

ICICI Securities Limited  
is the author and  
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Q3FY22 result review,  
earnings and target  
price revision

## Capital goods

Target price: Rs2,008

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 6.7	↑ 5.4
EBITDA	↓ 6.2	↓ 2.9
EPS	↓ 3.7	↓ 1.0

### Target price revision

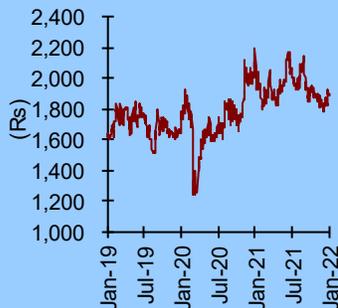
Rs2,008 from Rs2,074

### Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	58.5	58.5	58.5
Institutional investors	38.5	38.6	38.6
MFs and other	16.9	16.9	16.8
FI / Banks	0.0	0.0	0.0
Insurance Co	2.5	2.4	2.9
FIs	19.1	19.3	18.9
Others	3.0	2.9	2.9

Source: NSE

### Price chart



INDIA



# AIA Engineering

**ADD**

**Maintained**

**Rs1,872**

## Price hikes offset cost pressures

AIA Engineering's (AIAE) consolidated revenue, EBITDA and PAT came in at Rs8.5bn/1.6bn/1.39bn (+21%/-6.4%/-13.2% YoY) respectively. It reported 11% YoY decline in volumes to 58,111te for the quarter mainly due to loss of volumes from Canada and South Africa on imposition of duties in those countries. Non-mining segment volumes saw 22% decline YoY while mining declined 5% YoY. This was partly offset by improvement in realization, which was up 36% YoY to Rs145/kg mainly due to pass-on of raw material cost increases including freight. Price hikes led to 21% YoY growth in revenue to Rs8.5bn, ahead of our estimates of Rs7.7bn. However, due to increase in freight and raw material costs, EBITDA margin for the quarter contracted 560bps to 19%. Given the near-term headwinds on global supply chain and elevated costs, we lower our FY22/FY23 earnings estimates by 3.7%/1%, respectively. We maintain our ADD rating on the stock and revise our target price to Rs2,008 (Earlier: Rs2,074).

- **Canadian import duty impacts near-term growth:** In Q3FY22, the company reported 11% YoY dip in volumes to 58,111te. Owing to the recent 22% import duty by Canada on grinding media from India coupled with high freight costs, we expect volumes in the next 2-3 quarters to remain subdued. We have built in 173,720te and 81,000te volumes for mining and non-mining segment respectively in FY22 as new customer conversion is likely to remain muted due to travel restrictions. However, due to stabilisation of the new mill liner unit and improvement in mining prospects of gold, copper and iron globally, we expect FY24 volumes to grow at 11% YoY.
- **High commodity and freight costs impact margins:** Realization for the quarter increased 36% YoY to Rs145/kg as company took price hikes to offset cost increases leading to stable gross margins at 62%. Higher freight cost impact since FY21 has been Rs1.1bn which can be explained by 30% YoY increase in other expenses during the quarter. Freight costs as % of sales has increased to ~11% vs 7-8% in FY21. During the quarter, company has increased inventory, +12 days QoQ to 84 days in the likely event of supply chain challenges and it is likely to liquidate in coming quarters. EBITDA margin is likely to recover from the current levels of 19% as the company is able to pass on higher cost of raw material to customers and stabilise at 21-22% in near term.
- **Maintain ADD as long-term prospects remain intact despite near-term headwinds:** The recent imposition of 22% import duty by Canada and 15% by South Africa along with high freight rates have impacted near-term volume growth. However, with easing global supply chains, we expect new markets in Australia, the Americas and Africa to start contributing meaningfully. The company's ability to pass on the increase in raw material costs, could help maintain margins going forward. We maintain our **ADD** rating on the stock and revise our target price to Rs2,008 (Earlier: Rs2,074).

