

# AIA ENGINEERING LIMITED

Volumes affected by logistics issues

**LKP**  
Since 1948

Trust • Invest • Grow

AIA Engineering's (AIAE) combined sales in Q1FY25 declined by 18% YoY to ₹10bn, falling slightly short of expectations due to logistical challenges affecting volumes. The shortfall was partly due to a 4000 MT spillover into Q2FY25 and a container shortage impacting volumes by 3,000-4,000 tons. Nevertheless, gross margin improved by 460bps YoY to 60.9%, and EBITDA margin rose by 60bps YoY to 28.3%, limiting PAT decline to 5% YoY at ₹2.6bn. With persistent supply chain issues and slower new customer acquisition, management has opted not to provide a volume growth forecast, previously set at an incremental 30,000 MT for FY25. The brownfield expansion into a 20,000 MT rubber composite plant presents new market opportunities and potential volume growth, while the duty reduction in Brazil is expected to further enhance volumes. Although short-term volumes may remain weak, new growth drivers and improved profitability are emerging. Additionally, AIAE's robust cash reserves (net cash of ₹34bn as of Jun'24) provide scope for growth through acquisitions. As a result, we maintain a BUY rating, valuing the stock at 35x FY26E with a TP of ₹5036.

## Result snapshot Q1FY25

Net sales decreased by 17.7% YoY to ₹10.2bn, driven by an 18.2% YoY drop in volume. The mining segment saw a significant decline of 31% YoY in volume to 36,786 MT, while the non-mining segment experienced a 14.5% YoY increase to 23,806 MT. Gross margins improved by 460bps YoY to 60.9%, benefiting from lower raw material prices. EBITDA fell by 15.8% YoY to ₹2.9bn, but EBITDA margin increased by 60bps YoY to 28.3%, partly due to a rise in other expenses (13.8% of sales vs. 12.3% YoY). PAT decreased by 4.7% YoY to ₹2.6bn, supported by a 37.8% YoY increase in other income to ₹820mn. Other income comprised: 1) ₹150mn from export benefits, 2) ₹730mn from treasury income, and 3) ₹90mn from forex gains.

## Announced Capacity Addition of 20,000 MT/year

AIA Engineering is undertaking a brownfield expansion with an estimated capital investment of ₹650mn at its GIDC Kerala plant. This expansion will create facilities for the production of specialty lightweight metal and rubber composite liners, increasing capacity by 20,000 MT/year. The new facilities will support the metal lining business and create opportunities in the rubber/composite liner sector for certain mills. The project is anticipated to be completed by 3QFY25.

Key Financials	FY22	FY23	FY24	FY25E	FY26E
Total Sales (₹ mn)	35,665	49,088	48,538	51,005	57,476
EBITDA Margins (%)	20.2	25.3	27.5	26.6	26.6
PAT Margins (%)	17.4	21.5	23.4	23.1	23.6
EPS (₹)	65.7	112.0	120.6	125.1	143.9
P/E(x)	57.8	33.9	31.5	30.4	26.4
P/BV (x)	7.5	6.3	5.4	4.7	4.1
EV/EBITDA (x)	47.6	26.8	25.1	24.3	21.2
RoE (%)	13.7	20.2	18.4	16.5	16.4
RoCE (%)	13.4	19.4	17.2	15.6	15.7
Dividend Yield (%)	0.2	0.4	0.4	0.4	0.4

## BUY

Current Market Price (₹)	4,547
12M Price Target (₹)	5,036
Potential upside (%)	11

## Stock Data

Sector :	Capital Goods
FV (₹) :	2
Total Market Cap (₹ bn) :	429
Free Float Market Cap (₹ bn) :	180
52-Week High / Low (₹)	4,950 / 3,340
BSE Code / NSE Symbol	532683 / AIAENG
Bloomberg :	AIAE IN

## Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	58.47	58.47	58.47	58.47
MFs	18.47	17.60	17.66	17.38
FPIs	17.68	18.17	18.29	18.50
Insurance	1.99	2.46	2.38	2.48
Others	3.39	3.30	3.20	3.17

