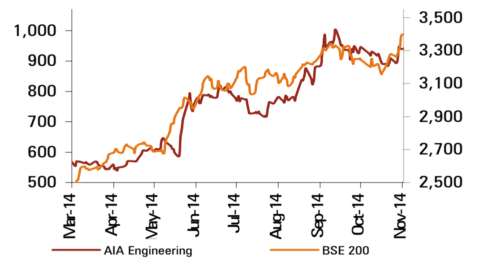
Time frame: 6 months

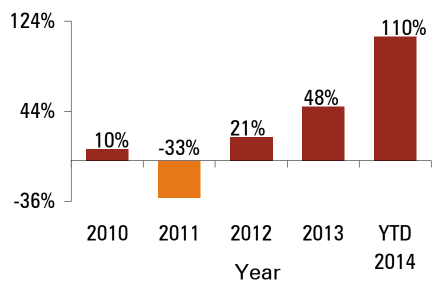
Key Technical Data	
Recommended Price	1008-1025
Price Target	1210.00
Stoploss	908.00
52 Week High	1049.00
52 Week Low	404.00
50 days EMA	917.00
200 days EMA	747.00
52 Week EMA	727.00

**Recommendation given on i-click to gain on 12th November 2014 at 10:06 hrs*

Stock price movement vs. BSE 200 Index



Price performance over last five years



AIA Engineering (AIAENG) (CMP- ₹ 1025.00)

Technical view

Strategy: Buy AIA Engineering in the range of ₹ 1008–1025 for a target price of ₹ 1210.00 with a stop loss below ₹ 908.00 on a closing basis

Key technical observations

- The share price of AIA Engineering is seen resolving higher after a two-month long corrective phase signalling resumption of the next up leg within the larger bull trend and offers fresh entry opportunity with a favourable reward risk set-up from a medium term perspective
- The stock scaled to its life high of ₹1031 in September 2014 and thereafter entered a secondary corrective phase to work off the short term overbought conditions developed during the previous rally. The corrective decline saw the stock retrace its July-September rally (₹703 to ₹1031) precisely by 50% near the October 2014 lows of around ₹866 levels. The placement of the rising trendline drawn by connecting weekly lows of May and July 2014 and rising 13-week EMA (then placed at ₹ 880) acted as a key support area for the stock. The stock witnessed basing formation around ₹870 levels during October 2014 which highlighted steady accumulation by stronger hands
- The stock rallied from the important support base of ₹870 levels ahead of its quarterly results and is seen continuing the up trend post quarterly numbers. Time wise, the July-September 2014 rally took eight weeks while the same was retraced by just 50% while consuming over six weeks which indicates an extended time correction and highlights the corrective nature of price decline. Meanwhile the current upmove has seen the stock completely retraced its six week descent in less than three weeks, thereby completing a faster retracement of the down leg and bolstering the bullish price structure
- On the volume front, the rallies throughout the year have been on the back of volumes above the 50-week average of 5 lakh shares. In the current week, trading volume is already 4.2 lakh shares in just three trading sessions and is expected to surpass 50-week average. The higher volumes during rallies and lower participation in declines augur well for sustainability of the up trend
- Considering the overall positive price structure, we believe the stock offers a good reward/risk set-up to ride the next up move. The price parity of the preceding rally (703-1031=328 points) as projected from the recent low of ₹ 875 projects an upside target ₹ 1203 levels over the medium-term
- Among oscillators, the weekly RSI attracted buying support at its own support near the reading of 55 and is seen trending higher supporting overall bullish momentum in the stock from a medium-term perspective

