NARNOLIA

AIAENG

BUY

AIA ENGINEERING LTD.

30-May-16

Result Update	
CMP	945
Target Price	1180
Previous Target Price	-
Upside	25%
Change from Previous	-

Market Data	
BSE Code	532683
NSE Symbol	AIAENG
52wk Range H/L	1080.90/700
Mkt Capital (Rs Cr)	8,913
Av. Volume	1917
Nifty	8134

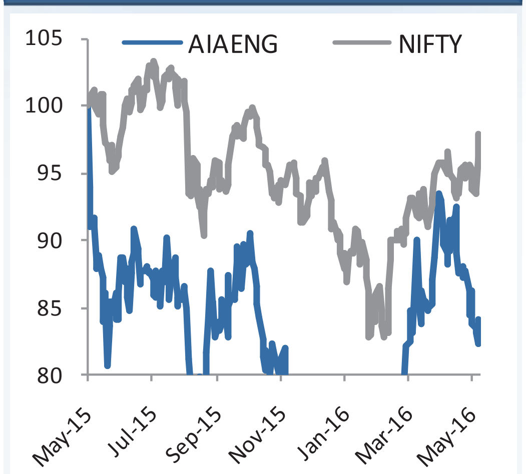
Stock Performance

	1Month	1Year	YTD
Absolute	-5.2	-9.8	-17.8
Rel.to Nifty	-8.0	-6.2	-14.3

Share Holding Pattern-%

	4QFY16	3QFY16	2QFY16
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



Targeted incremental volume growth over next 3 year horizon around 1,20,000 MT.

Key points :-

→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.

→ Opportunities in mining sector is very high because development activities of new mins in several key locations is in full swing. And bulk of future growth is expected to come from outside India and that too mainly in mining segment.

Result Highlights_FY16

FY 2016 sales volumes remained flat primarily attributable to certain strategic and conscious decisions. (i) restricting sales to Ukraine; (ii) reduction in SA market volume owing to currency uncertainties; and (iii) volume reduction owing to closure of one particular iron ore mine in Brazil. Gross margin grew by 80 bps and EBITDA margin improves by 253 bps. ROE and ROCE is 19% and 24% respectively.

Key Risks:

Revenues are highly influenced by volatility in the exchange rate as 75% of revenues are from the international market, currency depreciation in South Africa and Brazil will impact after few quarters.

Outlook and Valuation

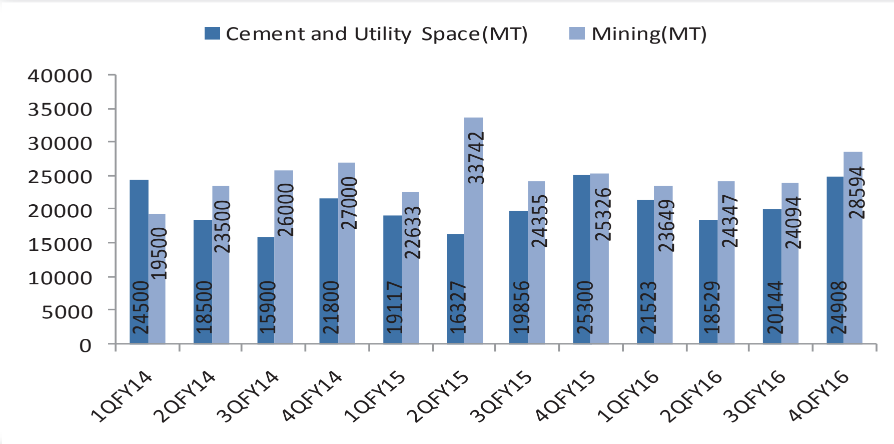
Going forward we see decent volume growth this year, opportunities in mining sector is very high because development activities of new mins in several key locations is in full swing. And bulk of future growth is expected to come from outside India and that too mainly in mining segment. Company also started getting orders from Chile. Company extended its GIDC greenfield capacity by 440 thousand tons which will help to increase profitability. Due to above mentioned reason we recommended "BUY" for this stock at a target price of Rs 1180.