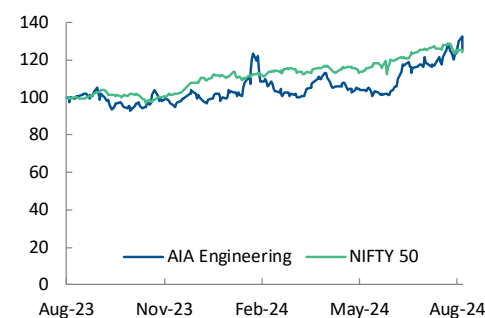
Source: BSE

## Price Performance

(%)	1M	3M	6M	12M
AIAE	7.0%	20.5%	14.6%	25.5%
Nifty 50	-1.5%	9.2%	11.0%	24.2%

\* To date / current date : August 13, 2024

## AIAE vs Nifty 50



## Outlook

Despite a challenging Q1FY25, we believe AIA Engineering's (AIAE) structural growth story remains strong. The company's technological leadership in high chrome mill internals, significant growth opportunities in the mining sector, and robust financial metrics—including growth, margins, cash flows, and ROIC—serve as key business strengths. While short-term volumes might remain subdued due to ongoing logistics issues, new growth drivers and improved profitability offer optimism. Additionally, AIAE's strong cash reserves (net cash of ₹34bn as of Jun'24) provide potential for further growth through acquisitions. Thus, we maintain a BUY rating and value the stock at 35x FY26E, with a target price of ₹5036.

## Concerns/Risks

- **Forex fluctuations:** AIA derives nearly 73% of product sales through exports while imports are largely domestically sourced. Any sharp appreciation in ₹ is likely to result in likely compression in operating margins.
- **Sharp increase in commodity prices:** While AIAE has ability to pass impact of increase in raw material and freight costs but the same happens with a 3-6mth lag. In the interim any sharp movement in these costs can lead to compression in margins.
- **Protectionist policies/anti-dumping duties in export markets:** AIAE uses its India based facilities as a manufacturing hub for exports around the world. In the recent past anti-dumping duties imposed by its target countries like Canada, Brazil and South Africa have impacted the company's sales volumes. Any increase in such protectionist measures can lead to volume disruption in future as well.
- **AIAE's competitor Magotteaux has filed a petition with US Dept. of Commerce seeking levy of import duties on shipment from India and if it fructifies then it can affect volumes.**

## Quarterly Performance

(₹ mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Revenues</b>	<b>10,200</b>	<b>12,396</b>	<b>-17.7%</b>	<b>11,692</b>	<b>-12.8%</b>
Material cost	3,989	5,414	-26.3%	4,806	-17.0%
Employee cost	460	406	13.2%	432	6.4%
Other expenditure	2,862	3,145	-9.0%	3,341	-14.3%
Operating Expenses	7,311	8,965	-18.5%	8,579	-14.8%
<b>EBITDA</b>	<b>2,889</b>	<b>3,431</b>	<b>-15.8%</b>	<b>3,112</b>	<b>-7.2%</b>
<i>EBITDA margins</i>	<i>28.3%</i>	<i>27.7%</i>	<i>65bps</i>	<i>26.6%</i>	<i>170bps</i>
Depreciation	254	242	4.6%	270	-6.0%
Other income	820	595	37.8%	831	-1.3%
EBIT	3,455	3,783	-8.7%	3,673	-5.9%
Interest	64	75.0	-14.9%	71	-9.8%
PBT	3,391	3,708	-8.5%	3,603	-5.9%
Tax	812	983	-17.4%	811	0.1%
Effective tax rate	23.9%	26.5%		22.5%	
<b>PAT (Excl. EI)</b>	<b>2,596</b>	<b>2,724</b>	<b>-4.7%</b>	<b>2,796</b>	<b>-7.2%</b>
<i>PAT margin</i>	<i>25.5%</i>	<i>22.0%</i>	<i>348bps</i>	<i>23.9%</i>	<i>153bps</i>
EPS (₹)	27.5	28.9	-4.7%	29.6	-7.2%

