

AIA ENGINEERING LTD.

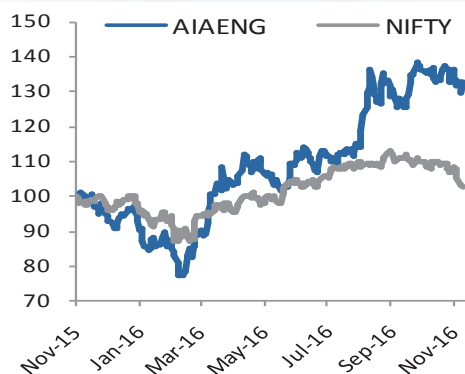
Result Update	
CMP	1238
Target Price	NA
Previous Target Price	
Upside	
Change from Previous	-

Market Data	
BSE Code	532683
NSE Symbol	AIAENG
52wk Range H/L	1355/700
Mkt Capital (Rs Cr)	11,620
Av. Volume	367
Nifty	7958

Stock Performance			
	1Month	1Year	YTD
Absolute	-0.3	39.7	20.6
Rel.to Nifty	6.8	36.8	22.2

Share Holding Pattern-%			
	2QFY17	1QFY17	4QFY16
Promoter	61.7	61.7	61.7
Public	38.4	38.4	38.4
Others	--	--	--
Total	100.0	100.0	100.0

Company Vs NIFTY



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Result Highlights_2QFY17

AIAENG reported Q2FY17 results with 8% topline growth to Rs 549 cr as compare to Rs 509 cr in corresponding period of previous year. EBITDA grew by 11% to Rs 159 as compare to Rs 143 cr in Q2FY16. PAT also grew by 11% to Rs 101 cr as compare to Rs 91 cr in Q2FY16. FY16 sales volumes remained flat primarily attributable to certain strategic and conscious decisions viz. restricting sales to Ukraine; reduction in SA market volume owing to currency uncertainties; and volume reduction owing to closure of one particular iron ore mine in Brazil. However, volumes expected to pick-up from Q3FY17.

Key Highlights:

Cement sector outlook continues to remain flat with no near term signs of recovery visible either in India or outside India.

The supplies of high chrome mill internals to Indian thermal power plants, although flat as of now, are expected to pick up from this fiscal, but the growth rate will be pegged to the growth rate achieved by thermal power segment in India.

GIDC Kerala, Phase-II Greenfield expected to be commissioned by October, 2017 – estimated capacity addition in Phase-II: 1,00,000 TPA making total installed capacity up to 4,40,000 TPA; by October, 2017 which will increase the profitability of the company.

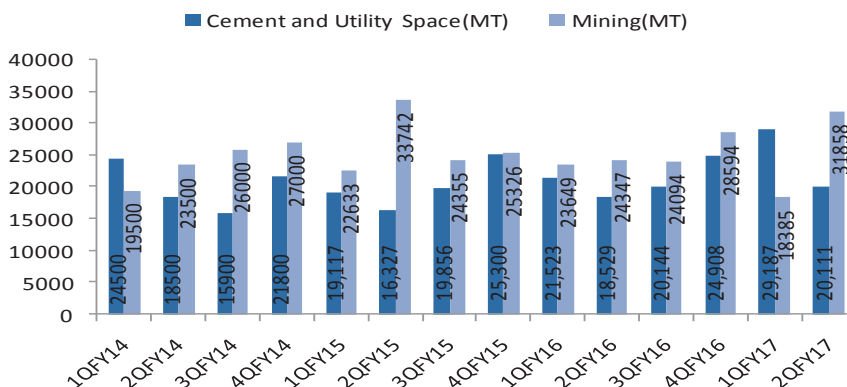
Outlook and Valuation

Going forward we can see decent volume growth in next 2-3 years i.e. around 120000 MT. Bulk of future growth is expected to come from outside India and that too mainly in mining segment. Apart from significant cost reduction due to much lower wear rates, high chrome solutions also bring about benefits like improved process efficiencies, reduction in other consumables, improved environmental benefits, etc. which are other key growth drivers. The supplies of high chrome mill internals to Indian thermal power plants, although flat as of now, are expected to pick up from this fiscal, but the growth rate will be pegged to the growth rate achieved by thermal power segment in India. Company extended its GIDC greenfield capacity by 440 thousand tons which will help to increase profitability. We have positive view on this stock in long term and we will suggest BUY when price will be near to Rs 1050/-, hence we are keeping our "NEUTRAL" view on this stock and recommend buy on dips.

