

AIAE's consolidated sales in Q4FY23 grew 17% YoY to Rs12.7bn, and was above our estimate of Rs12bn. Mining volumes grew 9% YoY to 48,249MT, while non-mining segment volumes fell 12% YoY to 25,256MT. Realization for the quarter was up 15% YoY to Rs170,303/MT. Gross margin fell 200bps YoY to 54.6%. EBITDA grew 40% YoY to Rs3.2bn, thus leading to EBITDA margin of 24.8%, up 410bps YoY and above our estimate of 22.7%. Higher operating profit led to 38% YoY growth in PAT to Rs2.7bn, above our estimate of Rs2.2bn. For FY24E, AIAE targets to add 30,000 MT of volumes in the mining sector, while EBITDA margin is likely to sustain at 22% having further scope of expansion. We have marginally tweaked our earnings estimate for FY24E while our FY25E estimates remains unchanged. We retain BUY rating on the stock with unchanged target price of Rs3,420 based on 30x FY25E EPS.

Volume uptick will be key to topline growth

Total volume in Q4FY23 was up 1% YoY at 73,505MT, while volumes for FY23 was up 12% YoY at 291,342MT. Segment wise, mining reported 9% YoY growth in Q4FY23 volumes at 48,249MT, while FY23 volumes grew 12.6% YoY to 192,352MT. Non-mining volumes fell 12% YoY to 25,256MT in 4QFY23, but was up 10% YoY in FY23 at 98,990MT. Mill liners volume in FY23 was 25,000-26,000MT while AIAE is likely to add volumes of 10,000MT in FY24E. Its total rated capacity of the Mill Liner plant is 50,000MT. Globally, gold, copper and iron are seeing positive momentum in capex cycle. However, AIAE's growth is not dependent on capex cycle, but it depends on conversion from forged media to high chrome media which is currently low at ~20%. Key global markets are North America, Latin America (Chile, Brazil and Peru), Australia and CIS countries. However, conversion of customers is an agonizingly long process. Non-mining sector volumes are geared towards cement, thermal power and quarry industries. AIAE is not budgeting any growth in non-mining sector as high chrome media penetration is fairly high.

Realization and margin are likely to remain healthy

Realization in Q4FY23 was Rs170,303/MT, up 15% YoY and it was partly aided by higher share of castings, without which it would have been 3-4% lower. Realization in FY23 was up 23% YoY to Rs166,060/MT. Management believes that realization will continue to remain in Rs160,000/MT to Rs170,000/MT range based on current prices. Pass through of RM and freight cost is a continuous process and it happens as and when prices changes, but with a lag. In Q4FY23, Ferro Chrome prices were higher by 5-10% QoQ compared to Q3FY23 level of Rs120/kg. EBITDA margin of 22% is sustainable with good scope for further margin expansion.

Maintain BUY with an unchanged target price of Rs3,420

AIAE's technological leadership in high chrome mill internals, strong growth opportunity in mining sector and superior financial metrics are key business moats. We retain BUY rating on the stock with an unchanged target price of Rs3,420 based on 30x FY25E EPS. Key risks is any major fall in prices of Ferro Chrome which would lead to a sharp decline in realization.

Financial and valuation summary

YE Mar (Rs mn)	4QFY23A	4QFY22A	YoY (%)	3QFY23A	QoQ (%)	FY23A	FY24E	FY25E
Revenues	12,736	10,933	16.5	12,269	3.8	49,088	51,875	55,032
EBITDA	3,157	2,259	39.8	3,657	(13.7)	12,406	12,087	12,933
EBITDA margin (%)	24.8	20.7	410bps	29.8	(500bps)	25.3	23.3	23.5
Adj. Net profit	2,682	1,946	37.8	3,525	(23.9)	10,559	10,043	10,749
Adj. EPS (Rs)	28.4	20.6	37.8	37.4	(23.9)	112.0	106.5	114.0
EPS growth (%)						70.4	(4.9)	7.0
PE (x)						26.0	27.4	25.6
EV/EBITDA (x)						21.9	22.1	20.2
PBV (x)						4.8	4.2	3.7
RoE (%)						20.2	16.5	15.5
RoCE (%)						19.6	15.9	15.3

Source: Company, Centrum Broking

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Result Update
India I Capital Goods
26 May, 2023