Source: Company, LKP Research

## Concall Highlights

### Financials and Business Outlook

- Approximately 4,000 MT of volumes were deferred from Q1 to Q2 due to invoicing delays.
- Around 3,000 MT of volume could not be shipped because of container shortages, particularly affecting the Americas region.
- Non-mining volumes were shifted due to cyclical work patterns rather than structural issues.
- Higher revenue in Q1 was driven by an increased share of casting, which has higher selling prices.
- Current average realization levels are expected to persist.
- The working capital cycle has lengthened due to seasonality and increased stock levels.
- Business uncertainty from a customer perspective is due to container shortages and volatile pricing, affecting the conversion of forged media to high chrome media.
- Net cash stands at ₹35bn, which will be adjusted for dividend payouts and buybacks.
- Capex for FY25 includes ₹350mn for captive power, ₹650mn for mill liners, and ₹1.5bn for the first phase of grinding media expansion.
- Freight costs from India to Latin America have increased fourfold, and container availability remains an issue. Shipping times have extended from 20-30 days to 2 months.
- AIAE operates on a cost-plus model, so increased freight costs are fully passed through.
- The targeted annual volume growth of 30,000 MT for FY25 is uncertain, with clarity expected after one more quarter.
- The logistics problem is more severe than initially anticipated, prompting a serious evaluation of various long-term solutions, with warehousing being a potential but not guaranteed solution.
- As of Q2, no significant improvement in container availability and logistics has been observed, with ongoing delays partly due to the Red Sea crisis.
- These delays have not impacted production at customer sites.
- While supply to existing customers remains stable, converting new customers to high chrome media remains challenging.
- Attempts to delist the Welcast subsidiary were unsuccessful. Sourcing from Welcast will continue but at reduced levels until an alternative solution is found. AIAE will maintain minimal volumes from Welcast in the interim.

### Grinding Media

- There are no new updates on the USA litigation, and supply continues as usual.
- Magotteaux has been operating at full capacity for several years.
- The investigation in Canada has concluded, while the USA investigation is ongoing.
- Significant opportunities exist in copper, gold, and iron ore sectors.
- AIAE is active in all major gold and iron ore mines.
- In copper, AIAE has a smaller market share but is working to expand its presence in large copper mines.
- Switching to AIAE's comprehensive solutions can offer customers wear parts savings of 20% to 40%. Including power savings and throughput improvements, a copper customer could save between \$2-3 million on the lower end and up to \$150 million on the higher end.
- In Brazil, the duty on imports (ADD + CVD) has decreased from 11.8% to 6.5% due to the termination of ADD, presenting a volume opportunity of 20,000 MT from existing clients.

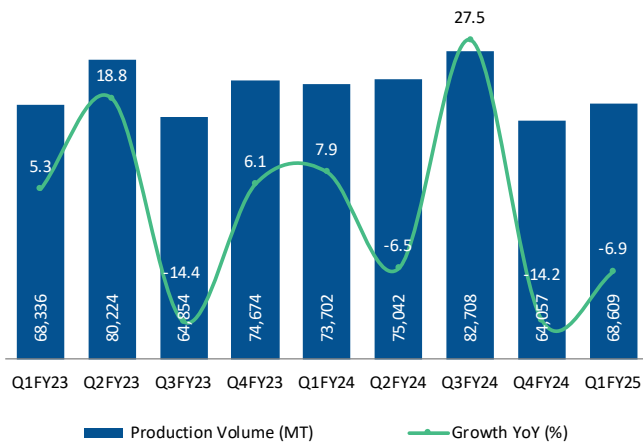
- Cement industry: The global market is 300,000 MT, with 180,000 MT outside of China. AIAE holds a 33-35% global market share and 95% in India, selling approximately 80,000 MT annually. The entire global market is now high chrome, with AIAE operating in over 125 countries.
- Mining industry: The market across copper and gold is 2 million MT, with 25% converted to high chrome. AIAE is present in more than 25 countries, focusing on North America, Latin America, Africa, CIS, and Far East regions such as the Philippines, and is engaged with over 100 mining sites globally.

