

AIA ENGINEERING

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16 NOV 2016

Quarterly Update

HOLD

Target Price: Rs 1,170

Mining volumes pick up

AIA reported Q2 sales (net of excise) of Rs 5.3 bn, up 8% YoY, on higher than expected volume of 52 K MT (our est: 47 K MT). Mining volume grew 31% YoY, while 'other' segments grew 9% YoY. EBITDA margin expanded ~100 bps to 30%, on favorable raw material costs. PAT at Rs 1.12 bn, up 13% YoY.

While no guidance was given for near-term, AIA maintains that long term sustainable EBITDA margin in the business is 22%. In our view, AIA has delivered higher than the said margin for more than 12 consecutive quarters, and, will be at risk only if a confluence of negative factors plays out - (1) steep rise in input costs, (2) lower realization for new mining customers and, (3) INR appreciation. We raise our FY17/18 core EBITDA margin assumption to 28%/27% (vs. 24% prior). Maintain **HOLD with revised TP of Rs 1,170** (20x FY18 EPS).

CMP : Rs 1,243
Potential Upside : -6%

MARKET DATA

No. of Shares : 94 mn
Free Float : 38%
Market Cap : Rs 117 bn
52-week High / Low : Rs 1,355 / Rs 692
Avg. Daily vol. (6mth) : 48,632 shares
Bloomberg Code : AIAE IB Equity
Promoters Holding : 62%
FII / DII : 28% / 5%

Q2 and H1FY17 highlights

- Management reiterated incremental volume guidance of 120 K MT over a 3-year horizon.
- Q2 volumes stood at 52K MT, up 21% YoY: (1) Mining: 32 K MT, (2) Other (cement and Utilities): 20 K MT; H1 volumes stood at 100 K MT, up 13% YoY: (1) Mining: 61 K MT, (2) Other (cement and Utilities): 38 K MT
- Q2 capex was Rs195mn. FY17 capex is estimated to be Rs1.64 bn
- Order book as of quarter end stood at Rs 8.44 bn; Q2 net cash stood at Rs 11 bn
- Inventory days stable YoY at 35 days; receivables days inched higher by 12 days YoY to 62 days
- Developmental activities of new mines in several key locations in full swing

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Financial summary (Consolidated)

Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	21,837	20,984	22,050	26,950
EBITDA (Rs mn)	5,848	6,114	6,174	7,277
Adj PAT (Rs mn)	4,310	4,241	4,357	5,513
Con. EPS* (Rs)	-	-	46.1	53.3
EPS (Rs)	45.7	45.0	46.2	58.5
Change YOY (%)	21.0	(1.6)	2.7	26.5
P/E (x)	27.2	27.7	26.9	21.3
RoE (%)	22.5	19.4	17.8	19.4
EV/E (x)	19.8	19.2	18.6	15.4
DPS (Rs)	7.9	17.8	9.9	9.9

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

('000 MT)	FY16	FY17E	FY18E
Vols.	185	210	245
Margin (%)	29.1	28.0	27.0

Price performance

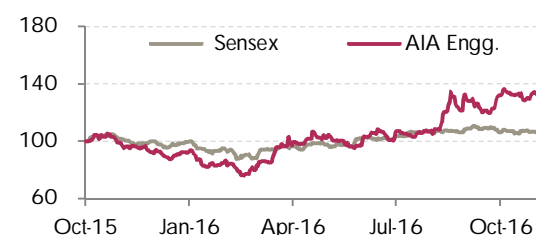


Exhibit 1: Results update – consolidated

(Rs mn)	Quarter ended					12 months ended		
	Sep-16	Sep-15	% Chg	Jun-16	% Chg	FY17E	FY16	% Chg
Net Sales	5,295	4,882	8.4	4,789	10.6	22,050	20,984	5.1
EBIDTA	1,594	1,431	11.4	1,423	12.1	6,174	6,114	1.0
Other income	268	198	35.7	304	(11.9)	1,000	591	69.1
PBIDT	1,863	1,629	14.4	1,727	7.8	7,174	6,705	7.0
Depreciation	170	165	3.4	175	(2.5)	812	670	21.3
Interest	10	10	7.3	12	(13.9)	47	49	(3.5)
PBT	1,682	1,454	15.7	1,541	9.2	6,315	5,986	5.5
Tax	558	462	20.7	450	23.8	1,958	1,745	12.2
Minority Interest	0	1	-	0	0.0	0	(0)	-
Reported PAT	1,124	992	13.3	1,090	3.1	4,357	4,241	2.7
No. of shares (mn)	94	94	0.0	94	0.0	94	94	0.0
EBIDTA margin (%)	30.1	29.3	-	29.7	-	28.0	29.1	-
PBIDT margin (%)	35.2	33.4	-	36.1	-	32.5	32.0	-
EPS - annualized (Rs.)	47.7	42.1	13.3	46.2	3.1	46.2	45.0	2.7