Institutional Research

BUY
Price: Rs2,910
Target Price: Rs3,420
Forecast return: 18%

Market Data

Bloomberg:	AIAE IN
52 week H/L:	2,988/1,800
Market cap:	Rs274.4bn
Shares Outstanding:	94.3mn
Free float:	41.5%
Avg. daily vol. 3mth:	69,140

Source: Bloomberg

Changes in the report

Rating:	BUY; no change
Target price:	Rs3,420; no change
EPS:	FY24E: Rs106.5; up 3.3% FY25E: Rs114.0; no change

Source: Centrum Broking

Shareholding pattern

	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	58.5	58.5	58.5	58.5
FIIIs	18.0	17.8	18.0	18.1
DIIIs	21.0	21.0	20.1	20.1
Public/other	2.5	2.7	3.4	3.3

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q4FY23	Actual Q4FY23	Variance (%)
Revenue	12,135	12,736	4.9
EBITDA	2,727	3,157	15.8
EBITDA margin %	22.5	24.8	230bps
PAT	2,225	2,682	20.5
EPS	23.6	28.4	20.5

Source: Company Data, Centrum Broking



Chirag Muchhala
Research Analyst, Capital Goods
+91-22-4215 9203
chirag.muchhala@centrum.co.in



Rahul Kumar Mishra
Research Associate, Capital Goods
+91-22-4215 9265
rahulkumar.mishra@centrum.co.in

Capital Goods

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	51,875	50,696	2.3	55,032	54,751	0.5
EBITDA	12,087	11,812	2.3	12,933	12,867	0.5
EBITDA margin %	23.3	23.3	-	23.5	23.5	-
Adj. PAT	10,043	9,721	3.3	10,749	10,748	-
Diluted EPS (Rs)	106.5	103.1	3.3	114.0	114.0	-

Source: Centrum Broking

AIA Engineering versus NIFTY 50

	1m	6m	1 year
AIAE IN	8.2	10.2	55.1
NIFTY 50	6.2	5.0	21.5

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E
Sales Volume (MT)	3,30,352	3,74,352
Realizations (Rs/MT)	1,55,000	1,45,000
Revenue growth (%)	5.7	6.1
EBITDA margins (%)	23.3	23.5

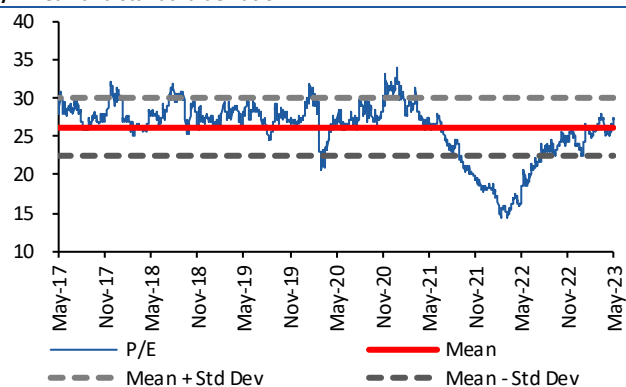
Source: Centrum Broking

Valuations

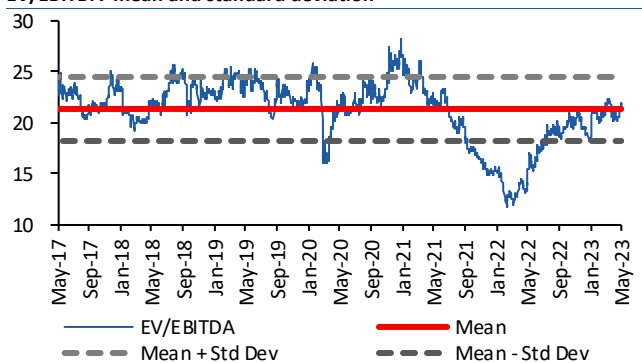
We value AIAE at 30x FY25E EPS and arrive at the target price of Rs3,420