#### Mill Liners

- Offering both rubber and composite mill liners is crucial for AIAE to be perceived as a comprehensive solution provider for both SAG and ball mills.
- AIAE's products are uniquely designed to enhance efficiency, reduce costs, and improve throughput, with competitors unable to provide directly comparable solutions.
- Rubber and composite liners are developed in-house, with over 6-8 customer trials already completed.
- The rubber composite mill liner market is projected to exceed 100,000 MT, while the total mill liner market, including metallic types, is 300,000 MT.
- All mill liner volumes are allocated to the Mining segment.
- The GIDC Ahmedabad plant, which is expanding to include rubber and composite liner production, already has melting capacity. This expansion is expected to be completed by December 2024.

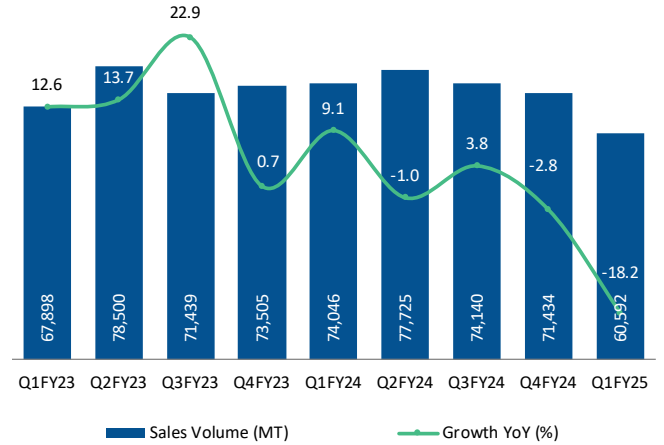
Story in charts

Production volumes

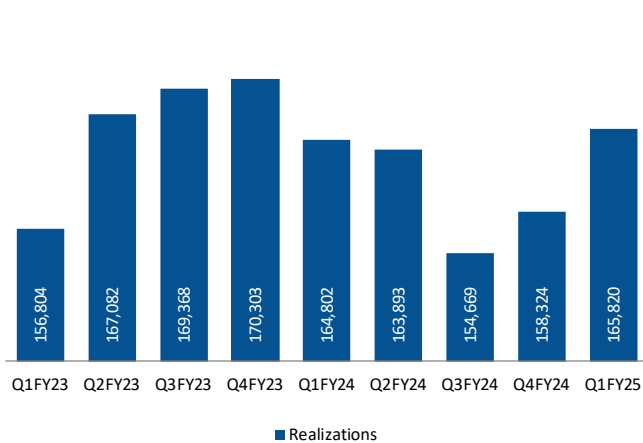


Source: Company, LKP Research

Sales volume

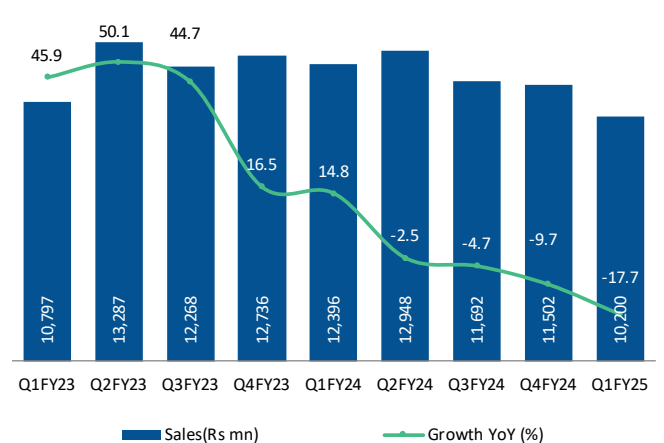


Realisations

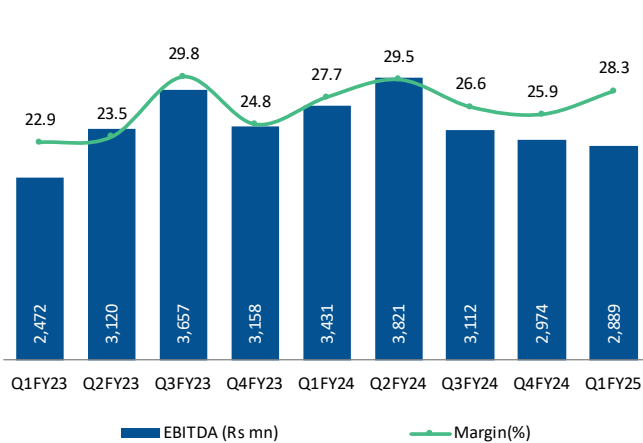


Source: Company, LKP Research

Revenue growth

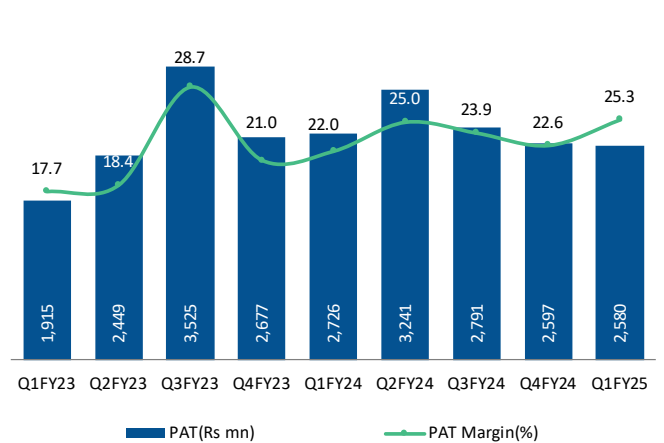


EBITDA & EBITDA Margin trend-Quarter



Source: Company, LKP Research

Adjusted Profit & Profit Margin trend-Quarter



### Profit and Loss Statement

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Revenue</b>	<b>35,665</b>	<b>49,088</b>	<b>48,538</b>	<b>51,005</b>	<b>57,476</b>
Gross profit	20,434	27,722	26,992	28,396	32,035
