

Decent volumes amid economic disruptions...

AIA Engineering (AIA) reported consolidated revenues at ₹ 580.3 crore (above our estimate of ₹ 460.2 crore), down 20.9% YoY amid economic challenges. EBITDA was at ₹ 184.7 crore, down 3.1% YoY (vs. our estimate of ₹ 147 crore). EBITDA was at ₹ 123.5 crore, down 26.8% YoY (vs. our estimates of ₹ 71.8 crore). EBITDA margins fell marginally by 170 bps YoY to 21.3% (above our estimate of 15.6%) due to sustained gross margins of 60.6% on a YoY basis. PAT came in at ₹ 129.6 crore (above our estimate of ₹ 62.1 crore), declining 7.1% YoY supported by a substantial increase in other income to ₹ 74.8 crore, which grew 93.6% YoY.

Mining volumes expected to revive gradually over FY21E

During the quarter, sales volumes came in at 53177 MT, down 16.4% YoY dragged down by cement/other segment volumes. Mining segment volumes came in at 41055 MT, up 1.0% YoY and cement & others segment volumes came in at 12112 MT, down 47.3%, YoY. Mining segment is expected to at least sustain the run rate of 40-41000 MT in coming quarters while non-mining segment reduced owing to slower infrastructure, utilities spend across the world. The company did not face much supply chain disruption or dispatch issues as it has already stocked up its warehouses, which allowed dispatches to customers despite lockdowns.

Expansion of mill lining on track, grinding media is deferred...

AIA has deferred grinding media capacity addition to FY22E. However, mill lining capacity addition of 50000 MT is on track to be complete by March 2021. The company has done capex of ₹ 33 crore Q1FY21 and is likely to do ~₹ 250 crore for FY21E, which includes ₹ 190 crore towards mill liners capex, ₹ 40 crore towards maintenance capex and ₹ 20 crore towards land purchase. Majority of sales for Q1FY21E came in from existing customers. However, enquiries from developmental customers have dropped amid the lockdown and could only pick up from Q3FY21E. We build in volume of 242109 MT, 282058 MT for FY21E, FY22E, respectively.

Valuation & Outlook

Despite challenging conditions, AIA reported reasonable volumes in Q1FY21. Concerns remain on how fast developmental customers can return for AIA to gain incremental volume growth in coming years. However, its strong balance sheet, decent cash balance and efficient working capital management would support long term growth. We expect overall revenues to grow at 4.3% CAGR with EBITDA growing at 2.5% CAGR in FY20-22E, amid challenging environment. We believe penetration in the mining segment and volume ramp-up with repeat and loyal customers would aid growth in the medium term. We remain cautiously optimistic and revise our target price to ₹ 1765/ share (29x FY22E EPS). We maintain **HOLD** rating.



Particulars

Particular	Amount
Market Capitalization	15138.4 Crore
Total Debt (FY 20)	₹96.9 Crore
Cash and Inv. (FY 20)	₹1572.2 Crore
EV	13663.2 Crore
52 week H/L	₹1990/ 1102
Equity capital	₹18.9 Crore
Face value	₹2

Key Highlights

- Overall Q1FY21 sales volume fell 16.3% to 53177 MT. Mining segment volumes up by 1.0% to 41055 MT
- Net realisation per tonne fell 5.9% to ₹ 105.6 per kg, YoY
- Grinding media capacity addition deferred to FY22E. Mill lining capacity addition of 50000 MT on track to be completed by March 2021
- Revise target price to ₹ 1765/ share (29x FY22E EPS). Maintain HOLD

