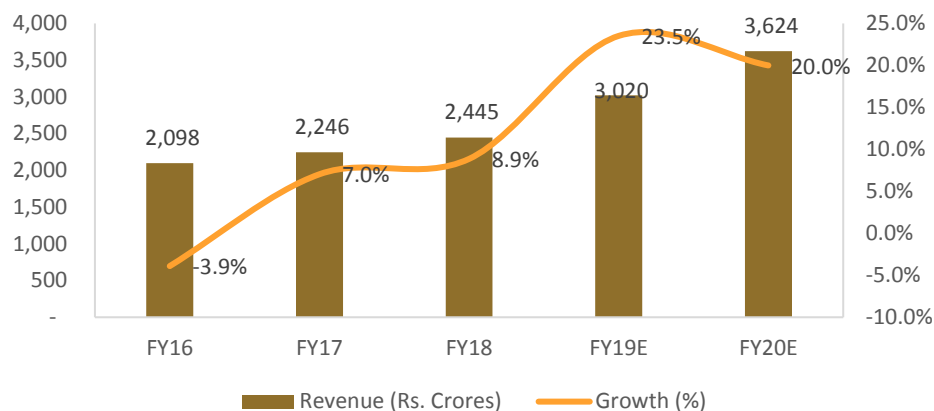


Source: Company, In-house research

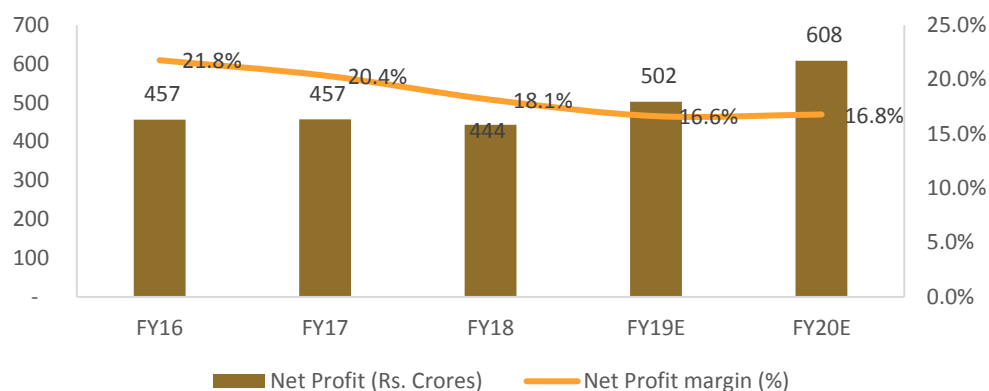
Capacity expansion to support growth

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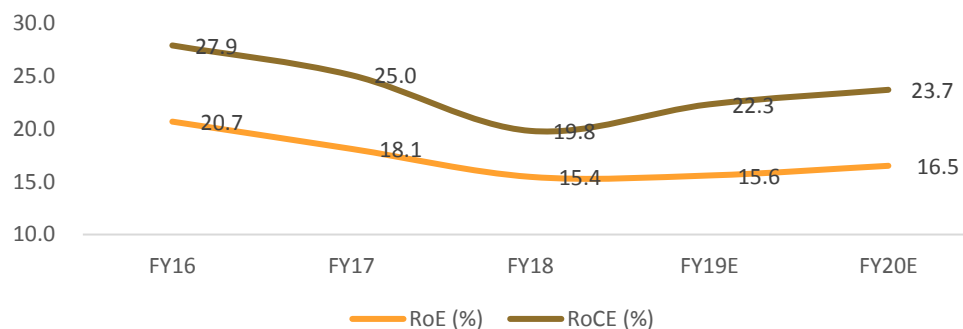
Revenue to grow at a CAGR of 19% over FY18-20E



Healthy traction in net profit growth going ahead



Return ratios trend



Source: Company, In-house research

Key Risks:

- Adverse cross-currency foreign exchange rate fluctuation.
- Volatility in raw material prices could impact margins.
- Delay in capacity addition would impact volumes.

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Total operating Income	2,246	2,445	3,020	3,624
Raw Material cost	742	964	1,200	1,440
Employee cost	107	113	130	152
Other operating expenses	762	832	984	1,146
EBITDA	635	536	706	887
Depreciation	72	66	83	114
EBIT	562	470	623	773
Interest cost	4	7	8	8
Other Income	104	122	123	129
Profit before tax	662	585	739	894
Tax	205	141	236	286
Profit after tax	457	444	502	608
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	457	444	502	608
E/o income / (Expense)	-	-	-	-
Reported PAT	457	444	502	608

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Paid up capital	19	19	19	19
Reserves and Surplus	2,698	2,990	3,402	3,919
Net worth	2,717	3,009	3,421	3,938
Minority interest	8	9	9	9
Total Debt	116	123	123	123
Other non-current liabilities	79	82	75	67
Total Liabilities	2,920	3,223	3,627	4,137
Total fixed assets	650	651	965	1,251
Capital WIP	43	97	200	150
Goodwill	-	-	-	-
Investments	960	1,092	942	942
Net Current assets	1,181	1,271	1,408	1,682
Other non-current assets	87	112	112	112
Total Assets	2,920	3,223	3,627	4,137

Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Pretax profit	662	585	739	894
Depreciation	72	66	83	114
Chg. in Working Capital	(243)	(105)	(224)	(243)
Others	(98)	(93)	-	-
Tax paid	(162)	(161)	(236)	(286)
Cash flow from operating activities	232	292	361	479
Capital expenditure	(81)	(138)	(500)	(350)
Chg. in investments	58	(72)	150	-
Cash flow from investing activities	(23)	(210)	(350)	(350)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(42)	(18)	-	-
Dividend paid	(44)	(133)	(91)	(91)
Other financing activities	-	-	-	-
Cash flow from financing activities	(86)	(151)	(91)	(91)
Net chg in cash	123	(69)	(80)	38
Pretax profit	662	585	739	894

Key Ratios (Consolidated)

Y/E	FY17	FY18	FY19E	FY20E
Growth (%)				
Net Sales	5.4	9.7	23.5	20.0
EBITDA	4.2	(15.6)	31.9	25.5
Net profit	0.1	(3.0)	13.2	21.1
Margin (%)				
EBITDA	28.3	21.9	23.4	24.5
EBIT	29.7	24.2	24.7	24.9
NPM	20.4	18.1	16.6	16.8
Return Ratios (%)				
RoE	18.1	15.4	15.6	16.5
RoCE	25.0	19.8	22.3	23.7
Per share data (Rs.)				
EPS	48.5	47.0	53.2	64.5
DPS	8.0	8.0	8.0	8.0
Valuation(x)				
P/E	36.1	37.2	32.9	27.1
EV/EBITDA	24.3	28.5	22.0	17.5
EV/Net Sales	7.1	6.4	5.3	4.4
P/B	6.1	5.5	4.8	4.2
Turnover Ratios (x)				
Net Sales/GFA	2.4	2.8	2.7	2.4
Sales/Total Assets	0.7	0.7	0.8	0.8

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* AIA is a large-cap company.

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