Source: Company, Axis Capital

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- ♦ Management remains focused on medium-long term opportunity landscape, with addressable market at around 3 mn TPA coupled with low penetration of high chrome consumable ware parts in mining. The company expects bulk of future growth to come from mining exports. Other than the significant cost differential, value proposition includes improved process efficiencies, reduction in consumables and environmental benefits
- ♦ GIDC Kerala Greenfield Phase-I and Trichy brownfield expansion commissioned. Present installed capacity is 340K MT. GIDC Kerala, Phase-II Greenfield expected to be commissioned by Oct-17 and estimated capacity addition in Phase-II is 100K MT, taking the total installed capacity to 440K MT by Oct-17 for a total capex of Rs. 3.5 bn
- ♦ Cement sector outlook continues to be flat with no near term signs of recovery visible either in India or outside India
- ♦ Supplies of high chrome mill internals to Indian thermal power plants, although flat as of now, are expected to pick up from next fiscal, but the growth rate will be pegged to the growth rate achieved by thermal power segment in India
- ♦ For the time being, AIA has a limited presence in China (VSMS high chrome mill internal parts)
- ♦ Outstanding foreign currency forward contracts (sales contracts) as on 30th September 2016: US \$54.25 MIO, EURO 5.5 MIO, ZAR 125.5 MIO, CAD 3.5 MIO

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	21,837	20,984	22,050	26,950
Other operating income	-	-	-	-
Total operating income	21,837	20,984	22,050	26,950
Cost of goods sold	(7,616)	(7,150)	(9,128)	(10,610)
Gross profit	14,221	13,834	12,922	16,340
Gross margin (%)	65.1	65.9	58.6	60.6
Total operating expenses	(8,372)	(7,721)	(6,748)	(9,064)
EBITDA	5,848	6,114	6,174	7,277
EBITDA margin (%)	26.8	29.1	28.0	27.0
Depreciation	(697)	(670)	(812)	(913)
EBIT	5,151	5,444	5,362	6,363
Net interest	(39)	(49)	(47)	(23)
Other income	832	591	1,000	1,650
Profit before tax	5,944	5,986	6,315	7,990
Total taxation	(1,634)	(1,745)	(1,958)	(2,477)
Tax rate (%)	27.5	29.2	31.0	31.0
Profit after tax	4,310	4,241	4,357	5,513
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	4,310	4,241	4,357	5,513
Adj. PAT margin (%)	19.7	20.2	19.8	20.5
Net non-recurring items	-	-	-	-
Reported net profit	4,310	4,241	4,357	5,513

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	189	189	189	189
Reserves & surplus	20,647	22,638	25,934	30,387
Net worth	20,836	22,827	26,123	30,575
Borrowing	641	1,506	1,306	141
Other non-current liabilities	246	329	392	472
Total liabilities	25,488	27,342	31,899	35,759
Gross fixed assets	8,584	11,312	12,812	14,312
Less: Depreciation	(3,554)	(4,224)	(5,036)	(5,949)
Net fixed assets	5,030	7,088	7,776	8,363
Add: Capital WIP	950	-	-	-
Total fixed assets	5,980	7,088	7,776	8,363
Total Investment	6,370	8,909	8,909	8,909
Inventory	4,596	3,893	4,460	5,451
Debtors	3,938	4,304	4,330	5,293
Cash & bank	1,868	1,241	3,901	5,221
Loans & advances	2,690	1,884	2,500	2,500
Current liabilities	3,687	2,604	4,002	4,495
Net current assets	9,405	8,718	11,190	13,970
Other non-current assets	48	22	22	22
Total assets	25,488	27,342	31,899	35,759

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	5,944	5,986	6,315	7,990
Depreciation & Amortisation	(697)	(670)	(812)	(913)
Chg in working capital	(1,353)	59	189	(1,461)
Cash flow from operations	2,703	5,273	3,494	3,418
Capital expenditure	(1,400)	(2,728)	(1,500)	(1,500)
Cash flow from investing	(2,596)	(3,727)	(500)	150
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	(258)	864	(200)	(1,165)
Dividend paid	(849)	(1,910)	(1,061)	(1,061)
Cash flow from financing	(437)	(1,359)	(333)	(2,249)
Net chg in cash	(330)	187	2,661	1,319

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	45.7	45.0	46.2	58.5
CEPS (Rs)	53.1	52.1	54.8	68.1
DPS (Rs)	7.9	17.8	9.9	9.9
Dividend payout ratio (%)	17.3	39.6	21.4	16.9
GROWTH				
Net sales (%)	5.0	(3.9)	5.1	22.2
EBITDA (%)	16.5	4.5	1.0	17.9
Adj net profit (%)	21.0	(1.6)	2.7	26.5
FDEPS (%)	21.0	(1.6)	2.7	26.5
PERFORMANCE				
RoE (%)	22.5	19.4	17.8	19.4
RoCE (%)	29.6	25.9	24.2	27.1
EFFICIENCY				
Asset turnover (x)	1.2	1.0	0.9	1.1
Sales/ total assets (x)	0.9	0.8	0.7	0.8
Working capital/ sales (x)	0.3	0.4	0.3	0.3
Receivable days	65.8	74.9	71.7	71.7
Inventory days	104.9	95.6	102.5	101.1
Payable days	50.4	49.3	51.0	50.3
FINANCIAL STABILITY				
Total debt/ equity (x)	-	0.1	0.1	-
Net debt/ equity (x)	(0.1)	-	(0.1)	(0.2)
Current ratio (x)	3.6	4.3	3.8	4.1
Interest cover (x)	130.9	111.7	114.1	276.7
VALUATION				
PE (x)	27.2	27.7	26.9	21.3
EV/ EBITDA (x)	19.8	19.2	18.6	15.4
EV/ Net sales (x)	5.3	5.6	5.2	4.2
PB (x)	5.6	5.1	4.5	3.8
Dividend yield (%)	0.6	1.4	0.8	0.8
Free cash flow yield (%)	1.1	2.2	1.7	1.6

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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