Valuations	Rs/share
FY25 EPS	114
PE (x)	30
Target price per share	3,420

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Key concall takeaways

- Guidance – FY24 will see 30,000 MT volumes addition from mining sector. EBITDA margin of 22% is sustainable with good scope for further margin expansion.
- Capex – Total capex outlay at Rs4bn of which Rs3bn will be spend in FY24 and Rs1bn in FY25. Capex breakup: (1) Rs2bn for 20,000MT capacity addition of castings (for non-grinding media plants) towards land, warehouse, automation and de-bottlenecking. To be ready in 3QFY23. (2) Rs1.5bn towards brownfield grinding media plant. To be operational by end-FY24. (3) Rs500mn towards wind energy investment.
- Realizations in Q4FY23 was Rs170,303/MT. It was partly aided by higher share of castings, without which it would have been 3-4% lower.
- Realization will continue in Rs160,000/MT to Rs170,000/MT range based on current prices. The pass through of RM and freight cost is a continuous process and will happen as and when prices changes, with a lag.
- Ferro chrome prices were higher by 5-10% QoQ in Q4FY23. In 3QFY23, it was Rs120/kg.
- Mill liner volume in FY23 was 25,000-26,000MT. In FY24, 10,000MT addition is likely. The total rated capacity of the plant is 50,000MT.
- Mill liner can also be made from rubber, steel and hybrid material. Each of these materials have their specific benefits and each are seeing good growth. AIAE offers the most superior solutions.
- They are no alternate material coming in to make grinding media.
- Gold, copper and iron are seeing positive momentum in global capex cycle. However, AIAE's growth does not depend much on capex cycle, instead it depends on conversion from forged media to high chrome media.
- Key global markets are North America, Latin America (Chile, Brazil and Peru), Australia and CIS countries. However, conversion of customers is an agonizingly long process.
- Non-mining sector volumes are geared towards cement, thermal power and quarry industries. They are not budgeting any growth here as high chrome media penetration is fairly high.
- As per government policy, AIAE receives 1% RoDTEP benefit on export of grinding media.
- Working capital was largely in line with expectation. It improved by 7-8 days due to reduced finished goods inventory. Earlier they had higher levels of inventory during COVID times which has now normalized.
- AIAE carries high cash + Investment of Rs30.6bn as on FY23. While it has announced dividend of Rs16/share for FY23, the cash reserves are still fairly high as it wants to stay conservative for at least a couple of years for further capex plans or market opportunities.

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Net sales	7,303	8,711	8,330	10,800	10,647	13,116	12,099	12,518	15.9	3.5
Other operating income	96	141	151	133	150	171	169	217	63.0	28.7
Total sales	7,399	8,852	8,481	10,933	10,797	13,287	12,269	12,736	16.5	3.8
Direct Costs	2,828	3,940	3,207	4,736	4,698	5,748	4,435	5,777	22.0	30.3
Gross Profit	4,572	4,912	5,274	6,197	6,099	7,539	7,833	6,958	12.3	(11.2)
Staff Cost	338	342	355	358	367	374	378	399	11.6	5.5
Other Expenses	2,514	2,950	3,307	3,580	3,260	4,045	3,797	3,402	(5.0)	(10.4)
Total Expenditure	5,680	7,232	6,869	8,674	8,325	10,167	8,611	9,578	10.4	11.2
EBITDA	1,719	1,619	1,612	2,259	2,472	3,120	3,657	3,157	39.8	(13.7)
Depreciation	242	218	249	213	208	246	244	232	9.2	(4.9)
EBIT	1,477	1,402	1,363	2,046	2,264	2,874	3,413	2,925	42.9	(14.3)
Interest	7	8	25	(2)	11	39	52	99	NA	88.7
Other Income	395	357	423	387	206	321	1,180	638	64.7	(45.9)
PBT	1,865	1,751	1,761	2,436	2,459	3,157	4,540	3,464	42.2	(23.7)
Tax	374	371	376	496	545	708	1,015	788	58.9	(22.4)
PAT	1,491	1,380	1,385	1,940	1,915	2,449	3,525	2,677	38.0	(24.1)
Less : Minority interest	-2	4	4	-6	10	1	0	-5	(9.1)	NA
PAT after minority	1,493	1,376	1,382	1,946	1,905	2,448	3,525	2,682	37.8	(23.9)
EPS (Rs/share)	15.8	14.6	14.6	20.6	20.2	26.0	37.4	28.4	37.8	(23.9)

