

Recommendation	CMP	Target Price	Time Horizon
BUY	Rs 3960.00	Rs 5051.00	9-12 Months

AIA Engineering Limited designs, develops, manufactures, installs, and servicing high chromium wear, corrosion, and abrasion resistant castings in India and internationally. The company offers high chrome grinding, mill liners, energy efficient pulp lifter system, and revolutionary solution ball milling system; alloy and design optimization, installation supervision, mill audit, analysis, and tuning, and condition monitoring; and blow bars, hammers, impellers, anvil, feed disk and frame liners.

With a worldwide presence spanning over 125 countries, the company has successfully implemented its solutions in numerous mills and equipment across the globe. In the future, the company intends to uphold its dedication to innovation by consistently introducing solutions that not only offer cost-effectiveness but also enhance overall value for its customers. This commitment further solidifies its leadership position in delivering comprehensive solutions.

Stock Details	
Market Cap. (Cr.)	37,125.00
Face Value	2.00
Equity (Cr.)	18.90
52 Wk high/low	4630/2620
BSE Code	532682
NSE Code	AIAENG
Book Value (Rs)	650.00
Industry	Castings/Forgings

Share Holding Pattern %	
Promoter	58.47
FII	18.29
DII	20.46
Public & Others	2.78
Total	100

Product range:

- The company produces a range of products known collectively as Mill Internals, including grinding media, liners, and diaphragms.
- These components are integral to crushing and grinding operations in industries such as cement, power utility, and mining. Additionally, the company offers various services including ball size optimization, ore grindability assessments, Millart services, Mill Audits, alloy selection for wear reduction, installation support, liner wear monitoring, and alloy optimization aimed at enhancing metal recoveries.

Addressed Sector:

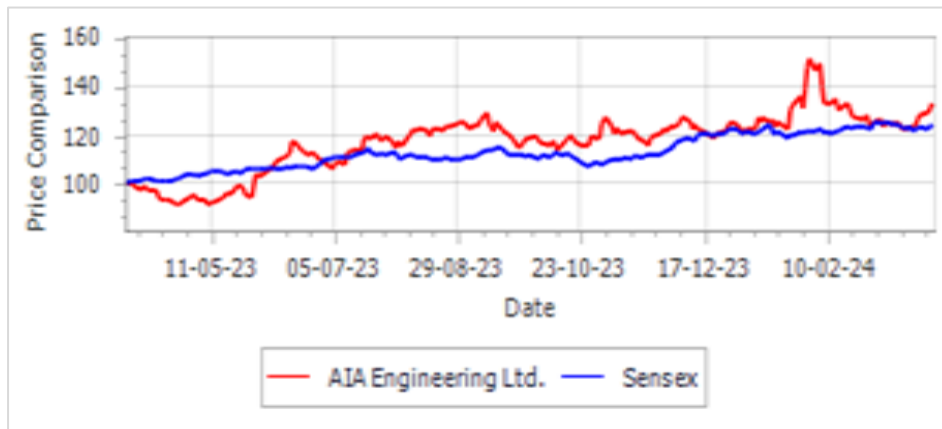
- **Cement:** Proficiency in the production of tube mills and vertical mills. Extensive expertise in metallurgy, grinding, and design.