Rs in Cr

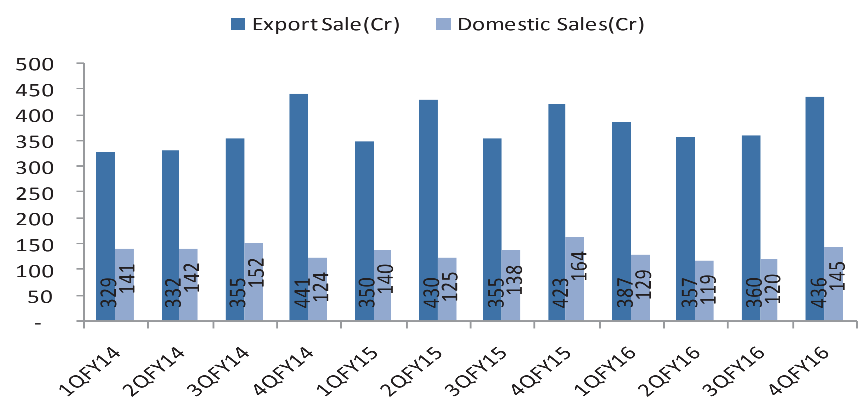
Financials	*FY13*	*FY14*	*FY15*	*FY16*	*FY17E*
Sales	*1751*	*2080*	*2184*	*2098*	*2126*
EBITDA	*310*	*502*	*585*	*611*	*586*
Net Profit	*211*	*325*	*431*	*424*	*388*
EBIDTA%	*17.7%*	*24.1%*	*26.8%*	*29.1%*	*27.6%*
P/E	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*

(Source: Company/Eastwind)

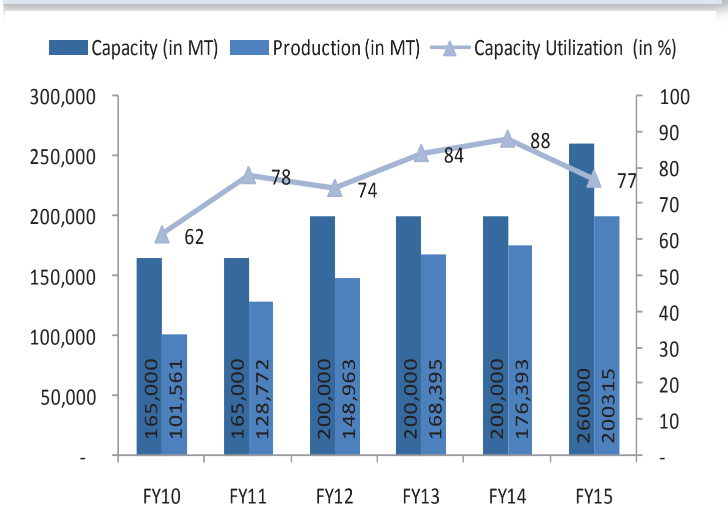
Sales Volume:



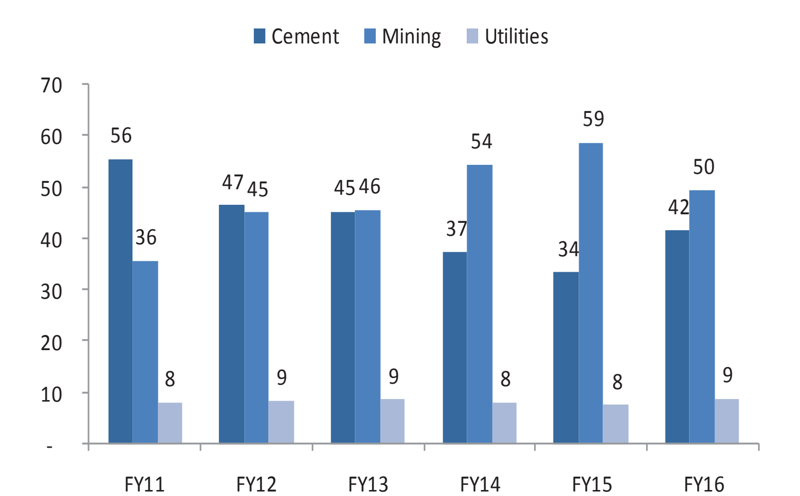
Trend of Export sales and Domestic sales:



Capacity basis:



Trend of yearly market share(%) :



Investment arguments:

→ GIDC Kerala, Phase-II Greenfield's capacity is extented from 340 thosand tons to 440 thosand 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 mins 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:

→ As per the management incremental volume growth will be 120000 MT for next 2-3 years.

→ Outlook of mining sector is good as well as opportunities in this sector is very high.