As a % of revenue

Direct Costs	38.2	44.5	37.8	43.3	43.5	43.3	36.2	45.4
Gross Margin	61.8	55.5	62.2	56.7	56.5	56.7	63.8	54.6
Staff Cost	4.6	3.9	4.2	3.3	3.4	2.8	3.1	3.1
Other expenses	34.0	33.3	39.0	32.7	30.2	30.4	31.0	26.7
EBITDA Margin	23.2	18.3	19.0	20.7	22.9	23.5	29.8	24.8
PAT Margin	20.1	15.6	16.3	17.7	17.7	18.4	28.7	21.0
Tax rate	20.1	21.2	21.3	20.4	22.1	22.4	22.4	22.7

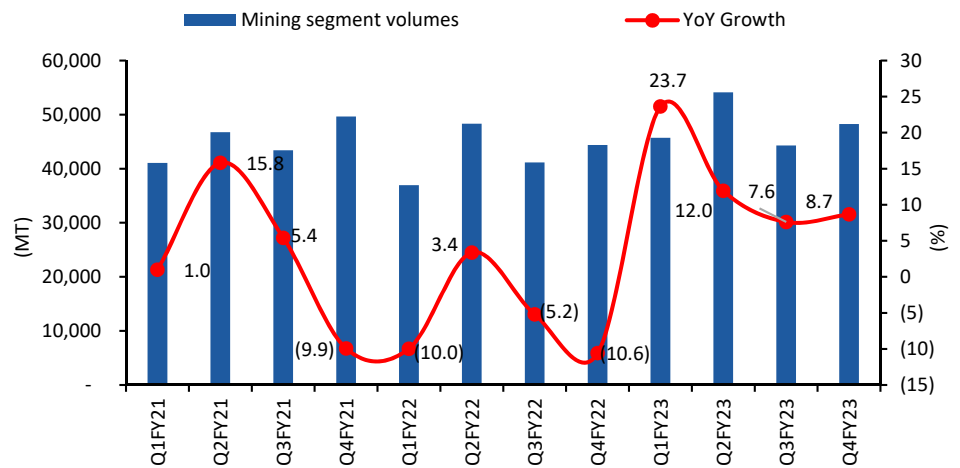
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Volume sales (MT)										
Mining	36,967	48,333	41,147	44,395	45,710	54,109	44,284	48,249	8.7	9.0
Others	23,351	20,731	16,964	28,581	22,188	24,391	27,155	25,256	(11.6)	(7.0)
Total	60,318	69,064	58,111	72,976	67,898	78,500	71,439	73,505	0.7	2.9
Volume sales break-up (%)										
Mining	61.3	70.0	70.8	60.8	67.3	68.9	62.0	65.6		
Others	38.7	30.0	29.2	39.2	32.7	31.1	38.0	34.4		
Production (MT)	64,893	67,452	75,764	70,391	68,336	80,224	64,854	74,674	6.1	15.1
Sales to Production (%)	92.9	102.4	76.7	103.7	99.4	97.9	110.2	98.4		
Revenue (Rs mn)	7,303	8,711	8,330	10,800	10,647	13,116	12,099	12,518	15.9	3.5
Realisation (Rs/MT)	1,21,079	1,26,130	1,43,354	1,47,993	1,56,804	1,67,082	1,69,368	1,70,303	15.1	0.6
Order book (Rs mn)	6,820	7,720	6,820	5,020	7,000	7,840	6,830	7,700	53.4	12.7