EBITDA	7,210	12,407	13,338	13,591	15,300
Depreciation	921	930	1,003	1,079	1,170
EBIT	6,288	11,476	12,335	12,512	14,129
Other Income	1,563	2,345	2,814	3,057	3,738
Interest expense	39	201	284	272	269
Exceptional items	0	0	0	0	0
PBT	7,813	13,620	14,865	15,298	17,598
Reported PAT (after minority interest)	6,197	10,559	11,369	11,795	13,568
<b>Adj PAT</b>	<b>6,197</b>	<b>10,559</b>	<b>11,369</b>	<b>11,795</b>	<b>13,568</b>
<b>EPS (₹)</b>	<b>65.7</b>	<b>112.0</b>	<b>120.6</b>	<b>125.1</b>	<b>143.9</b>

### Balance Sheet

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Net Worth	47,634	57,003	66,680	76,649	88,389
Deferred Tax	390	399	581	581	581
Total debt	28	4,960	4,546	4,506	4,466
Other liabilities and provisions	1,236	1,337	1,358	1,494	1,643
<b>Total Networth and liabilities</b>	<b>49,288</b>	<b>63,698</b>	<b>73,165</b>	<b>83,230</b>	<b>95,079</b>
Gross Fixed assets	12,759	15,837	17,707	18,607	19,507
Net fixed assets	7,337	9,485	10,352	10,173	9,903
Capital work-in-progress	2,102	1,074	922	922	922
Goodwill	563	543	718	718	718
Investments	10,554	22,543	30,431	33,431	36,431
Cash and bank balances	5,061	8,060	5,536	10,035	16,387
Loans & advances and other assets	5,322	3,817	6,143	6,629	7,163
Net working capital	18,348	18,176	19,063	21,322	23,555
<b>Total assets</b>	<b>49,288</b>	<b>63,697</b>	<b>73,165</b>	<b>83,230</b>	<b>95,079</b>
Capital Employed	48,052	62,360	71,807	81,736	93,436
Invested Capital (CE - cash - CWIP)	30,340	30,691	42,814	48,244	53,591
Net debt	(15,582)	(25,635)	(23,525)	(28,064)	(34,456)

