

AIA ENGINEERING LIMITED

Lower volumes impact performance; Opportunities ahead despite challenge

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AIA Engineering Limited (AIAE) reported a significant 19% YoY decline in consolidated sales, reaching ₹10.4 bn, which fell short of our and consensus expectations. This drop was largely driven by a 22% fall in volumes, totaling 60,330 MT. Contributing factors included a slowdown among certain mining clients—indicating both systemic and cyclical trends—inventory de-stocking by a few major customers, and increased freight costs amid ongoing shipping challenges. While these issues have delayed the transition from forged media to high chrome grinding media, realizations did see a positive uptick, rising 4% YoY and 3% QoQ. On the margins front, gross margins improved by 110 bps YoY to 58.9%, but EBITDA margins fell by 310 bps to 26.4%. As a result, profit after tax decreased by 21% YoY to ₹2.6 bn, missing estimates.

Looking ahead, AIAE anticipates a reduction in FY25 volumes by 25,000 MT to 30,000 MT. However, medium to long-term prospects remain strong as the company is pursuing significant contracts that could substantially boost volumes. In light of the volume decline and H1 performance, we have revised our EPS estimates downward for FY25E and FY26E. Consequently, we are maintaining a BUY rating, with a revised target price of ₹4,455, reflecting the current near-term challenges.

Result snapshot Q2FY25

AIAE's consolidated sales decreased by 19% YoY to ₹10.4 bn, with total volume down 22% YoY to 60,330 MT. Specifically, mining volumes dropped 23% YoY to 39,896 MT, while non-mining volumes fell 20% YoY to 20,434 MT. Despite the decline, per KG realization remained healthy (up 4% YoY and 3% QoQ). The volume drop is attributed to a slowdown at some mining customers—seen as a systemic and cyclical issue—inventory de-stocking by a few large clients, and shipping challenges alongside increased freight costs. These factors have delayed the transition from forged media to high chrome grinding media; however, AIAE considers this situation cyclical rather than structural. On the margins front, gross margins improved by 110 bps YoY to 58.9%, but EBITDA margins fell by 310 bps to 26.4%. As a result, profit after tax decreased by 21% YoY to ₹2.6 bn.

Key Financials	FY22	FY23	FY24	FY25E	FY26E
Total Sales (₹ mn)	35,665	49,088	48,538	46,113	50,686
EBITDA Margins (%)	20.2	25.3	27.5	27.4	28.0
PAT Margins (%)	17.4	21.5	23.4	24.1	25.1
EPS (₹)	65.7	112.0	120.6	118.1	135.0
P/E(x)	58.6	34.4	32.0	32.6	28.5
P/BV (x)	7.6	6.4	5.5	4.8	4.2
EV/EBITDA (x)	48.3	27.2	25.5	26.6	23.2
RoE (%)	13.7	20.2	18.4	15.6	15.6
RoCE (%)	13.4	19.4	17.2	14.8	14.9
Dividend Yield (%)	0.2	0.4	0.4	0.4	0.4

BUY

Current Market Price (₹)	3,853
12M Price Target (₹)	4,455
Potential upside (%)	16

Stock Data

Sector :	Capital Goods
FV (₹) :	2
Total Market Cap (₹ bn) :	361
Free Float Market Cap (₹ bn) :	150
52-Week High / Low (₹)	4,950 / 3,405
BSE Code / NSE Symbol	532683 / AIAENG
Bloomberg :	AIAE IN

Shareholding Pattern

(%)	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	58.50	58.47	58.47	58.47
MFs	18.84	18.47	17.60	17.66
FPIs	17.94	17.68	18.17	18.29
Insurance	1.56	1.99	2.46	2.38
Others	3.16	3.39	3.30	3.20

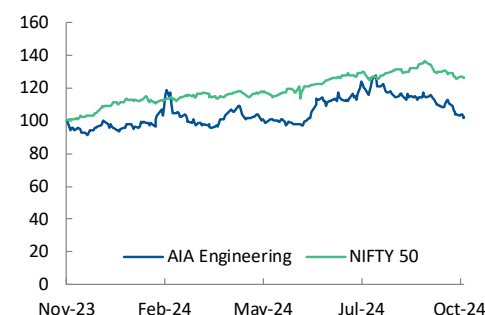
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
AIAE	-11.5%	-14.7%	1.5%	2.3%
Nifty 50	-5.8%	-2.8%	7.5%	26.4%

* To date / current date : November 1, 2024

AIAE vs Nifty 50



Looking ahead, while FY25 may see a volume decline of 25,000 MT to 30,000 MT, AIAE is actively pursuing several large contracts that could significantly boost volumes and is focused on converting multiple mines with six-digit opportunities. The FY25 capital expenditure plan of ₹2.5 bn remains on course, including a brownfield capacity addition of 36,000 MT. Additionally, the board is evaluating the feasibility of setting up an overseas plant, with detailed discussions currently underway. Overall, while AIAE faces short-term challenges, its long-term growth prospects remain promising.