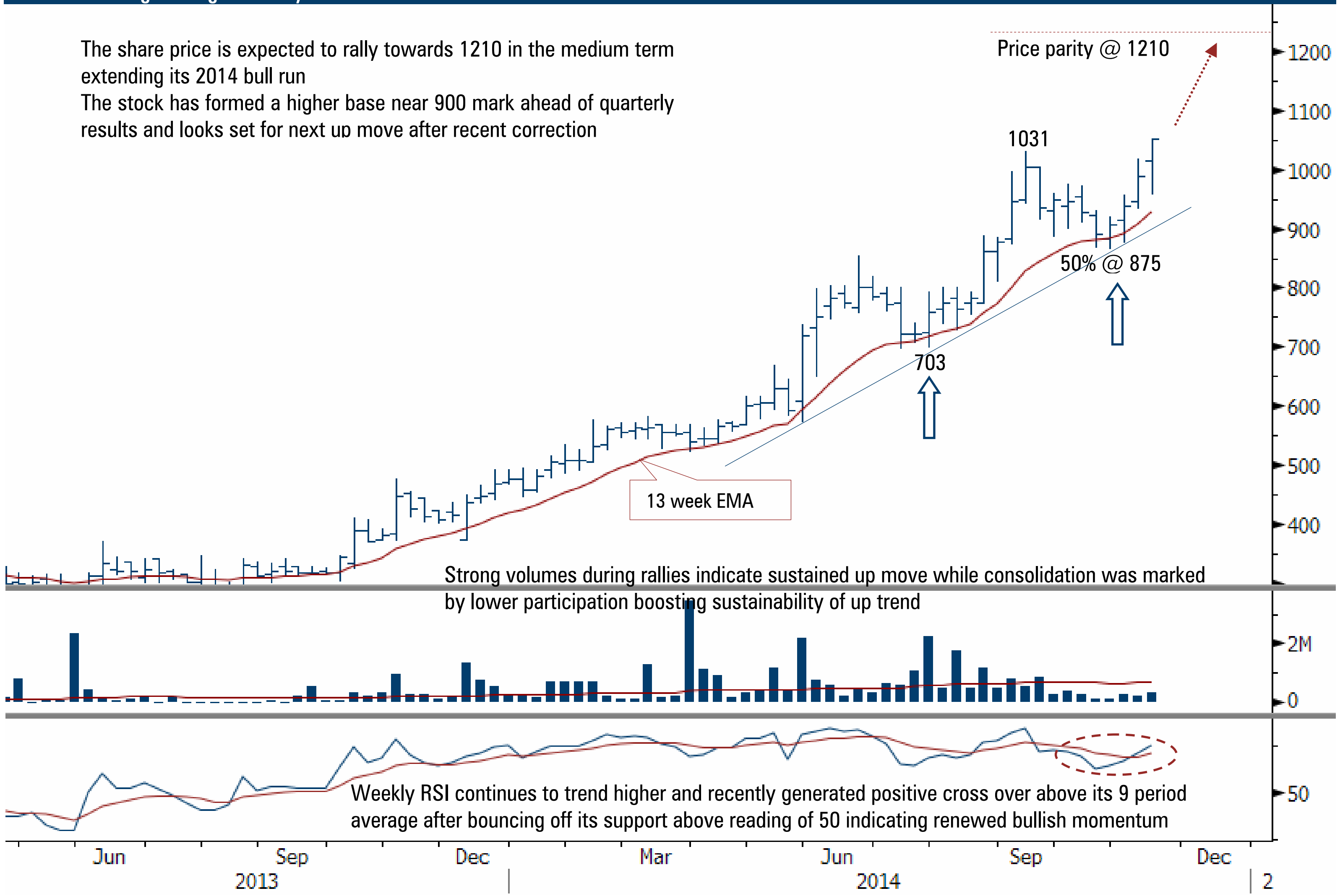
Analyst

Dharmesh Shah
dharmesh.shah@icicisecurities.com

Chirag Shah
shah.chirag@icicisecurities.com

Nitin Kunte, CMT
nitin.kunte@icicisecurities.com

Exhibit 1: AIA Engineering – Weekly Bar Chart



Source: Bloomberg, ICICIdirect.com Research

Stock Data

Particular	Amount
Market Capitalization	₹ 9149.1 Crore
Total Debt (FY14)	₹ 120.6 Crore
Cash and Investments (FY14)	₹ 792.6 Crore
EV	₹ 8477.1 Crore
52 week H/L	1032/404
Equity capital	₹ 18.9 Crore
Face value	₹ 2

Stock return (%)

	1M	3M	6M	12M
Cummins India	26.1	7.9	39.6	85.1
Greaves Cotton	21.9	16.7	52.0	97.9
VA Tech Wabag	12.1	31.9	74.4	122.2
AIA Engineering	(4.4)	18.9	103.1	187.2

Exhibit 1: Key metrics

	FY14	FY15E	FY16E	FY17E
P/E	23	21.9	20.5	16.6
Target P/E	18.5	17.9	16.8	13.6
EV / EBITDA	5.5	14.9	12.4	10.1
P/BV	24.5	4.6	3.9	3.3
RoNW (%)	31	21.0	19.1	19.8
RoCE (%)	30.7	24.9	24.4	25.3

Exhibit 2: Financial highlights

₹ Crore	FY14	FY15E	FY16E	FY17E
Net Sales	2,161.6	2,337.9	2,788.9	3,459.3
EBITDA	582.4	581.2	681.6	838.1
Net Profit	405.3	418.6	446.9	552.0
EPS (₹)	43.0	44.4	47.4	58.5

Source: Company, ICICIdirect.com Research

Fundamental view

Opportunity in mining segment 4x that of cement for AIA

Current global consumption of high chrome mill internals (HCMI) that is equally applied in the cement and mining space, is at ~6,00,000 tonnes per annum (TPA). With almost 80% penetration achieved for HCMI in cement space, mining segment provides the next leg up for HCMI players. It is expected that at least 1.2 MTPA mining segment volumes for mill internals can be converted from forged media into HCMI, going ahead. Hence, we believe this will create an opportunity 4x that of current HCMI consumption of 3,00,000 TPA for HCMI players in mining. Key focus areas in mining for AIA are gold and copper metal.