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

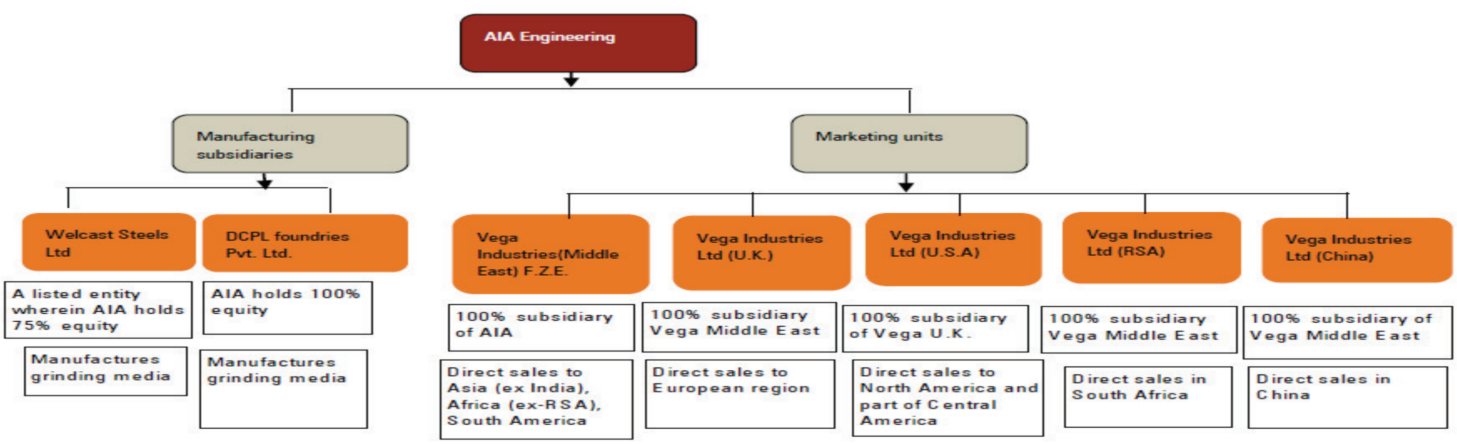
→ Capex estimated to be incurred in FY 2016-17: Rs.150 crores.(Rs 200 in FY18E)

→ Tax rate for the full year FY17 will be 29-30%

→ Company extended its GIDC greenfield capacity by 440 thousand tons.

About the company:

AIA Engineering (AIA), is India's largest manufacturer and supplier of corrosion and abrasion resistant high chrome mill internals (HCMIs), 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

	FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	2080	2184	2098	2126
Other Income	33	83	59	39
Total Revenue	2113	2267	2158	2165
COGS	796	762	715	760
GPM	0	0	0	0
Other Expenses	693	739	670	677
EBITDA	502	585	611	586
EBITDA Margin (%)	24%	27%	29%	28%
Depreciation	38	70	67	68
EBIT	464	515	544	518
Interest	6	4	5	11
PBT	460	594	599	546
Tax	134	163	175	158
Tax Rate (%)	29%	27%	29%	29%
Reported PAT	325	431	424	388
Dividend Paid	44	66	199	88
No. of Shares	9	9	9	9

Souce: Eastwind/Company

RATIOS

	FY14	FY15	FY16	FY17E
EPS	34.5	45.7	45.0	41.1
Book Value	184.4	220.9	242.0	273.7
DPS	4.7	7.0	21.1	9.4
Payout (incl. Div. Tax.)	14%	15%	47%	23%
Valuation(x)				
P/E	16.2	27.4	20.7	22.8
Price / Book Value	3.0	5.7	3.8	3.4
Dividend Yield (%)	0.84%	0.56%	2.26%	1.00%
Profitability Ratios				
RoE	19%	21%	19%	15%
RoCE	25%	24%	24%	20%
Turnover Ratios				
Asset Turnover (x)	0.9	0.9	0.8	0.7
Debtors (No. of Days)	75.7	65.8	74.9	74.9
Inventory (No. of Days)	160.8	220.3	198.7	198.7
Creditors (No. of Days)	23.3	19.9	17.1	17.1
Net Debt/Equity (x)	0.05	0.03	0.01	0.01

Souce: Eastwind/Company

BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	19	19	19	19
Reserves	1720	2065	2263	2563
Net Worth	1739	2084	2282	2582
Long term Debt	87	55	25	23
Short term Debt	3	9	125	9
Deferred Tax	20	25	33	33
Total Capital Employed	1826	2139	2308	2605
Net Fixed Assets	488	598	690	709
Capital WIP	100	0	0	0
Debtors	431	394	430	436
Cash & Bank Balances	220	187	124	272
Trade payables	133	119	98	100
Total Provisions	127	148	60	65
Net Current Assets	1352	1547	1747	1926
Total Assets	2233	2549	2734	2922

Souce: Eastwind/Company

CASH FLOW STATEMENT

	FY14	FY15	FY16E	FY17E
OP/(Loss) before Tax	460	594	599	546
Depreciation	38	70	67	68
Direct Taxes Paid	(113)	(193)	(175)	(158)
Operating profit before w	529	652	670	626
CF from Op. Activity	466	306	513	436
Capital expenditure on fix	(134)	(183)	(159)	(87)
CF from Inv. Activity	(434)	(255)	(431)	(69)
Repayment of Long Term	(72)	(28)	0	0
Interest Paid	(6)	(4)	(5)	(11)
Divd Paid (incl Tax)	(44)	(57)	(199)	(88)
CF from Fin. Activity	(91)	(83)	(117)	(219)
Inc/(Dec) in Cash	(59)	(33)	(36)	148
Add: Opening Balance	279	220	187	124
Closing Balance	220	187	151	272

Souce: Eastwind/Company