Outlook

As we look ahead, AIAE is projecting a decline in FY25 volumes by 25,000 MT to 30,000 MT. Despite this short-term challenge, the medium to long-term outlook remains optimistic, supported by the company's technological edge in high chrome mill internals, substantial growth potential in the mining sector (with only 20% conversion achieved), and robust financial performance. While volumes may remain subdued in the near term, opportunities for growth could arise as the market stabilizes. Considering the expected volume drop and H1 performance, we have revised our EPS estimates downward for FY25E and FY26E. Consequently, we are maintaining a BUY rating with a revised target price of ₹4,455 to reflect the current challenges.

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)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenues	10,442	12,948	-19.4%	11,502	-9.2%
Material cost	4,295	5,470	-21.5%	5,037	-14.7%
Employee cost	465	433	7.4%	442	5.3%
Other expenditure	2,925	3,224	-9.3%	3,049	-4.1%
Operating Expenses	7,685	9,127	-15.8%	8,528	-9.9%
EBITDA	2,757	3,821	-27.9%	2,974	-7.3%
<i>EBITDA margins</i>	26.4%	29.5%	-311bps	25.9%	54bps
Depreciation	236	245	-3.8%	245	-3.9%
Other income	901	623	44.6%	765	17.8%
EBIT	3,422	4,199	-18.5%	3,493	-2.0%
Interest	53	74	-29.0%	64	-17.6%
PBT	3,369	4,125	-18.3%	3,430	-1.8%
Tax	809	884	-8.5%	832	-2.8%
Effective tax rate	24.0%	21.4%		24.3%	
PAT (Excl. EI)	2,567	3,231	-20.5%	2,605	-1.5%
<i>PAT margin</i>	24.6%	25.0%	-37bps	22.7%	193bps
EPS (₹)	27.2	34.3	-20.5%	27.6	-1.5%

Source: Company, LKP Research

Concall Highlights

Market Conditions

- There is a slowdown among some mining customers, indicating a systemic and cyclical issue.
- 3-4 large mining clients are currently undergoing a de-stocking process.

Customer Orders

- While some customers have placed orders, they are not following up with purchase orders.
- The conversion from forged media to high chrome grinding media is progressing slowly due to these challenges.

Supply Chain Issues

- Supply chain disruptions in the Red Sea and rising freight costs have contributed to delays.
- AIAE experienced a volume impact of 30,000 MT in Q2.

Pricing Strategy

- Due to supply chain and freight challenges, AIAE's pricing may have become less competitive for some customers. However, the company offers solutions that provide significant benefits, negating the need for discounts.

FY25 Outlook

- FY25 is anticipated to be a year of lower revenue and volume, with projected sales down by 25,000 MT to 30,000 MT.
- AIAE is actively working on converting several new mines, targeting six-digit opportunities.

Contract Opportunities

- The company is pursuing a couple of large contracts that could significantly alter its performance if realized.

Regional Updates

- Some volume has been supplied to Canada, while volumes in the USA remain stable.
- AIAE is aggressively exploring opportunities in the Latin American market.

Long-Term Growth

- The company remains optimistic about medium to long-term growth opportunities, despite current challenges.
- Mining liners remain flat, and AIAE has not added new customers in Q2.

Financial Considerations

- Other expenses, including increased freight costs and professional/legal fees, were recorded in Q2.
- Detailed discussions are ongoing at the board level regarding potential expansion outside India for a new plant, which is still under internal evaluation.

Capital Expenditure

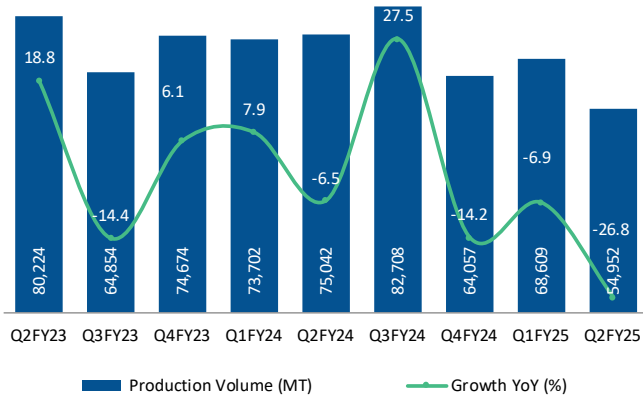
- FY25 capital expenditure of ₹2.5 bn is on track.
- The brownfield capacity addition plan of 36,000 MT is progressing as planned.

Debt Position

- As of H1 FY25, debt stands at ₹1.2 bn.