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	2,445.1	3,069.5	2,980.9	2,698.8	3,245.5	4.3%
EBITDA	535.7	660.4	680.3	554.4	715.3	2.5%
EBITDA Margin (%)	21.9	21.5	22.8	20.5	22.0	
Net Profit	443.6	513.2	591.4	463.7	574.0	-1.5%
EPS (₹)	47.0	54.4	62.7	49.2	60.9	
P/E (x)	34.1	29.5	25.6	32.6	26.4	
RoNW (%)	14.7	14.6	16.0	11.3	12.7	
RoCE (%)	18.4	18.8	18.7	14.2	15.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (Chg %)	Q4FY20	QoQ (Chg %)	Comments
Sales	580.3	460.2	733.3	-20.9	856.9	-32.3	Overall volumes declined 16.3% YoY while mining volumes grew 1.0% YoY
Other Income	74.8	30.0	38.6	93.6	29.2	155.9	
Raw Materials Expenses	227.8	178.6	286.7	-20.5	375.5	-39.3	
Employee Cost	33.2	26.7	32.1	3.4	34.4	-3.5	
Other Expenditure	195.9	183.2	245.9	-20.3	262.3	-25.3	
EBITDA	123.5	71.8	168.6	-26.8	184.7	-33.2	
EBITDA Margin (%)	21.3	15.6	23.0	-172 bps	21.6	-28 bps	EBITDA margins declined marginally due to lower revenue and product mix
Depreciation	25.1	20.7	23.6	6.3	26.9	-6.5	
Interest	1.4	1.5	1.4	-1.6	1.4	3.2	
PBT	171.7	79.6	182.2	-5.8	185.7	-7.5	
Taxes	42.1	17.5	42.7	-1.3	43.3	-2.8	
PAT	129.6	62.1	139.5	-7.1	142.4	-9.0	
Key Metrics							
Volume (in tonnes)	53,177	42,179	63,618	-16.4	82,128	-35.3	Sales volumes above our estimates
Net Realisation (₹/tonne)	105,576	102,000	112,192	-5.9	101,098	4.4	Realisations down 5.9% YoY owing to product mix and price adjustment

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue	2,394.4	2,698.8	12.7	3,205.7	3,245.5	1.2
EBITDA	410.0	554.4	35.2	684.0	715.3	4.6
EBITDA Margin (%)	17.1	20.5	342 bps	21.3	22.0	70 bps
PAT	319.0	463.7	45.3	554.2	574.0	3.6
EPS (₹)	33.8	49.2	45.4	58.8	60.9	3.5

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comment
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Overall Volumes (tonnes)	265,174	267,229	242,109	282,058	213,994	275,994	Revised volume estimates in line with economic conditions
Mining Volumes (tonnes)	170,224	177,274	144,958	177,134	116,632	171,071	
Capacity	340,000	340,000	390,000	440,000	390,000	440,000	
Net Realisations	111,905	108,195	106,478	110,100	105,826	111,080	Realisations likely to remain stable

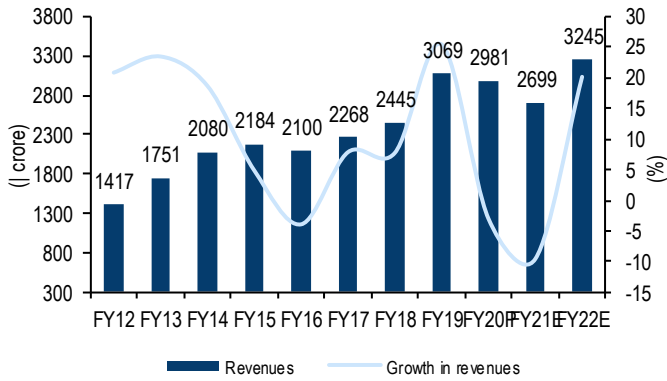
Source: Company, ICICI Direct Research

Key results highlights

- Net realisation per tonne (a function of product mix and cross currency rates) declined 5.9% to ₹ 105.8 per kg YoY
- During the quarter, sales volume came in at 53177 MT in Q1FY21, down 16.4% YoY dragged down by cement/other segment volumes. While mining segment volumes came in at 41055 MT, up 1.0% YoY, cement & others segment volumes came in at 12112 MT, down 47.3% YoY
- In Q1FY21, gross margins sustained at 60.6% due to product mix and is expected to sustain at around current levels
- FY21 outlook: Difficult to give volume guidance. However, expect mining, cement industry to see a pick-up in activity and, in turn, drive AIA's product requirements while returning to normal in H2FY21E
- Operations running at around 80% of pre-Covid levels. They expect complete normalcy in H2FY21. The company does not see much supply chain disruption or issue with dispatches to customers as it has already stocked up all its warehouses, which allowed dispatches despite lockdown
- AIA reported other income of ₹ 74.6 crore for Q1FY21, which was up 93.6% YoY. This includes ₹ 38 crore from foreign exchange gains and ₹ 36.8 crore from treasury income (which includes ₹ 8-10 crore one-time gains)
- The order book of the company was at ₹ 742 crore as on Q1FY21
- Expansion plan – AIA has deferred grinding media capacity addition to FY22E. However, mill lining capacity addition of 50000 MT is on track to be complete by March 2021
- Capex- AIA incurred capex of ₹ 33 crore in Q1FY21. It has planned a capex of ₹ 250 crore for FY21E (₹ 190 crore for mill liner expansion, ₹ 40 crore maintenance capex and ₹ 20 crore for land)
- Net cash & cash equivalent as on Q1FY21 was at ~ ₹ 1754 crore (vs. ₹ 1460 crore in Q4FY20)
- The company has installed ~19 MW of wind power, which led to savings of ₹ 25-30 crore per annum
- Working capital: - Net working capital days have increased from 120 days to 130 days, on a sequential basis owing to slight increase of six to seven days in debtors' days to 92 days. Debtors' days are expected to revert to mean 85 days in coming quarters and working capital situation is quite stable
- Forex - Around 40% currency exposure is hedged at the moment, which has reduced from 50% in Q4FY20, due to uncertainty in forex