### Research Analysts:

**Rahul Modi**

rahul.modi@icicisecurities.com  
+91 22 6807 7373

**Aashna Manaktala**

aashna.manaktala@icicisecurities.com  
+91 22 6807 7397

Market Cap	Rs176bn/US\$2.3bn
Reuters/Bloomberg	AIAE.BO / AIAE.IN
Shares Outstanding (mn)	94.3
52-week Range (Rs)	2170/1784
Free Float (%)	41.5
FII (%)	18.9
Daily Volume (US\$/'000)	1,487
Absolute Return 3m (%)	(3.2)
Absolute Return 12m (%)	(5.3)
Sensex Return 3m (%)	(6.3)
Sensex Return 12m (%)	22.0

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	28,815	33,484	35,768	40,661
Re. Net Income (Rs mn)	5,661	5,694	6,454	7,576
EPS (Rs)	60.0	60.4	68.4	80.3
% Chg YoY	(4.1)	0.6	13.4	17.4
P/E (x)	32.1	31.0	27.4	23.3
CEPS (Rs)	50.1	50.1	56.9	67.5
EV/E (x) (Incl. Indus)	25.1	23.5	19.9	16.3
Dividend Yield (%)	-	1.0	1.1	0.6
RoCE (%)	17.5	15.6	16.2	17.2
RoE (%)	14.2	12.8	13.2	14.0

## Outlook and valuation

AIA Engineering (AIAE) is currently looking to improve capacity utilisation by tapping new geographies with Canada and South Africa reducing trade. However, mining segment globally is expected to grow and AIA's value proposition to improve customers' plant throughput could lead to recovery in volumes in FY24. We, however, believe that commencement of new capacities will support medium- to long-term growth FY24E onwards. Mill liner, a high-margin segment, with a planned 50ktpa capacity will support overall growth with margin improvement from FY24E. We introduce FY24 estimates and roll our valuation to FY24 and assign a multiple of 25x FY24E earnings. We maintain our **ADD** rating on the stock with a revised target price of Rs2,008.

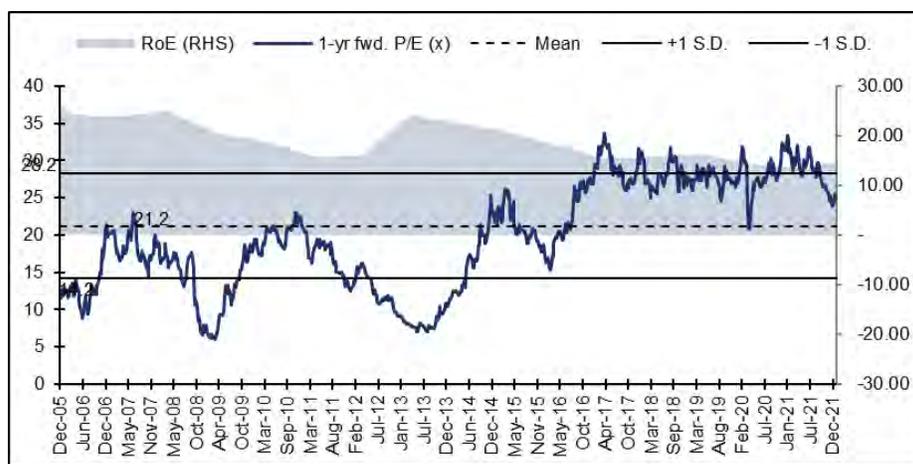
Key risks: (i) Inability in input cost pass-through which will hurt margins, (ii) delay in normalisation of travel restrictions, which will impact new client acquisition.

