

AIA Engineering Ltd.

BUY

CMP Rs1,943

Target Rs2,288

Upside 18%

Result Highlights

- ✓ Revenue increased marginally by 0.4% YoY at Rs8.6 bn. Mining volumes came in at 49,642 MT, de-growth of 10% YoY and Cement & other utility volumes were at 29,735 MT, a growth of 10% YoY. The marketing efforts have been impacted as sales team could not travel due to COVID. The Company expects mining and cement industries to pick up which would increase demand for its projects.
- ✓ EBITDA Margin came off by 188 bps to 19.7%. The margins were impacted due to increase in input costs and the Company expects to pass on the increase in coming months to the end customers.
- ✓ Mill Liner Project: The company is in midst of setting up a manufacturing plant of Mill Liners with a capacity of 50,000MT with an estimated capex of Rs2.5bn and it is expected to be commissioned in H2 2021. Post this expansion, total installed capacity will be 4,40,000 TPA. The Present Installed Capacity is 3,90,000 TPA. Kerala GIDC Project: The company has paused its last phase of Grinding Media expansion of 50,000 Mt as of now
- ✓ PAT de-grew by 18.4% yoy to Rs1.3bn. Lower other income was offset by the decline in depreciation costs. Order book as of 1st April 2021 was Rs6.2 bn. Capex incurred for FY21 is Rs 1.18 bn. FY22 Capex pegged at Rs.2.1 bn.
- ✓ Volumes in Canada has been hampered (10% of volumes for AIAE) with the levy of Interim duty of 32.2% for imports of grinding media from India. The Company expects final adjudication on this matter by August 2021.

Our view: The Company's performance has been robust during the quarter in terms of volumes from the mining segment. With the second wave of COVID, there are near term challenges as marketing team is unable to travel and volumes may get impacted during H1 FY22. The margins also may be under little pressure with the increase in costs as Company may not be able to pass on entire cost increase to customers. We have marginally cut our FY22e/FY23e estimates to factor in the impact of COVID related impact on volumes and higher input costs. We retain our BUY rating on the stock for target price of Rs2288/share (30x FY23E EPS).

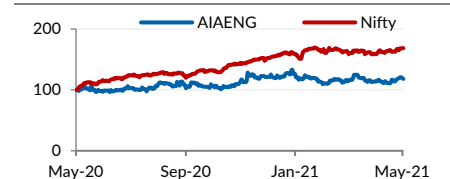
Exhibit 1: Result table (Cons)

Particulars (Rs mn)	Q4 FY21	Q4 FY20	% yoy	Q3 FY21	% qoq
Total sales	8,602	8,569	0.4	6,987	23.1
EBITDA	1,692	1,847	(8.4)	1,723	(1.8)
EBITDAM (%)	19.7	21.6	(189 bps)	24.7	(498 bps)
Depreciation	220	269	(17.9)	230	(4.3)
Interest	7	14	(49.7)	10	(27.9)
Other income	232	292	(20.4)	494	(53.0)
PBT	1,698	1,857	(8.6)	1,977	(14.1)
Tax	366	433	(15.5)	416	(12.0)
Adjusted PAT	1,338	1,625	(17.7)	1,591	(15.9)
Exceptional item	-	(209)	NA	(37)	NA
Reported PAT	1,331	1,424	(6.5)	1,561	(14.7)
PATM (%)	15.6	19.0	(341 bps)	22.8	(722 bps)
EPS (Rs)	14.2	15.0	(5.6)	16.5	(13.9)

Stock data (as on May 25, 2021)

Nifty	15,208
52 Week h/l (Rs)	2234 / 1566
Market cap (Rs/USD mn)	183279 / 2518
Outstanding Shares (mn)	94
6m Avg t/o (Rs mn):	137
Div yield (%):	0.5
Bloomberg code:	AIAE IN
NSE code:	AIAENG

Stock performance



	1M	3M	1Y
Absolute return	3.8%	6.8%	17.9%

Shareholding pattern (As of Mar'21 end)

Promoter	58.47%
FII+DII	38.65%
Others	2.88%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,288	2,366

Financial Summary (Cons)