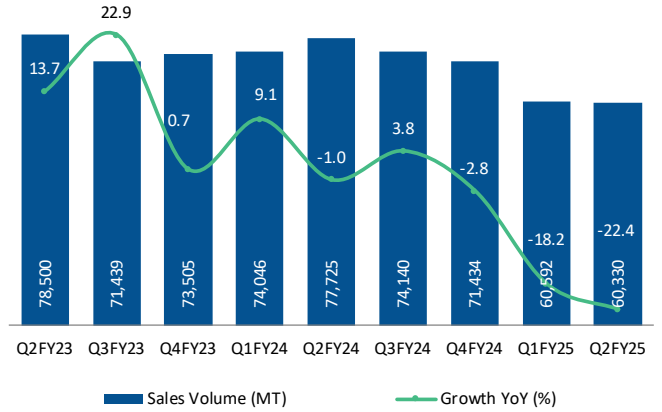
Story in charts

Production volumes

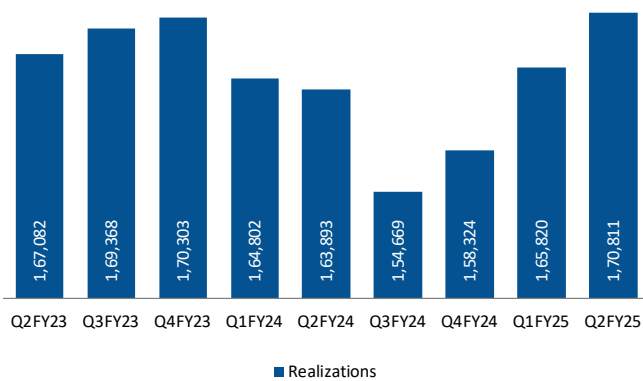


Source: Company, LKP Research

Sales volume

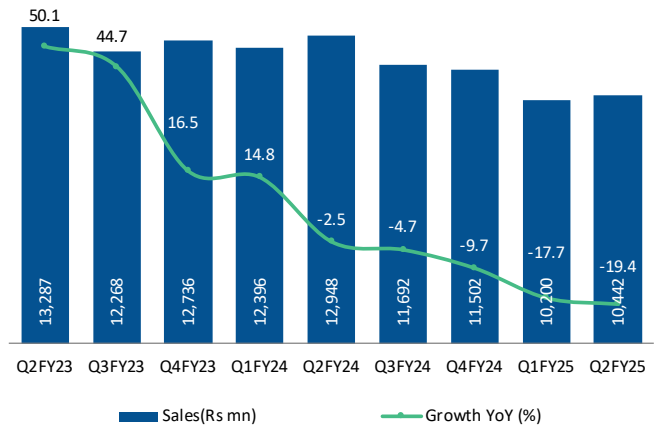


Realisations

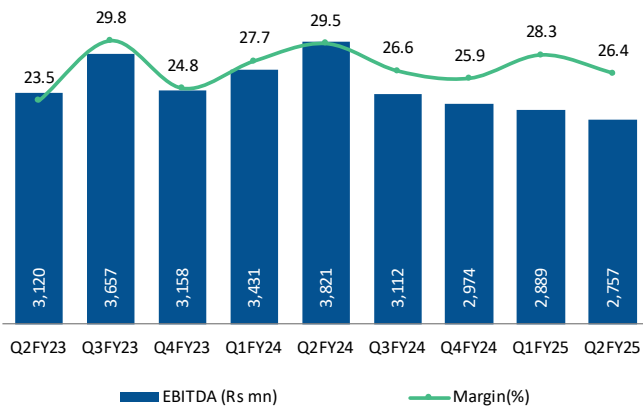


Source: Company, LKP Research

Revenue growth

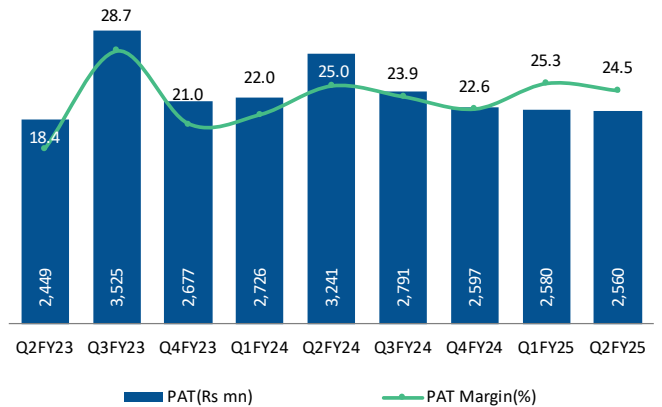


EBITDA & EBITDA Margin trend-Quarter



Source: Company, LKP Research

Adjusted Profit & Profit Margin trend-Quarter



Profit and Loss Statement

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	35,665	49,088	48,538	46,113	50,686
Gross profit	20,434	27,722	26,992	26,578	29,188
EBITDA	7,210	12,407	13,338	12,616	14,212
Depreciation	921	930	1,003	1,071	1,161
EBIT	6,288	11,476	12,335	11,545	13,051
Other Income	1,563	2,345	2,814	3,165	3,714
Interest expense	39	201	284	270	255
Exceptional items	0	0	0	0	0
PBT	7,813	13,620	14,865	14,441	16,510
Reported PAT (after minority interest)	6,197	10,559	11,369	11,135	12,730
Adj PAT	6,197	10,559	11,369	11,135	12,730
EPS (₹)	65.7	112.0	120.6	118.1	135.0

Balance Sheet

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Net Worth	47,634	57,003	66,680	75,989	86,891
Deferred Tax	390	399	581	581	581
Total debt	28	4,960	4,546	4,446	4,346
Other liabilities and provisions	1,236	1,337	1,358	1,494	1,643
Total Networth and liabilities	49,288	63,698	73,165	82,510	93,461
Gross Fixed assets	12,759	15,837	17,707	20,207	21,107
Net fixed assets	7,337	9,485	10,352	11,782	11,521
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	9,752	15,935
Loans & advances and other assets	5,322	3,817	6,143	6,629	7,163
Net working capital	18,348	18,176	19,063	19,277	20,772
Total assets	49,288	63,697	73,165	82,510	93,461
Capital Employed	48,052	62,360	71,807	81,016	91,818
Invested Capital (CE - cash - CWIP)	30,340	30,691	42,814	47,807	52,427
Net debt	(15,582)	(25,635)	(23,525)	(27,841)	(34,124)

Key Ratios