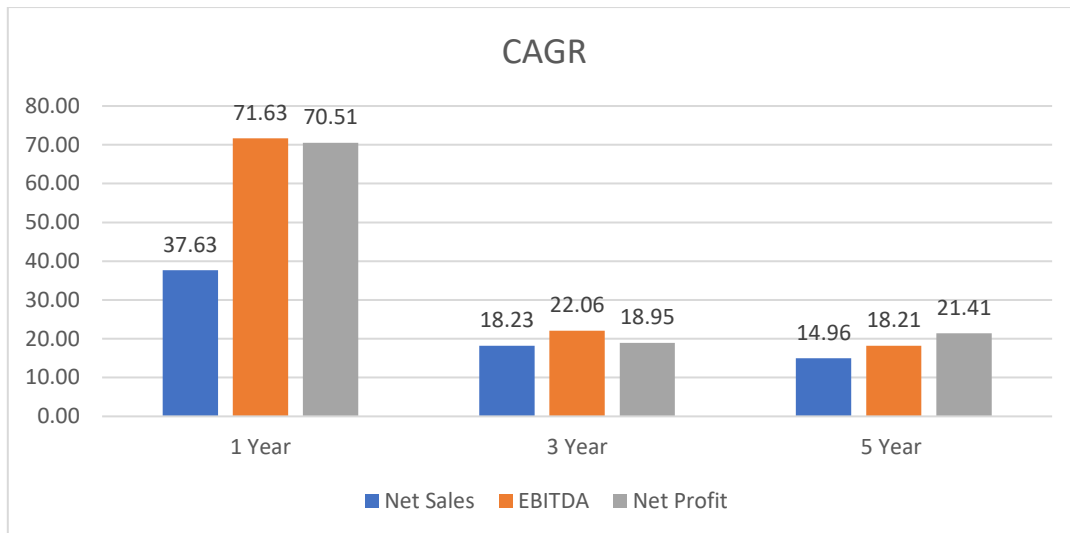
- **Mining:** Specialization in reducing operational downtime in mining activities. Proficiency in advanced alloy development and mineral processing.
- **Thermal:** Manufacturing shell liners and grinders. Pioneering alloys tailored for various minerals through advanced manufacturing techniques.

Quarry: Innovating alloys and methodologies suited for a range of minerals. Specializing in the extraction of iron, gold, lead/zinc, bauxite, copper, and phosphorus.

Key Financials (Cons)	FY20	FY21	FY22	FY23	3Y CAGR %	9M (Apr-Dec'23)
Net Sales	2970.0	2881.5	3566.5	4908.8	13%	3640.8
EBITDA (Excl OI)	684.8	659.1	725.6	1245.4	16%	1036.3
EBITDA Margin (%)	23.1	22.9	20.3	25.4		28.5
Profit After Tax	590.3	565.7	619.6	1056.5	16%	875.7
PAT Margin (%)	19.9%	19.6%	17.4%	21.5%		24.1%
Earnings Per Share (Rs)	62.6	60.0	65.7	112.0	16%	123
Book Value	392.4	450.0	504.1	603.4	11%	
Div Per Share (Rs)	27.0	9.0	9.0	16.0		
Dividend Yield (%)	2.0	0.4	0.6	0.6		
ROE (%)	16.4	14.2	13.8	20.2		
ROCE (%)	19.6	17.9	17.2	25.3		

Valuation Ratio (Consolidated)	Latest (TTM)	10 Year Median
P/E	32.9	28.7
P/BV	5.9	4.6
EV/EBITDA	23.0	19.3
Market cap/sales	7.7	5.6





Strength:

- Company utilizes its robust technical and engineering proficiency to provide tailored solutions in the mining sector, recognizing the unique requirements of each mine.
- Between 2019 and 2022, AIA assessed the potential establishment of manufacturing facilities in various countries. However, India emerged as the optimal choice due to its exceptional engineering and design talent pool, alongside a well-established vendor supply chain ecosystem.
- Company holds a prominent position as a world leader in grinding solutions, commanding a 35% market share spanning 125 countries, with an unparalleled dominance of over 95% within India.
- Company maintains enduring agreements with clients that include provisions for passing on 100% of raw material and freight expenses, ensuring a consistent margin profile.
- Company's focus lies in fundamental industries such as Mining, Cement, and Thermal Power generation all of which are likely to see strong tailwinds and traction from Government focus on manufacturing, infrastructure and the rising demand for commodities and energy.

Industry Outlook:

- Currently, industries are showing a preference for steel-based grinding media due to its lower cost compared to High Chrome Mill Internals (HCMI) by 20-40%.
- Numerous companies are transitioning to HCMI products despite a slight price disparity.
- This move aims to minimize wear and prolong the lifespan of mills, thereby achieving operational cost efficiency and enhancing overall production.
- As global governments advocate for cleaner energy solutions, the demand for electric cars and renewable energy technologies is experiencing a significant upsurge. This surge in demand for electric vehicles and renewable energy technologies is driving increased mining activities for metals essential in manufacturing car batteries.

AIA Engineering is poised to derive significant benefits by offering its High Chrome Mill Internals (HCMI) products to both the burgeoning electric vehicle and green energy sectors.