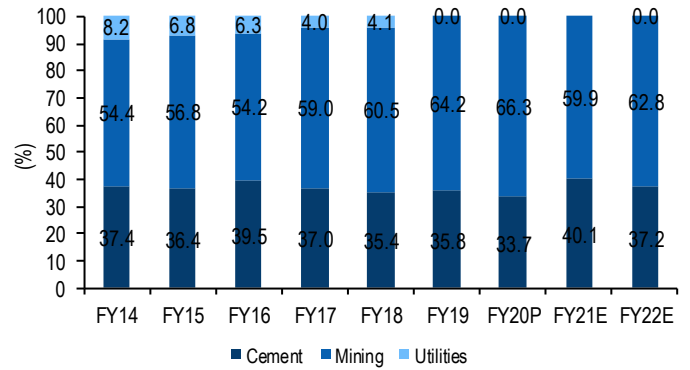
Financial story in charts

Exhibit 4: Trend in revenues...



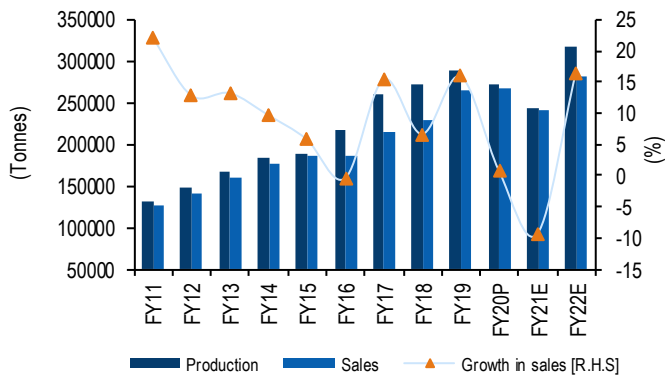
Source: ICICI Direct Research, Company

Exhibit 5: Share of mining segment to rise gradually..



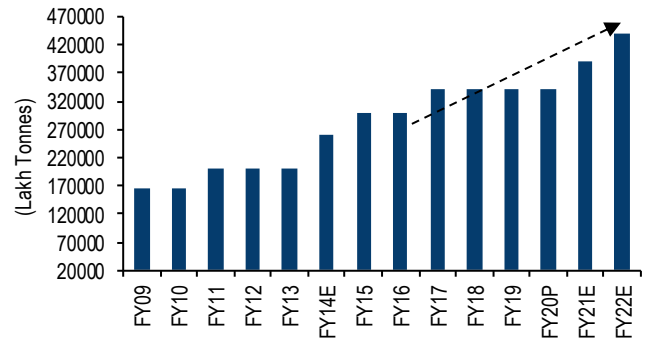
Source: ICICI Direct Research, Company

Exhibit 6: Trend in volume growth...



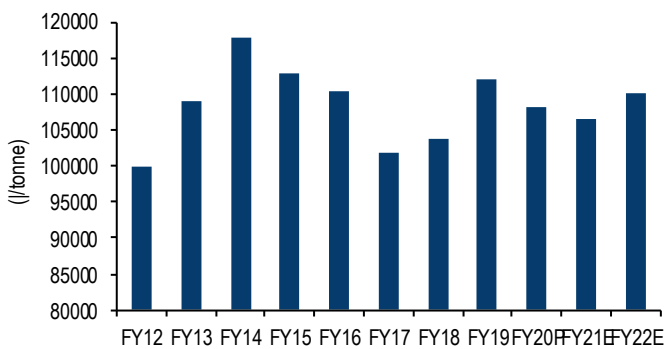
Source: Company, ICICI Direct Research

Exhibit 7: Trend in capacity...