	Rs in Cr				
Financials	FY13	FY14	FY15	FY16	FY17E
Sales	1751	2080	2184	2098	2208
EBITDA	310	502	585	611	680
Net Profit	211	325	431	424	482
EBITDA%	17.7%	24.1%	26.8%	29.1%	30.8%
P/E	0.1	0.2	0.2	0.2	0.2

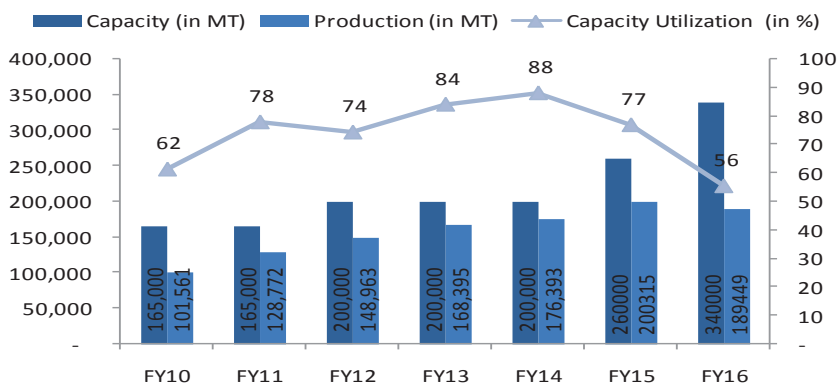
(Source: Company/Eastwind)

Sales Volume:



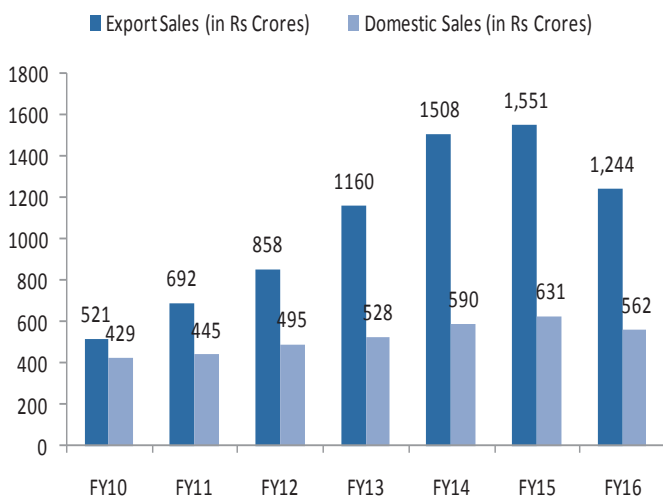
Targeted incremental volume growth over next 3 year horizon around 1,20,000 MT and volumes expected to pick-up from Q3 FY-2017.

Capacity basis:

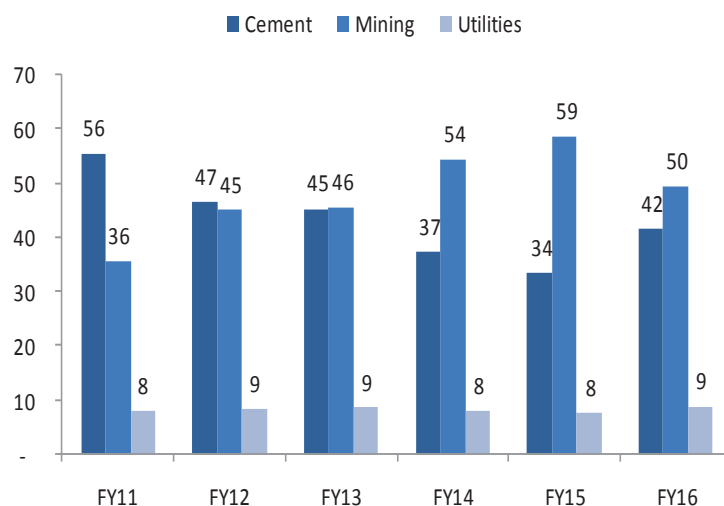


Going ahead, the Company further plans to add capacities of 100,000 TPA through greenfield expansion at GIDC -Kerala, Phase-II. The expansion is expected to be commissioned by October 2017.

Trend of Export sales and Domestic sales:



Trend of yearly market share(%) :



Investment arguments:

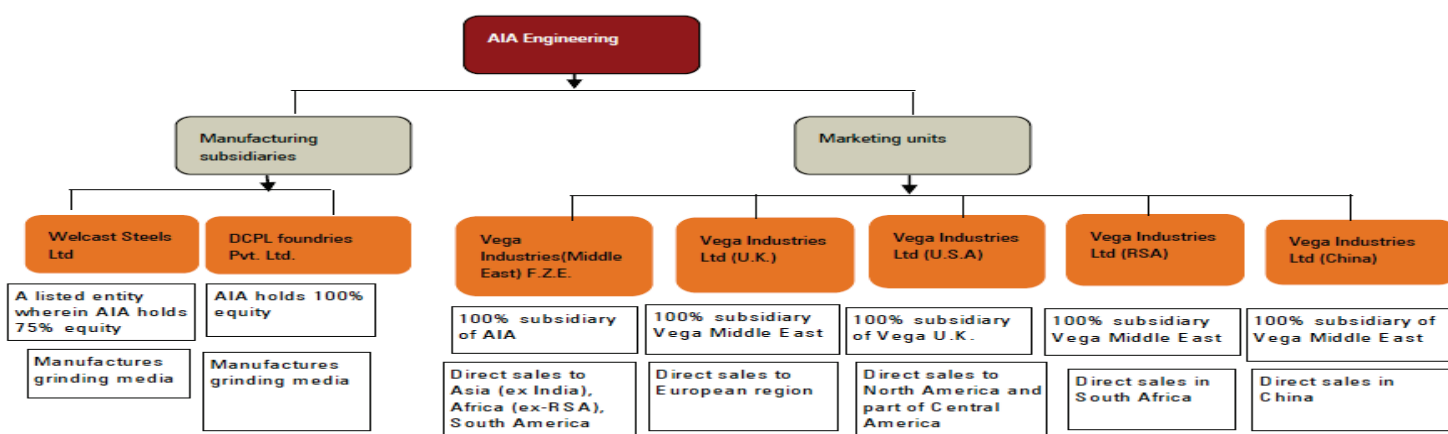
- GIDC Kerala, Phase-II Greenfield's capacity is extended from 340 thousand tons to 440 thousand tons which will increase the profitability.
- Bulk of future growth is expected to come from outside India
- Opportunities in mining sector is very high because development activities of new mines in several key locations is in full swing.
- There is significant cost reduction due to much lower wear rates, high chrome solutions also bring about benefits like improved process efficiencies, reduction in other consumables, improved environmental benefits, etc. which are other key growth drivers.

Key concall highlights:

- Company has guided volume of 205,000-210,000 tonnes for FY17E.
- Volumes expected to pick-up from Q3 FY-2017 and there will be 13% volume growth in 2HFY17.
- According to management, supplies of high chrome mill internals to Indian thermal power plants, although flat as of now, are expected to pick up from the current fiscal.
- Cement sector outlook continues to remain flat with no near term signs of recovery visible either in India or outside India.
- Margin expansion may not be sustainable due to rising ferro chrome prices (up 19%QoQ) and lower expected realisation due to aggressive pricing.
- Tax rate for the full year FY17 will be 29-30%
- Management expects realisation to stabilise at around INR100,000/MT.
- Estimated capacity addition of 100,000MT in GIDC Kerala, Phase-II greenfield is expected to be completed by 2018 at Rs 350 cr Capex taking the capacity to 440,000 MT.
- Capex incurred during the quarter was Rs 20cr, while expected capex for FY17 is Rs 164cr.