Investment Rational:

- The company is proactively increasing its capacity to meet rising demand, having invested Rs 195 crore in FY23 to establish a new mill liners plant with an annual capacity of 50,000 metric tonnes.
- Company's heightened emphasis on research and development is noticeable in targeted areas aimed at bolstering its overall capabilities in providing comprehensive solutions.
- Company is dedicated to adopting advanced technologies and automated systems to improve various aspects of its operations.
- Company's recent acquisition of a 30% stake in Vega MPS PTY (an Australian company) is a strategic move aimed at bolstering the company's presence in the mill liner market. These collaborations will enable company to increase throughput and recovery rates and generate better power cost savings for its customers.

Consolidated Financials:

Profit & Loss (In cr.)	FY2020	FY2021	FY2022	FY2023
Revenue	2,970.0	2,881.5	3,566.5	4,908.8
Total Revenue	2,970.0	2,881.5	3,566.5	4,908.8
Cost Of Goods Sold	1,180.0	1,162.1	1,492.1	2,088.8
Gross Profit	1,790.0	1,719.4	2,074.4	2,819.9
Selling General & Admin Exp.	136.5	135.2	140.2	154.6
Depreciation & Amort.	97.9	93.5	92.1	93.0
Other Operating Expense/(Income)	973.3	926.8	1,213.1	1,424.7
Other Operating Exp., Total	1,207.6	1,155.5	1,445.4	1,672.3
Operating Income	582.4	563.9	629.0	1,147.6
Interest Expense	(5.6)	(4.3)	(3.9)	(20.1)
Interest and Invest. Income	21.3	50.0	78.6	107.1
Net Interest Exp.	15.7	45.7	74.8	87.0
Currency Exchange Gains (Loss)	37.0	71.5	58.9	99.7
Other Non-Operating Inc. (Exp.)	10.9	1.0	4.0	4.9
PBT	646.0	682.1	766.7	1,339.2
Gain (Loss) On Sale Of Invest.	72.1	49.7	14.8	22.7
Gain (Loss) On Sale Of Assets	0.6	(2.2)	(0.2)	0.2
PBT	718.7	729.6	781.3	1,362.0
Income Tax Expense	128.4	163.9	161.7	305.5
Earnings from Cont. Ops.	590.3	565.7	619.6	1,056.5
Net Income to Company	590.3	565.7	619.6	1,056.5
Minority Int. in Earnings	0.0	0.4	0.1	(0.6)
Net Income	590.4	566.1	619.7	1,055.9

Balance Sheet (In cr.)	FY2020	FY2021	FY2022	FY2023
ASSETS				
Cash And Equivalents	148.5	462.2	256.7	307.5
Short Term Investments	106.2	1,074.1	831.8	2,223.2
Trading Asset Securities	1,317.6	405.4	467.3	523.5
Total Cash & ST Investments	1,572.3	1,941.7	1,555.8	3,054.2
Accounts Receivable	648.2	638.5	800.1	860.8
Other Receivables	38.9	44.2	22.0	26.6
Notes Receivable	4.3	2.0	1.9	2.2
Total Receivables	691.4	684.7	824.1	889.7
Inventory	778.1	754.8	1,226.0	1,218.0
Prepaid Exp.	2.7	3.4	4.8	10.3
Other Current Assets	99.6	74.7	116.0	140.3
Total Current Assets	3,144.2	3,459.2	3,726.7	5,312.5
Gross Property, Plant & Equipment	1,295.4	1,413.7	1,531.5	1,731.2
Accumulated Depreciation	(396.9)	(464.3)	(554.0)	(644.2)
Net Property, Plant & Equipment	898.6	949.5	977.5	1,087.1
Long-term Investments	0.9	258.0	310.6	0.9
Goodwill	20.0	19.9	19.9	19.9
Other Intangibles	3.5	3.0	2.8	3.2
Accounts Receivable Long-Term	2.6	2.5	5.4	0.1
Loans Receivable Long-Term	10.2	1.0	1.6	126.6
Deferred Tax Assets, LT	0.7	0.2	0.3	0.7
Other Long-Term Assets	81.6	64.9	80.7	80.2
Total Assets	4,162.2	4,758.2	5,125.6	6,631.2
LIABILITIES				
Accounts Payable	136.4	165.8	196.7	261.4
Accrued Exp.	25.6	23.6	30.7	25.1
Short-term Borrowings	96.9	184.5	1.6	496.0
Curr. Port. of LT Debt	15.0	-	-	-
Curr. Port. of Leases	4.2	2.7	3.6	3.6
Curr. Income Taxes Payable	4.1	1.8	11.5	18.2
Unearned Revenue, Current	37.1	41.5	41.9	54.1
Other Current Liabilities	43.4	16.0	18.0	16.7
Total Current Liabilities	362.6	435.9	304.0	875.0
Long-Term Debt	-	-	1.3	-
Long-Term Leases	10.6	5.8	3.4	3.0
Pension & Other Post-Retire. Benefit	3.2	1.2	1.4	1.8
Def. Tax Liability, Non-Curr.	67.4	47.0	39.0	39.9
Other Non-Current Liabilities	7.8	15.1	13.1	11.3
Total Liabilities	451.6	505.1	362.1	930.9
Common Stock	18.9	18.9	18.9	18.9
Additional Paid In Capital	268.5	268.5	268.5	268.7
Retained Earnings	3,409.8	3,977.6	4,513.2	5,485.4
Comprehensive Inc. and Other	4.1	(20.6)	(45.7)	(81.7)
Total Common Equity	3,701.3	4,244.3	4,755.0	5,691.3
Minority Interest	9.3	8.8	8.5	8.9
Total Equity	3,710.5	4,253.1	4,763.4	5,700.3
Total Liabilities And Equity	4,162.2	4,758.2	5,125.6	6,631.2