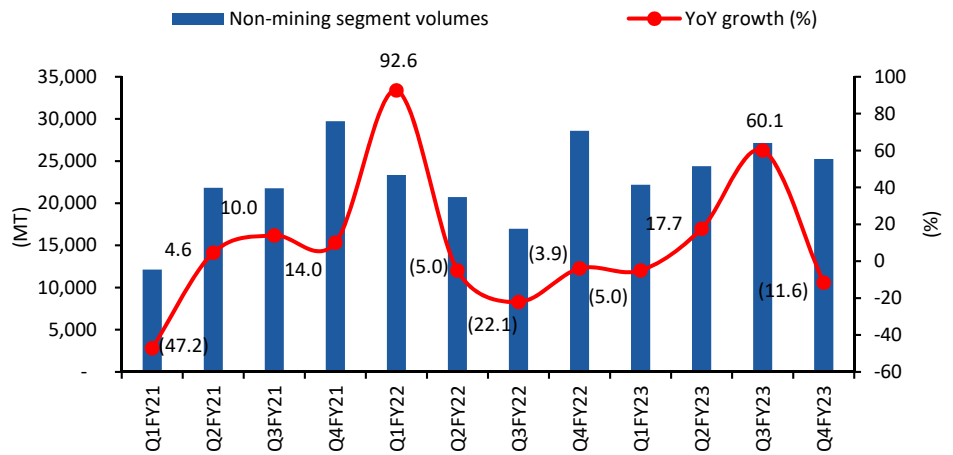
Source: Company, Centrum Broking

Exhibit 3: Mining segment volumes trend



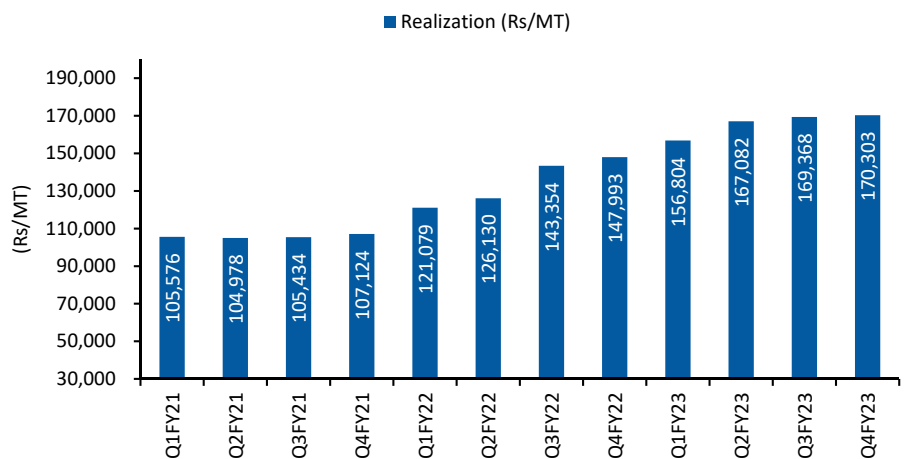
Source: Company Data, Centrum Broking

Exhibit 4: Non-mining segment volumes trend



Source: Company Data, Centrum Broking

Exhibit 5: Realization trend



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenues	28,815	35,665	49,088	51,875	55,032
Operating Expense	11,426	14,711	20,658	21,528	22,563
Employee cost	1,335	1,394	1,519	1,660	1,816
Others	9,501	12,351	14,504	16,600	17,720
EBITDA	6,552	7,209	12,406	12,087	12,933
Depreciation & Amortisation	935	921	930	977	1,128
EBIT	5,617	6,288	11,476	11,110	11,804
Interest expenses	43	39	201	277	186
Other income	1,722	1,563	2,345	2,075	2,201
PBT	7,296	7,813	13,620	12,908	13,819
Taxes	1,639	1,617	3,055	2,840	3,040
Effective tax rate (%)	22.5	20.7	22.4	22.0	22.0
PAT	5,657	6,196	10,565	10,068	10,779
Minority/Associates	4	1	(6)	(25)	(30)
Recurring PAT	5,661	6,197	10,559	10,043	10,749
Extraordinary items	0	0	0	0	0
Reported PAT	5,661	6,197	10,559	10,043	10,749

Ratios					
YE Mar	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (%)					
Revenue	(3.3)	23.8	37.6	5.7	6.1
EBITDA	(3.7)	10.0	72.1	(2.6)	7.0
Adj. EPS	(4.1)	9.5	70.4	(4.9)	7.0
Margins (%)					
Gross	60.3	58.8	57.9	58.5	59.0
EBITDA	22.7	20.2	25.3	23.3	23.5
EBIT	19.5	17.6	23.4	21.4	21.4
Adjusted PAT	19.6	17.4	21.5	19.4	19.5
Returns (%)					
ROE	14.2	13.8	20.2	16.5	15.5
ROCE	13.8	13.5	19.6	15.9	15.3
ROIC	19.5	18.3	28.1	26.3	25.9
Turnover (days)					
Gross block turnover ratio (x)	2.3	2.7	3.0	2.7	2.5
Debtors	82	74	62	64	67
Inventory	245	246	216	208	203
Creditors	48	45	40	45	43
Net working capital	334	241	207	217	253
Solvency (x)					
Net debt-equity	(0.3)	(0.1)	(0.1)	(0.1)	(0.2)
Interest coverage ratio	152.6	187.2	61.7	43.7	69.5
Net debt/EBITDA	(1.8)	(0.7)	(0.2)	(0.7)	(1.1)
Per share (Rs)					
Adjusted EPS	60.0	65.7	112.0	106.5	114.0
BVPS	450.0	504.1	603.4	689.9	778.8
CEPS	69.9	75.5	121.8	116.8	125.9
DPS	9.0	9.0	16.0	20.0	25.0
Dividend payout (%)	15.0	13.7	14.3	18.8	21.9
Valuation (x)					
P/E	48.6	44.4	26.0	27.4	25.6
P/BV	6.5	5.8	4.8	4.2	3.7
EV/EBITDA	40.1	37.5	21.9	22.1	20.2
Dividend yield (%)	0.3	0.3	0.5	0.7	0.9