**Table 1: Earnings revision (consolidated)**

Rs mn	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	31,372	33,484	6.7	33,951	35,768	5.4
EBITDA	7,150	6,703	-6.2	7,975	7,742	-2.9
PAT	5,911	5,694	-3.7	6,521	6,454	-1.0

Source: Company data, I-Sec research

**Chart 2: One-Year forward P/E chart**



## Concall highlights

- Sales during the quarter was impacted due to loss of volumes from Canada and South Africa due to imposition of import duties in the respective countries. During the quarter, the company delivered volume sales of 58,111te.
- Management highlighted headwinds as i) high raw material and freight costs and ii) travel restrictions are impacting customer conversion and supply chain management. However, it is likely to ease in next few quarters as covid restrictions ease globally.
- Freight cost for the company has increased by ~Rs1.1bn since FY21. Freight cost has increased to ~11% of sales from 7-8% since FY21.
- Company has been able to partially pass on the increased raw material and freight costs which is indicative of the 36% YoY increase in realization.
- Inventory days during the quarter have gone up by 12 days QoQ to 84 days which has led to stretched working capital. This is expected to stabilise at current levels or even decline as supply chain bottlenecks ease.
- **Capital outlay:** Company had planned capital investment of Rs2bn for FY23, of which ~Rs500mn would be towards the mill liner plant, which is expected to get commissioned by Apr'22. Rs400mn would be towards developing a hybrid-solar captive power plant and ~Rs1bn towards land acquisition and general capex.
- During the quarter, mining volume demand picked up from the America, Africa and Australia, and is broad based from across 3 ores-iron, copper and gold.
- Other Income of Rs423mn for Q3FY22 includes Rs135mn of forex gain and balance of treasury income.
- Net borrowing at the end of Q3FY22 stands at Rs18.62bn with Rs19.88bn of cash.
- Management is likely to maintain 20% dividend payout for coming years until there is a significant ramp up in volumes.

**Table 3: Quarterly financial trend (consolidated)**

(Rs mn)

	Q3FY21	Q3FY22	YoY (%)	Q2FY22	QoQ (%)	FY20	FY21	YoY(%)
<b>Net Sales</b>	<b>6,987</b>	<b>8,481</b>	<b>21.4</b>	<b>8,852</b>	<b>(4.2)</b>	<b>29,809</b>	<b>28,815</b>	<b>(3.3)</b>
<b>EBITDA</b>	<b>1,723</b>	<b>1,612</b>	<b>(6.4)</b>	<b>1,619</b>	<b>(0.5)</b>	<b>6,803</b>	<b>6,552</b>	<b>(3.7)</b>
Margin	24.7	19.0	-565bps	18.3	71bps	22.8	22.7	-8bps
Depreciation	230	249	8.1	218	14.5	978	935	(4.4)
Finance Cost	10	25	164.5	8	211.6	56	43	(23.1)
Other Income	494	423	(14.4)	357	18.4	1,419	1,722	21.3
PBT	1,977	1,761	(10.9)	1,751	0.6	7,188	7,296	1.5
Tax	416	376	(9.7)	371	1.2	(1)	(1)	-
tax rate	21.0	21.3	29bps	21.2	14bps	(0.0)	(0.0)	0bps
Reported PAT	1,591	1,382	(13.2)	1,376	0.4	5,904	5,658	(4.2)
<b>Adjusted PAT</b>	<b>1,563</b>	<b>1,382</b>	<b>(11.6)</b>	<b>1,376</b>	<b>0.4</b>	<b>5,904</b>	<b>5,658</b>	<b>(4.2)</b>
Margin(%)	22.4	16.3	-609bps	15.5	75bps	19.8	19.6	-17bps
EPS	16.9	14.6		14.6		62.6	60.0	

Source: Company data, I-Sec research

**Table 4: Production and sales**

(te)	Q3FY21	Q3FY22	YoY (%)	Q2FY22	QoQ (%)	FY20	FY21	YoY (%)
Mining Sales	43,397	41,147	(5.2)	48,333	(14.9)	1,77,274	1,80,844	2.0
Cement and Thermal	21,776	16,964	(22.1)	20,731	(18.2)	89,955	85,458	(5.0)
<b>Total Sales (te)</b>	<b>65,173</b>	<b>58,111</b>	<b>(10.8)</b>	<b>69,064</b>	<b>(15.9)</b>	<b>2,67,229</b>	<b>2,66,302</b>	<b>(0.3)</b>
Production (te)	73,680	75,764	2.8	67,542	12.2	2,71,274	2,62,969	(3.1)
EBITDA/te (Rs/te)	26,431	27,738	4.9	23,446	18.3	25,457	24,606	(3.3)
Realisations (Rs/te)	1,07,200	1,45,945	36.1	1,28,167	13.9	1,11,548	1,08,204	(3.0)