Cash Flow (In cr.)	FY2020	FY2021	FY2022	FY2023
Net Income	590.4	566.1	619.7	1,055.9
Depreciation & Amort.	97.2	92.6	91.2	92.2
Depreciation & Amort., Total	97.2	92.7	91.2	92.2
Other Amortization	0.7	0.8	0.9	0.8
(Gain) Loss From Sale Of Assets	(0.6)	2.2	0.2	(0.2)
(Gain) Loss On Sale Of Invest.	(72.1)	(49.7)	(14.8)	(22.7)
Provision & Write-off of Bad debts	1.4	0.0	(0.5)	0.4
Other Operating Activities	(60.7)	(73.2)	(135.3)	(106.7)
Change in Acc. Receivable	104.5	(22.3)	(130.4)	(67.7)
Change In Inventories	7.8	23.3	(471.2)	8.0
Change in Acc. Payable	(38.9)	29.5	31.6	65.0
Change in Other Net Operating Asset	49.5	28.9	(30.9)	(157.5)
Cash from Ops.	679.1	598.5	(39.6)	867.7
Capital Expenditure	(131.8)	(124.2)	(125.5)	(194.8)
Sale of Property, Plant, and Equipme	1.0	1.1	0.2	2.4
Invest. in Marketable & Equity Secur	(202.8)	(257.2)	149.0	(1,074.6)
Other Investing Activities	23.0	28.9	76.2	58.7
Cash from Investing	(310.6)	(351.3)	99.9	(1,208.3)
Short Term Debt Issued	-	90.5	-	494.4
Long-Term Debt Issued	-	-	1.3	-
Total Debt Issued	-	90.5	1.3	494.4
Short Term Debt Repaid	(20.1)	-	(182.9)	-
Long-Term Debt Repaid	(5.3)	(20.9)	(5.7)	(5.0)
Total Debt Repaid	(25.5)	(20.9)	(188.6)	(5.0)
	0	0	0	0
Common Dividends Paid	(339.7)	-	(76.3)	(77.1)
Total Dividends Paid	(339.7)	-	(76.3)	(77.1)
Other Financing Activities	(63.6)	(3.1)	(3.6)	(17.3)
Cash from Financing	(428.8)	66.5	(267.2)	395.0
Foreign Exchange Rate Adj.	0.4	(0.0)	1.5	(3.7)
Net Change in Cash	(59.8)	313.7	(205.5)	50.8

View:

As per industry report, the global high chrome mill internals market is estimated to grow by 9% CAGR during 2019- 2026 period, driven by rising demand for excellent building materials and energy resources. Company spending 200 crores on various debottlenecking efforts. Buying land and setting up some warehouses to support the whole operation and 100 crores towards renewable. Company's focus lies within fundamental industries such as Mining, Cement, and Thermal Power generation. We Initiate Buy on AIA engineering with potential upside of 27.5% based on PE multiple of 29.7x and EPS Rs. 170.

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