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity share capital	189	189	189	189	189
Reserves & surplus	42,255	47,361	56,725	64,881	73,273
Shareholders fund	42,443	47,550	56,913	65,070	73,461
Minority Interest	88	85	89	89	89
Total debt	1,845	28	4,960	1,960	1,760
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	468	387	391	391	391
Total liabilities	44,844	48,050	62,354	67,511	75,702
Gross block	12,528	13,213	16,267	19,267	21,767
Less: acc. Depreciation	(4,643)	(5,540)	(6,470)	(7,447)	(8,576)
Net block	7,885	7,673	9,796	11,819	13,191
Capital WIP	1,609	2,102	1,074	1,200	700
Net fixed assets	9,724	10,002	11,102	13,219	14,091
Non Current Assets	667	3,925	804	882	936
Investments	8,086	10,554	22,543	22,543	22,543
Inventories	7,548	12,260	12,180	12,386	12,673
Sundry debtors	6,410	8,056	8,609	9,522	10,554
Cash & Cash Equivalents	13,954	5,061	8,060	10,160	16,195
Loans & advances	20	19	1,266	1,193	1,376
Other current assets	1,171	1,376	1,741	1,919	1,926
Trade payables	1,658	1,967	2,614	2,654	2,720
Other current liab.	849	1,026	1,125	1,141	1,321
Provisions	229	210	212	519	550
Net current assets	26,367	23,569	27,905	30,866	38,132
Total assets	44,844	48,050	62,354	67,511	75,702

Cashflow					
YE Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Profit Before Tax	7,296	7,813	13,620	12,908	13,819
Depreciation & Amortisation	935	921	930	977	1,128
Net Interest	43	39	201	277	186
Net Change – WC	709	(9,352)	1,783	(940)	(1,284)
Direct taxes	(1,838)	(1,698)	(3,051)	(2,840)	(3,040)
Net cash from operations	7,149	(2,277)	13,478	10,357	10,779
Capital expenditure	(1,439)	(1,200)	(2,030)	(3,095)	(2,000)
Acquisitions, net	0	0	0	0	0
Investments	6,099	(2,468)	(11,989)	0	0
Others	0	0	0	0	0
Net cash from investing	4,660	(3,668)	(14,019)	(3,095)	(2,000)
FCF	11,809	(5,945)	(541)	7,263	8,779
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	875	(1,816)	4,932	(3,000)	(200)
Dividend paid	(849)	(849)	(1,509)	(1,886)	(2,358)
Interest paid	(43)	(39)	(201)	(277)	(186)
Others	614	(245)	318	0	0
Net cash from financing	597	(2,949)	3,540	(5,163)	(2,744)
Net change in Cash	12,406	(8,894)	2,999	2,100	6,035

Source: Company, Centrum Broking

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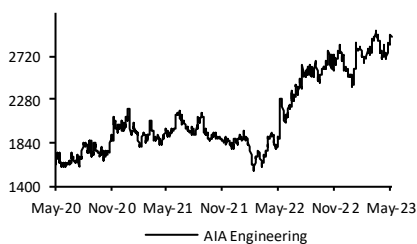
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AIA Engineering



Source: Bloomberg

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PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

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SEBI Registration No. INH000001469

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AMFI REGN No. ARN- 147569

Website: www.centrumbroking.com

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Ajay S Bendkhale

(022) 4215 9000/9023; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)**Registered and Corporate Office:**

Level -9, Centrum House, C.S.T. Road,

Vidyanagari Marg, Kalina,

Santacruz (East) Mumbai – 400098

Tel.: - +91 22 4215 9000