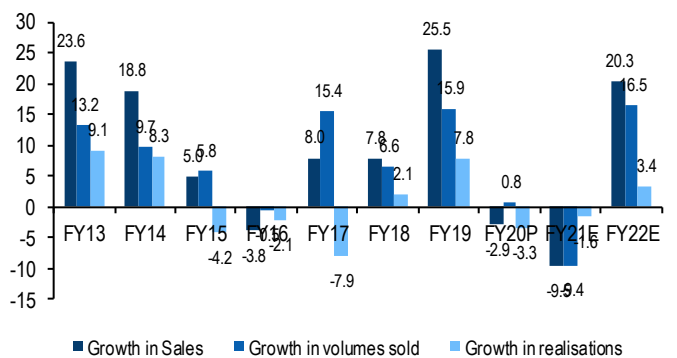
Source: Company, ICICI Direct Research

Exhibit 8: Trend in realisation...



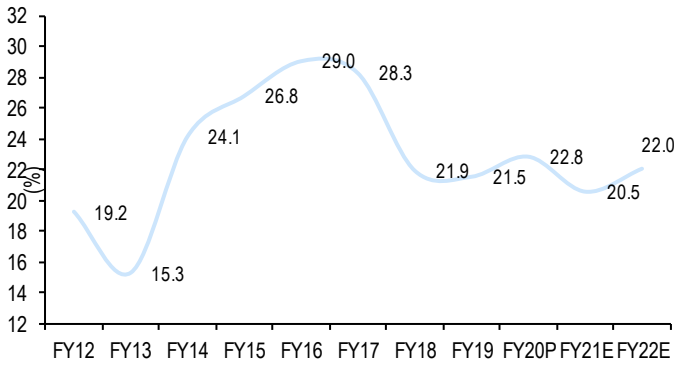
Source: Company, ICICI Direct Research

Exhibit 9: Volume growth to lead revenue CAGR in FY20-22E



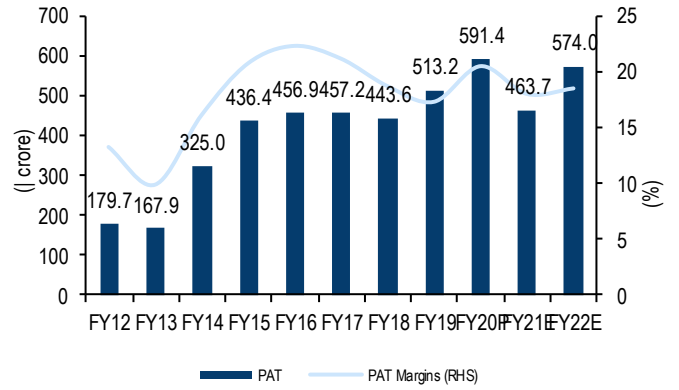
Source: Company, ICICI Direct Research

Exhibit 10: Trend in EBITDA margin...



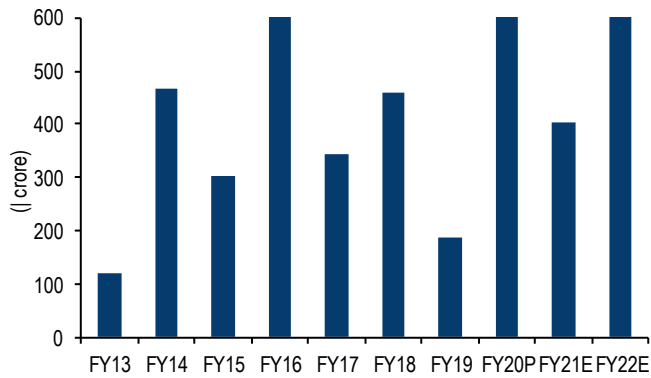
Source: Company, ICICI Direct Research

Exhibit 11: Volume and margin recovery key to PAT



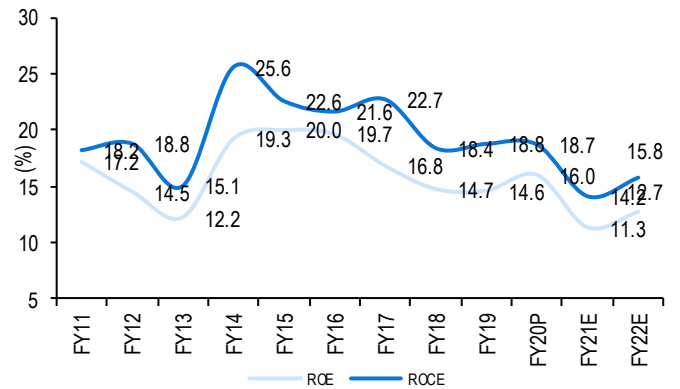
Source: Company, ICICI Direct Research

Exhibit 12: Trend in cash flows...