About the company:

AIA Engineering (AIA), is India's largest manufacturer and supplier of corrosion and abrasion resistant high chrome mill internals (HCMI), which are used as wear parts in crushing (or grinding) operations in cement, mining and thermal power plants. AIA's product portfolio includes tube mill internals, HRCS castings and crusher parts for cement, mining and thermal power plants.



Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	2080	2184	2098	2208	EPS	34.5	45.7	45.0	51.1
Other Income	33	83	59	71	Book Value	184.4	220.9	242.0	283.7
Total Revenue	2113	2267	2158	2279	DPS	4.7	7.0	21.1	9.4
COGS	796	762	715	687	Payout (incl. Div. Tax.)	14%	15%	47%	18%
GPM	0	0	0	0	Valuation(x)				
Other Expenses	693	739	670	733	P/E	16.2	27.4	20.7	22.6
EBITDA	502	585	611	680	Price / Book Value	3.0	5.7	3.8	4.1
EBITDA Margin (%)	24%	27%	29%	31%	Dividend Yield (%)	0.84%	0.56%	2.26%	0.81%
Depreciation	38	70	67	67	Profitability Ratios				
EBIT	464	515	544	614	RoE	19%	21%	19%	18%
Interest	6	4	5	6	RoCE	25%	24%	24%	23%
PBT	460	594	599	679	Turnover Ratios				
Tax	134	163	175	197	Asset Turnover (x)	0.9	0.9	0.8	0.7
Tax Rate (%)	29%	27%	29%	29%	Debtors (No. of Days)	75.7	65.8	74.9	77.0
Reported PAT	325	431	424	482	Inventory (No. of Days)	160.8	220.3	198.7	200.0
Dividend Paid	44	66	199	88	Creditors (No. of Days)	23.3	19.9	17.1	14.0
No. of Shares	9	9	9	9	Net Debt/Equity (x)	0.05	0.03	0.01	0.01

Souce: Eastwind/Company

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BALANCE SHEET					CASH FLOW STATEMENT				
	FY14	FY15	FY16	FY17E		FY14	FY15	FY16	FY17E
Share Capital	19	19	19	19	OP/(Loss) before Tax	460	594	599	679
Reserves	1720	2065	2263	2657	Depreciation	38	70	67	67
Net Worth	1739	2084	2282	2676	Direct Taxes Paid	(113)	(193)	(174)	(197)
Long term Debt	87	55	25	24	Operating profit before w	529	652	643	751
Short term Debt	3	9	125	9	CF from Op. Activity	466	306	547	521
Deferred Tax	20	25	33	33	Capital expenditure on fix	(134)	(183)	(178)	(101)
Total Capital Employed	1826	2139	2308	2700	CF from Inv. Activity	(434)	(255)	(401)	(125)
Net Fixed Assets	488	598	690	724	Repayment of Long Term	(72)	(28)	0	0
Capital WIP	100	0	0	0	Interest Paid	(6)	(4)	(5)	(6)
Debtors	431	394	430	466	Divd Paid (incl Tax)	(44)	(57)	(289)	(88)
Cash & Bank Balances	220	187	124	308	CF from Fin. Activity	(91)	(83)	(208)	(212)
Trade payables	133	119	98	85	Inc/(Dec) in Cash	(59)	(33)	(63)	185
Total Provisions	127	148	60	65	Add: Opening Balance	279	220	187	124
Net Current Assets	1352	1547	1747	2006	Closing Balance	220	187	124	309
Total Assets	2233	2549	2734	3007					

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