Source: Company data, I-Sec research

**Table 5: Key assumptions**

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>23,963</b>	<b>29,674</b>	<b>28,913</b>	<b>28,255</b>	32,896	35,169	40,049
Mining	12,461	16,552	16,448	16,478	19,439	20,283	22,523
Non-Mining	11,502	13,122	12,465	11,777	13,457	14,135	15,276
Mill liners						750	2,250
<b>Revenue Contribution (%)</b>							
Mining	52.0	55.8	56.9	58.3	59.1	57.7	56.2
Non-Mining	48.0	44.2	43.1	41.7	40.9	39.5	37.6
Mill liners						2.8	6.2
<b>Total Sales Volumes (te)</b>	<b>2,28,725</b>	<b>2,65,174</b>	<b>2,67,229</b>	<b>2,66,302</b>	<b>2,54,646</b>	<b>2,71,361</b>	<b>3,01,508</b>
YoY growth (%)	6.6	15.9	0.8	-0.3	-4.4	6.6	11.1
Mining	1,38,399	1,70,224	1,77,274	1,80,844	1,73,717	1,82,195	1,96,450
YoY growth (%)	9.4	23.0	4.1	2.0	-3.9	4.9	7.8
Non-Mining	90,326	94,950	89,955	85,458	80,929	89,166	1,05,057
YoY growth (%)	2.6	5.1	-5.3	-5.0	-5.3	10.2	17.8
Mill liners						5,000	15,000
<b>Sales Volume Contribution (%)</b>							
Mining	60.5	64.2	66.3	67.9	68.2	67.1	65.2
Non-Mining	39.5	35.8	33.7	32.1	31.8	31.0	29.9
Mill liners						2	5
<b>Total Realisation (Rs '000 / te)</b>	<b>105</b>	<b>112</b>	<b>108</b>	<b>106</b>	<b>129</b>	<b>130</b>	<b>133</b>

Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 6: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Total Income</b>	<b>28,815</b>	<b>33,484</b>	<b>35,768</b>	<b>40,661</b>
<b>Operating Expenses</b>	<b>22,262</b>	<b>26,780</b>	<b>28,027</b>	<b>31,413</b>
<b>EBITDA</b>	<b>6,553</b>	<b>6,703</b>	<b>7,742</b>	<b>9,248</b>
% margins	22.7	20.0	21.6	22.7
Depreciation & Amortisation	935	973	1,090	1,206
<b>EBIT</b>	<b>5,618</b>	<b>5,730</b>	<b>6,651</b>	<b>8,043</b>
Gross Interest	43	43	43	43
Other Income	1,722	1,612	1,665	1,712
<b>PBT before exceptionals</b>	<b>7,297</b>	<b>7,299</b>	<b>8,274</b>	<b>9,712</b>
Add:	-	-	-	-
Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	-	-	-	-
<b>PBT</b>	<b>7,297</b>	<b>7,299</b>	<b>8,274</b>	<b>9,712</b>
Less: Taxes	1,639	1,606	1,820	2,137
Less: Minority Interests	(1)	(1)	(1)	(1)
<b>Net Income (Reported)</b>	<b>5,658</b>	<b>5,694</b>	<b>6,454</b>	<b>7,576</b>
<b>Adjusted Net Income</b>	<b>5,658</b>	<b>5,694</b>	<b>6,454</b>	<b>7,576</b>