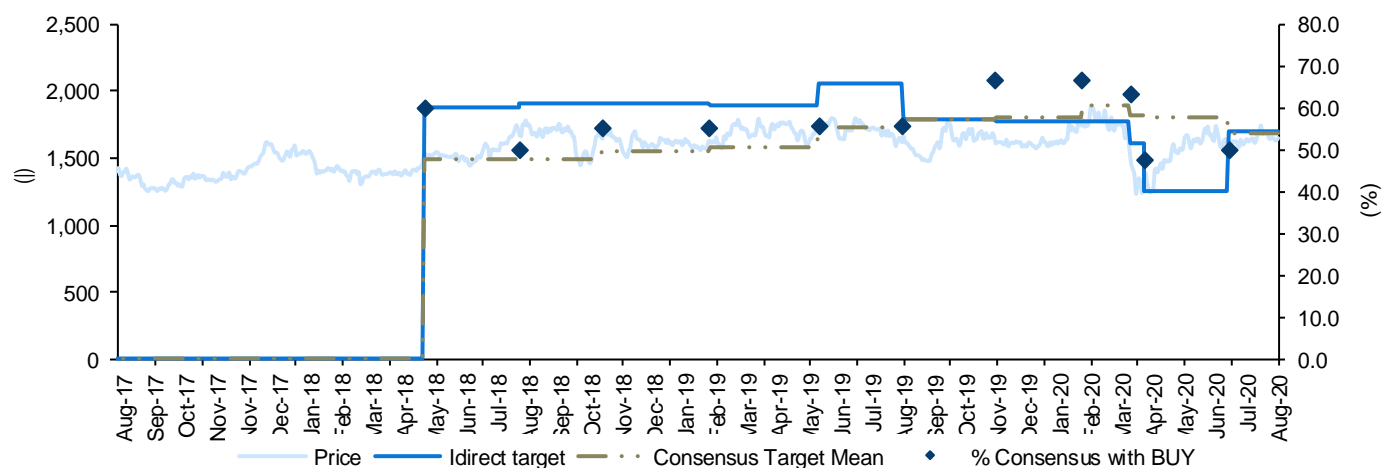
Source: Company, ICICI Direct Research

Exhibit 13: RoE, RoCE trend...



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Shah Bhadresh K	30-Jun-20	58.5	55.13m	0.00m
2	Nalanda India Equity	30-Jun-20	9.7	9.13m	0.00m
3	Hdfc Asset Managemen	30-Jun-20	2.9	2.72m	0.00m
4	L&T Mutual Fund	30-Jun-20	2.0	1.91m	0.07m
5	Sbi Funds Management	30-Jun-20	1.9	1.79m	(0.01)m
6	Kotak Mahindra Asset	30-Jun-20	1.7	1.61m	0.02m
7	Goldman Sachs Group	30-Jun-20	1.5	1.42m	0.00m
8	Vanguard Group	30-Jun-20	1.3	1.24m	(0.00)m
9	Pinebridge Investmen	31-Mar-20	1.1	1.04m	(0.35)m
10	Dsp Blackrock Invest	30-Jun-20	0.9	0.85m	0.00m

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	58.5	58.5	58.5	58.5	58.5
FII	21.8	21.6	21.4	21.3	21.2
DII	14.8	16.3	16.7	17.8	17.6
Others	4.9	3.6	3.4	2.4	2.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating Incon	3,069.5	2,980.9	2,698.8	3,245.5
Growth (%)	25.5	-2.9	-9.5	20.3
Raw Material Expenses	1,225.0	1,173.5	1,029.7	1,253.1
Employee Expenses	126.4	134.4	132.1	141.5
Other expenses	1,057.7	992.7	982.6	1,135.6
Total Operating Expendi	2,409.1	2,300.6	2,144.4	2,530.2
EBITDA	660.4	680.3	554.4	715.3
Growth (%)	23.3	3.0	-18.5	29.0
Depreciation	79.1	98.5	108.5	121.6
Interest	6.1	3.9	4.1	4.6
Other Income	120.9	141.9	162.9	154.8
PBT	696.2	719.8	604.7	743.9
Others	0.0	0.0	0.0	0.0
Total Tax	183.0	128.4	141.1	169.9
PAT	513.2	591.4	463.7	574.0
Growth (%)	15.7	15.2	-21.6	23.8
EPS (₹)	54.4	62.7	49.2	60.9