(Rs mn)	FY21	FY22e	FY23e
Revenue	28,815	33,518	38,937
YoY	(3.3)	16.3	16.2
EBIDTA	6,552	7,160	8,654
Margin	22.7	21.4	22.2
PAT	5,661	6,008	7,193
YoY	(4.1)	6.1	19.7
ROE	14.2	13.4	14.3
EPS	60.0	63.7	76.3
P/E	32.4	30.5	25.5

Δ in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	60.0	63.7	76.3
EPS (Old)	60.0	69.6	78.9
% change	-	(8.5)	(3.3)

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CON-CALL HIGHLIGHTS

- ✓ **Guidance:** The company has refrained to give the volume guidance as of now and are on wait and watch mode for another quarter before giving the guidance due to Covid and evolving situation in Canada. The company remains optimistic over volume growth and hopeful of pickup in activities by Q2. Margins can range between 22-23% on a sustainable basis.
- ✓ **Utilisation:** The company's utilization was lower in the quarter but can scale to 80-90% soon.
- ✓ **Volumes:** 1) The company saw good demand from cement industry in this quarter due to pent up demand. The cement in non-mining forms ~80% while Utility forms balance 20%. With economy coming to normal, the management expects mining and cement industries to pick up (2) Brazil: The company saw 4000MT volumes in Q4 and expects volumes to increase in coming year. (3) Canada: The company sells 24000 tons a year and volumes are expected to be impacted till the duty related resolution takes place.
- ✓ **RM Cost:** The company witnessed sharp jump in Raw material due to rising commodity price. The company plans to make efforts to pass-through the Raw material costs over next few quarters. This move will result into the increase in realization and improved margins.
- ✓ **Mill Liner:** The mill liner Capacity addition has been delayed due to travel restrictions. Expects to commission by Nov-Dec, as most of the equipment is imported from Europe and need specialized engineers. This may delay to FY23 if situation does not improve. Realizations from the Mill Lining are expected to be more than Rs150+/kg versus Rs100-105/kg now.
- ✓ **Client base:** The company witnessed minimal volume addition from the new clients while most volumes came from existing customers. The new client addition has witnessed a dip as COVID prevented marketing staff from travelling. The management believes that new client addition will happen with improvement in economy and as COVID situation stabilize.
- ✓ **Capacity Addition in Gold and Copper:** The company anticipates the capacity addition in Gold and Copper as there is good demand in these segments while no major capex seen in past ten years.
- ✓ **Working Capital and days:** Inventory buildup got liquidated during the quarter resulting into working capital improvement. The company believes that the receivable days are under control.
- ✓ **Capex:** The company has incurred the capex of Rs1.2bn in FY21 mostly towards Mill Lining project. FY22 capex pegged at Rs2.1 bn towards mill lining along with supporting capex of Rs900mn.

FINANCIALS

Exhibit 1: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Share capital	189	189	189	189
Reserve & Surplus	36,824	42,255	47,145	53,158
Total shareholder's funds	37,013	42,443	47,334	53,347
Minority Interest	93	88	88	88
Debt	969	1,845	1,845	1,845
Deferred tax liabilities/(assets)	890	605	735	853
TOTAL	38,965	44,981	50,001	56,133
Net block	8,897	8,114	9,495	9,314
Capital WIP	323	1,609	1,609	1,609
Long term investments	9	2,572	2,572	2,572
Other long-term assets	925	669	781	907
Inventories	7,781	7,548	8,724	10,134
Debtors	6,508	6,410	7,346	8,534
Cash & cash equivalents	15,725	19,468	21,090	24,939
Loans & advances	43	32	37	43
Total current liabilities	2,657	2,601	3,030	3,520
Net current assets	28,811	32,016	35,544	41,730
TOTAL	38,965	44,981	50,001	56,133

Exhibit 2: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
Revenue	29,809	28,815	33,518	38,937
Operating profit	6,803	6,552	7,160	8,654
Depreciation & Amortization	979	935	1,119	1,181
PBIT	5,824	5,617	6,041	7,474
Interest expense	56	43	124	127
Other income	1,419	1,722	1,786	1,875
Exceptional items	0	0	0	0
Profit before tax	7,187	7,296	7,703	9,221
Taxes	1,284	1,639	1,695	2,029
Minorities	0	4	0	0
Adj. Net profit	5,904	5,661	6,008	7,193