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	34,592	37,042	41,828	47,773
of which cash & cash eqv.	19,468	20,608	24,074	27,589
Total Current Liabilities & Provisions	2,736	3,130	3,050	3,416
<b>Net Current Assets</b>	<b>31,856</b>	<b>33,912</b>	<b>38,778</b>	<b>44,357</b>
Investments	2,572	2,572	2,572	2,572
Other Non-Current Assets	893	939	991	1,051
<b>Net Fixed Assets</b>	<b>9,525</b>	<b>11,321</b>	<b>10,970</b>	<b>11,765</b>
Goodwill	-	-	-	-
<b>Total Assets</b>	<b>44,846</b>	<b>48,744</b>	<b>53,311</b>	<b>59,745</b>
<b>Liabilities</b>				
Borrowings	1,845	1,845	1,845	1,845
Deferred Tax Liability	470	372	372	372
Minority Interest	88	88	88	88
Equity Share Capital	189	189	189	189
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus	42,255	46,250	50,817	57,251
<b>Net Worth</b>	<b>42,443</b>	<b>46,439</b>	<b>51,006</b>	<b>57,440</b>
<b>Total Liabilities</b>	<b>44,846</b>	<b>48,744</b>	<b>53,311</b>	<b>59,745</b>

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Operating Cashflow</b>	<b>5,640</b>	<b>5,990</b>	<b>6,848</b>	<b>8,073</b>
Working Capital Changes	569	(1,014)	(1,373)	(2,064)
Capital Commitments	(1,439)	(2,769)	(740)	(2,000)
<b>Free Cashflow</b>	<b>4,770</b>	<b>2,207</b>	<b>4,735</b>	<b>4,010</b>
<b>Cashflow from Investing</b>	<b>7,050</b>	<b>674</b>	<b>687</b>	<b>690</b>
<b>Activities</b>				
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	875	-	-	-
Interest paid	(43)	(43)	(43)	(43)
Dividend paid	(1,019)	(1,698)	(1,886)	(1,141)
<b>Extraordinary Items/Others</b>	<b>773</b>	<b>1</b>	<b>(27)</b>	<b>(0)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>12,406</b>	<b>1,140</b>	<b>3,465</b>	<b>3,516</b>

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (in Rs.)</b>				
Diluted adjusted EPS	60.0	60.4	68.4	80.3
Recurring Cash EPS	50.1	50.1	56.9	67.5
Dividend per share (DPS)	0.0	18.0	20.0	12.1
Book Value per share (BV)	450.9	493.3	541.7	609.9
<b>Growth Ratios (%)</b>				
Operating Income	(3.3)	16.2	6.8	13.7
EBITDA	(3.7)	2.3	15.5	19.5
Recurring Net Income	(4.1)	0.6	13.4	17.4
Diluted adjusted EPS	(4.1)	0.6	13.4	17.4
Diluted Recurring CEPS	(4.1)	(0.0)	13.6	18.8
<b>Valuation Ratios</b>				
P/E	32.1	31.0	27.4	23.3
P/CEPS	38.5	37.4	32.9	27.7
P/BV	4.3	3.8	3.5	3.1
EV / EBITDA	25.1	23.5	19.9	16.3
EV / Operating Income	5.7	4.7	4.3	3.7
EV / Op FCF (pre-capex)	27.0	31.7	28.2	25.1
<b>Operating Ratios</b>				
Raw Material/Sales (%)	39.7	40.5	41.0	40.5
SG&A/Sales (%)	5.0	4.8	5.0	4.7
Other Income / PBT (%)	23.6	22.1	20.1	17.6
Effective Tax Rate (%)	22.5	22.0	22.0	22.0
NWC / Total Assets (%)	27.6	27.3	27.6	28.1
Inventory Turnover (days)	97.1	84.9	85.7	84.1
Receivables (days)	81.5	71.3	70.7	68.6
Payables (days)	24.4	22.2	21.4	20.7
Net D/E Ratio (x)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	19.6	17.0	18.0	18.6
RoCE	17.5	15.6	16.2	17.2
RoNW	14.2	12.8	13.2	14.0
Dividend Payout Ratio	0.0	29.8	29.2	15.1
Dividend Yield (%)	0.0	1.0	1.1	0.6
EBITDA Margins	22.7	20.0	21.6	22.7

Source: Company data, I-Sec research

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