Greenfield capex on track; AIA to be largest HCMI player by FY16E

Successful penetration in the mining segment (51% volume CAGR over FY10-14) and presence of strong conversion opportunity (80% of the 1.5-2 MT global opportunity per annum from forged media to HCMI still remains unexploited) has prompted AIA to undertake an aggressive capacity expansion plan. From a capacity of 2,60,000 tonnes in FY14E (60,000 tonne brownfield capacity already added in Q4FY14E), AIA plans to add another 1,80,000 tonnes of greenfield capacity in Gujarat by FY16E. This will make AIA the largest HCMI player globally as the current capacity of 260,000 tonnes (as of Q2FY15) is expected to grow 2.1x to 440,000 tonnes by FY16E. AIA will then overtake the current market leader Magotteaux (Belgium). The capex funding is planned via internal accruals as AIA has carries a cash balance of ₹ 827 crore as of Q2FY15 coupled with strong cash flow generation expected in FY15E and FY16E (CFO of ₹ 281 crore and ₹ 397 crore, respectively). AIA will incur a capex of ₹ 200 crore and ₹ 400 crore during FY15E and FY16E, respectively.

Minuscule leverage, strong CFO to ensure smooth capex execution

The greenfield capex of 180,000 tonnes involves an expenditure of ₹ 650 crore, which will be executed across FY15E-16E. AIA expects to fund the capex by internal accruals. We believe the mode of capex commitment will not create any kind of pressure on AIA's balance sheet as the company currently has a cash balance of ₹ 827 crore and debt of ₹ 106 crore. The current debt-equity ratio at the end of FY14 is expected to be at 0.1x. The company expects to fund the capex via internal accruals. Historically, AIA has been able to generate cash flows from operations (CFO) in the range of ₹ 100 crore over FY10-13. With an improvement in volume growth in FY15 and resurrection of EBITDA margins in the range of 23-24% over FY14E-16E, we expect AIA's CFO to average at ₹ 375 crore over FY15E-16E.

Strong performance and prospects will rerate AIA.

We believe AIA has made strong/profitable inroads into the global mining space. The same is reiterated by the massive capacity addition programme that it has undertaken and continued traction in the mining segment on a quarterly basis as even in Q2FY15, mining segment volumes grew over 40% YoY. Coupled with this, AIA has been consistently surprising on the positive side. Going ahead, we expect AIA to report a strong 17% revenue CAGR, backed by 24.1% volume CAGR, over FY14-17E coupled with ~15% PAT CAGR. Hence, AIA has one of the best earnings profile in our coverage.

NOTES:

- It is recommended to enter in a staggered manner within the prescribed range provided in the report
- Once the recommendation is executed, it is advisable to keep strict stop loss as provided in the report on closing basis
- The recommendations are valid for three to six months and in case we intend to carry forward the position, it will be communicated through separate mail.

Trading Portfolio allocation

- It is recommended to spread out the trading corpus in a proportionate manner between the various technical research products
- Please avoid allocating the entire trading corpus to a single stock or a single product segment
- Within each product segment it is advisable to allocate equal amount to each recommendation
- For example: The 'Daily Calls' product carries 3 to 4 intraday recommendations. It is advisable to allocate equal amount to each recommendation

Recommended product wise trading portfolio allocation

Products	Allocations		Number of Calls	Return Objective		Duration
	Product wise allocation	Max allocation in 1 stock		Frontline Stocks	Mid-cap stocks	
Daily Calls	8%	2-3%	3-4 Stocks	0.50-1%	2-3%	Intraday
Short term Delivery	6%	3-5%	7-10 p.m	4-5%	7-10%	Opportunity based
Weekly Calls	8%	3-5%	1-2 Stocks	5-7%	7-10%	1 Week
Weekly Technical	8%	3-5%	1-2 Stocks	5-7%	7-10%	1 Week
Monthly Call	15%	5%	2-3 Stocks	7-10%	10-15%	1 Month
Monthly Technical	15%	2-4%	5-8 Stocks	7-10%	10-15%	1 Month
Techno Funda	15%	5-10%	1-2 Stocks	10% and above	15% and above	6 Months
Technical Breakout	15%	5-10%	1-2 Stocks	10% and above	15% and above	3-6 Months
Cash in Hand	**10%**	-	-	-	-	-
	100%					

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Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICIdirect.com 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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