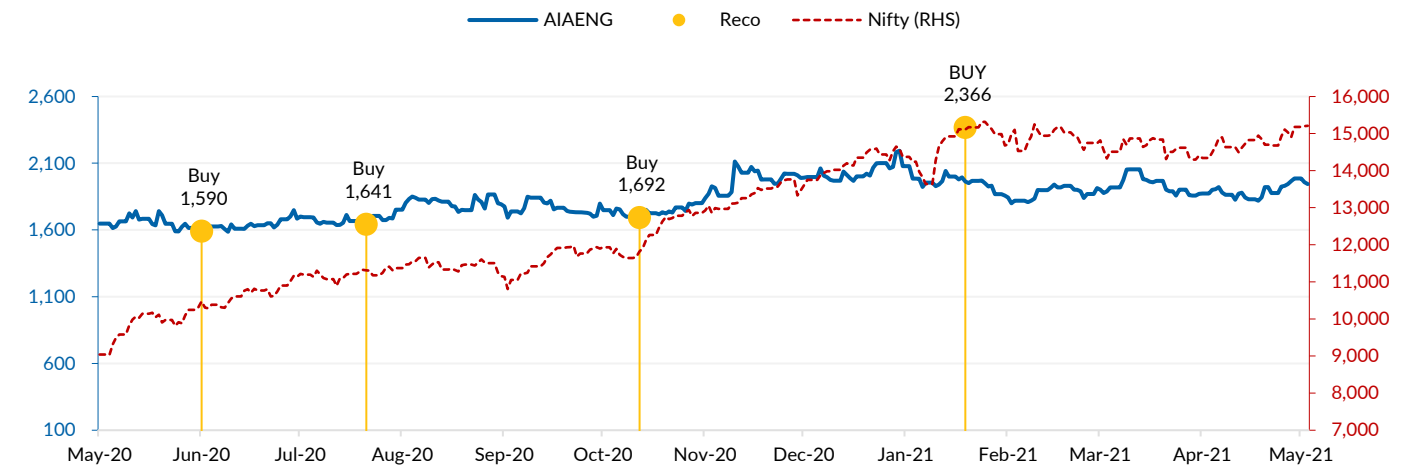
Exhibit 3: Cash flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E
PBT	7,187	7,296	7,703	9,221
Depreciation	979	935	1,119	1,181
Others	(1,108)	0	0	0
Tax Paid	(1,493)	(1,639)	(1,695)	(2,029)
Changes in Working Capital	1,229	539	(1,907)	(2,337)
Net Cash from Operations	6,793	7,131	5,221	6,037
Capex	(1,310)	(1,183)	(2,611)	(1,126)
Change in Investment	(2,045)	(2,564)	0	0
Others	248	0	0	(0)
Net Cash from Investing	(3,107)	(3,746)	(2,611)	(1,126)
Change in debt	(203)	875	0	0
Change in Equity	0	0	0	0
Others	(4,085)	(1,130)	(988)	(1,061)
Net Cash from Financing	(4,288)	359	(988)	(1,061)
Net Change in Cash	(602)	3,744	1,622	3,849

Exhibit 4: Ratio analysis (Consolidated)

Y/e 31 Mar	FY20	FY21	FY22E	FY23E
PROFITABILITY RATIOS				
EBITDA Margin (%)	22.8	22.7	21.4	22.2
Adjusted net margin (%)	19.8	19.6	17.9	18.5
Return on equity (%)	16.4	14.2	13.4	14.3
EFFICIENCY RATIOS				
Asset Turnover	3.2	3.0	3.0	3.6
Debt to equity	0.0	0.0	0.0	0.0
Net debt to equity	(0.4)	(0.4)	(0.4)	(0.4)
Debtor days	79.7	81.2	80.0	80.0
Inventory days	95.3	95.6	95.0	95.0
Payable days	16.2	21.0	21.0	21.0
PER SHARE DATA				
Diluted EPS (Rs)	62.6	60.0	63.7	76.3
Book value per share (Rs)	392.4	450.0	501.8	565.6
DPS (Rs)	27.0	9.0	10.1	10.6
VALUATION RATIOS				
P/E	31.0	32.4	30.5	25.5
P/BV	5.0	4.3	3.9	3.4
EV/EBITDA	24.8	25.3	22.9	18.5
Dividend Yield (%)	1.4	0.5	0.5	0.5

Recommendation Tracker



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