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	513.2	591.4	463.7	574.0
Add: Depreciation	79.1	98.5	108.5	121.6
(Inc)/dec in Current Asse	-355.7	125.2	-194.8	-61.6
Inc/(dec) in CL and Provis	-49.3	-20.0	25.1	5.5
Others	3.3	3.0	5.0	5.0
CF from operating acti	187.3	795.1	402.5	639.5
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-215.7	-109.2	-117.7	-325.0
Others	0.0	0.0	0.0	0.0
CF from investing acti	-155.9	-412.1	-242.0	-421.4
Issue/(Buy back) of Equit	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	4.6	-31.0	20.0	15.0
Dividend paid & dividend	0.0	-398.6	-66.4	-132.9
Inc/(dec) in Sec. premiur	0.1	0.0	0.0	0.0
Others	0.0	7.6	0.0	0.0
CF from financing acti	-4.3	-443.1	-27.9	-142.9
Net Cash flow	27.1	-60.2	132.6	75.2
Opening Cash	181.2	208.3	148.1	280.7
Closing Cash	208.3	148.1	280.7	355.9

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	18.9	18.9	18.9	18.9
Reserve and Surplus	3,494.6	3,673.9	4,089.6	4,505.8
Total Shareholders func	3,513.5	3,692.8	4,108.5	4,524.6
Total Debt	127.9	96.9	116.9	131.9
Deferred Tax Liability	87.0	67.4	72.4	77.4
Minority Interest / Other:	0.0	0.0	0.0	0.0
Total Liabilities	3,746.9	3,888.3	4,320.8	4,757.9
Assets				
Gross Block	1,127.1	1,262.1	1,342.1	1,617.1
Less: Acc Depreciation	304.8	402.8	510.8	631.8
Net Block	822.4	859.4	831.4	985.3
Capital WIP	59.8	32.4	70.0	120.0
Total Fixed Assets	882.2	891.7	901.4	1,105.3
Investments	1,151.7	1,424.0	1,519.0	1,614.0
Inventory	785.9	778.1	816.7	825.4
Debtors	706.4	648.2	727.5	757.2
Loans and Advances	3.7	4.3	2.4	5.7
Other Current Assets	200.8	141.1	219.8	239.8
Cash	208.3	148.1	280.7	355.9
Total Current Assets	1,905.1	1,719.8	2,047.1	2,183.9
Creditors	173.6	132.2	141.3	141.2
Provisions	18.7	24.3	26.8	28.2
Total Current Liabilities	285.7	265.7	290.9	296.4
Net Current Assets	1,619.4	1,454.0	1,756.3	1,887.5
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	3,746.9	3,888.3	4,320.8	4,757.9

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	54.4	62.7	49.2	60.9
Cash EPS	62.8	73.1	60.7	73.7
BV	372.5	391.5	435.6	479.7
DPS	0.0	36.0	6.0	12.0
Cash Per Share	22.1	15.7	29.8	37.7
Operating Ratios (%)				
EBITDA Margin	21.5	22.8	20.5	22.0
PBT / Total Operating inc	23.5	24.9	23.5	24.0
PAT Margin	17.3	20.5	18.0	18.5
Inventory days	96.7	98.2	115.6	97.0
Debtor days	86.9	81.8	103.0	89.0
Creditor days	21.4	16.7	20.0	16.6
Return Ratios (%)				
RoE	14.6	16.0	11.3	12.7
RoCE	18.8	18.7	14.2	15.8
RoIC	26.0	26.9	19.3	23.6
Valuation Ratios (x)				
P/E	29.5	25.6	32.6	26.4
EV / EBITDA	21.1	20.1	24.3	18.6
EV / Net Sales	4.7	4.7	5.2	4.3
Market Cap / Sales	5.1	5.2	5.9	4.9
Price to Book Value	4.3	4.1	3.7	3.3
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.2	0.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.9	5.9	6.1	6.2
Quick Ratio	3.2	3.0	3.3	3.4

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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