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Growth ratios					
Revenue	23.8%	37.6%	-1.1%	-5.0%	9.9%
EBITDA	10.0%	72.1%	7.5%	-5.4%	12.6%
Adj PAT	9.5%	70.4%	7.7%	-2.1%	14.3%
Margin ratios					
Gross	57.3%	56.5%	55.6%	57.6%	57.6%
EBITDA	20.2%	25.3%	27.5%	27.4%	28.0%
Adj PAT	17.4%	21.5%	23.4%	24.1%	25.1%
Performance ratios					
Pre-tax OCF/EBITDA (%)	17.1%	94.5%	92.2%	120.4%	112.7%
OCF/IC (%)	-1.3%	28.3%	21.1%	24.9%	23.4%
RoE (%)	13.7%	20.2%	18.4%	15.6%	15.6%
RoCE (%)	13.4%	19.4%	17.2%	14.8%	14.9%
RoCE (Pre-tax)	16.9%	25.0%	22.6%	19.3%	19.4%
RoIC (Pre-tax)	23.2%	37.6%	33.6%	25.5%	26.0%
Fixed asset turnover (x)	2.9	3.4	2.9	2.4	2.5
Total asset turnover (x)	0.7	0.9	0.7	0.6	0.6
Financial stability ratios					
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)	(2.2)	(2.4)
Interest cover (x)	(10.2)	43.2	31.8	44.1	48.0
Cash conversion days	188	135	143	153	150
Working capital days	230	154	179	193	189
Valuation metrics					
Fully Diluted Shares (mn)	94	94	94	94	94
Market cap (₹ mn)	3,63,432	3,63,432	3,63,432	3,63,432	3,63,432
P/E (x)	58.6	34.4	32.0	32.6	28.5
P/OCF(x)	(925.4)	41.9	40.3	30.6	29.7
EV (₹ mn) (ex-CWIP)	3,47,930	3,37,876	3,39,986	3,35,670	3,29,387
EV/ EBITDA (x)	48.3	27.2	25.5	26.6	23.2
EV/ OCF(x)	(885.7)	38.9	37.7	28.2	26.9
FCF Yield (%)	-0.5%	1.9%	1.9%	2.6%	3.1%
Price to BV (x)	7.6	6.4	5.5	4.8	4.2
Dividend pay-out (%)	13.7%	14.3%	13.3%	13.6%	11.9%
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	15,194	16,018
Cash flows from Operations (post-tax)	(393)	8,677	9,027	11,897	12,248
Capex	(1,255)	(1,948)	(2,108)	(2,500)	(900)
Free cashflows	(1,648)	6,730	6,920	9,397	11,348
Free cashflows (post interest costs)	(1,678)	6,562	6,647	9,127	11,093
Cash flows from Investing	999	(12,083)	(8,185)	(5,500)	(3,900)
Cash flows from Financing	(2,675)	3,950	(2,110)	(2,180)	(2,166)
Total cash & liquid investments	15,610	30,595	28,071	32,287	38,470

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