## Key Ratios

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Growth ratios</b>					
Revenue	23.8%	37.6%	-1.1%	5.1%	12.7%
EBITDA	10.0%	72.1%	7.5%	1.9%	12.6%
Adj PAT	9.5%	70.4%	7.7%	3.7%	15.0%
<b>Margin ratios</b>					
Gross	57.3%	56.5%	55.6%	55.7%	55.7%
EBITDA	20.2%	25.3%	27.5%	26.6%	26.6%
Adj PAT	17.4%	21.5%	23.4%	23.1%	23.6%
<b>Performance ratios</b>					
Pre-tax OCF/EBITDA (%)	17.1%	94.5%	92.2%	103.1%	107.1%
OCF/IC (%)	-1.3%	28.3%	21.1%	21.8%	23.1%
RoE (%)	13.7%	20.2%	18.4%	16.5%	16.4%
RoCE (%)	13.4%	19.4%	17.2%	15.6%	15.7%
RoCE (Pre-tax)	16.9%	25.0%	22.6%	20.3%	20.4%
RoIC (Pre-tax)	23.2%	37.6%	33.6%	27.5%	27.7%
Fixed asset turnover (x)	2.9	3.4	2.9	2.8	3.0
Total asset turnover (x)	0.7	0.9	0.7	0.7	0.6
<b>Financial stability ratios</b>					
Net Debt to Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt to EBITDA (x)	(2.2)	(2.1)	(1.8)	(2.1)	(2.3)
Interest cover (x)	(10.2)	43.2	31.8	38.7	46.0
Cash conversion days	188	135	143	153	150
Working capital days	230	154	179	189	185
<b>Valuation metrics</b>					
Fully Diluted Shares (mn)	94	94	94	94	94
Market cap (₹ mn)	358,340	358,340	358,340	358,340	358,340
P/E (x)	57.8	33.9	31.5	30.4	26.4
P/OCF(x)	(912.4)	41.3	39.7	34.1	29.0
EV (₹ mn) (ex-CWIP)	342,836	332,783	334,893	330,354	323,961
EV/ EBITDA (x)	47.6	26.8	25.1	24.3	21.2
EV/ OCF(x)	(872.8)	38.4	37.1	31.4	26.2
FCF Yield (%)	-0.5%	1.9%	1.9%	2.7%	3.2%
Price to BV (x)	7.5	6.3	5.4	4.7	4.1
Dividend pay-out (%)	13.7%	14.3%	13.3%	12.8%	11.1%
Dividend yield (%)	0.2%	0.4%	0.4%	0.4%	0.4%

### Cash Flows

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations (Pre-tax)	1,232	11,719	12,303	14,015	16,393
Cash flows from Operations (post-tax)	(393)	8,677	9,027	10,521	12,372
Capex	(1,255)	(1,948)	(2,108)	(900)	(900)
Free cashflows	(1,648)	6,730	6,920	9,621	11,472
Free cashflows (post interest costs)	(1,678)	6,562	6,647	9,350	11,203
Cash flows from Investing	999	(12,083)	(8,185)	(3,900)	(3,900)
Cash flows from Financing	(2,675)	3,950	(2,110)	(2,122)	(2,120)
Total cash & liquid investments	15,610	30,595	28,071	32,570	38,922



**DISCLAIMERS AND DISCLOSURES**

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.