

Company Report

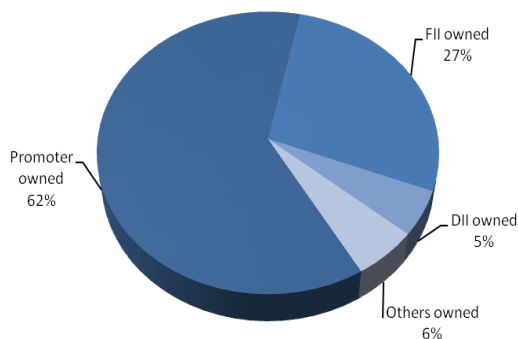
AIA Engineering Ltd.

6th May, 2014**BUY****CMP** **Rs.642.00****Target Price** **Rs.770.00**

BSE Code	532683
NSE Code	AIAENG
Market Cap (Rs Cr.)	6047.64
52 Week High/Low	666.60/275.00
Industry	Engineering
Face Value	Rs.2.00
Shares O/S	9.43 Cr.

EPS(TTM)	28.53
Book Value	176.63
P/E	22.50
P/B	3.63

Shareholding Pattern



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- AIA Engineering manufactures and markets a wide range of High Chromium consumable wear parts (mill internals) which are used in the process of Crushing/Grinding in the Cement, Mining, Thermal power and Aggregate Industries.
- The company has registered robust results for the quarter ending December 2013. The revenues from operations grew by ~27% to Rs.526.22 crores vs. Rs.415.99 cr. in the corresponding quarter last year. Operating profit climbed sharply by 45.40% at about Rs.120.25 crores as against Rs.82.70 crores in the previous year quarter. The adjusted net profit skyrocketed at Rs.97.50 crore for the quarter as compared to Rs.53.10 crore (pre-exceptional). EPS for the quarter stood at Rs.10.37.
- For the nine months ended December 2013, the company did about 1,30,000 tons of tonnages and expects to do about 44,000-45,000 tons in the last quarter totaling about 172000-174000 tons for the full year.
- AIA Engineering has entered into settlement agreement with Magotteaux International (MI) Belgium, to avoid uncertainty of the outcome of further litigation and legal and other expense including of the current ongoing litigation and to resolve the dispute amicably and avoid further damages and litigation costs. The Company has paid \$6.00 million on December 16, 2013 to MI in consideration of the dismissal of the litigation and mutual release from claims among the parties.

Valuation

With strong capacity expansion plans; commissioning of Brownfield facility, entry in new segment, new customers; leadership position and low-cost advantage; AIA Engineering Ltd. growth prospects and profitability looks attractive. We believe the company is trading at an attractive valuation at 21.28x and 18.31x of FY14EPS of Rs.30.17 and FY15EPS of Rs.35.07. We initiate a 'BUY' on the stock with a target price of Rs.770 (appreciation of about 20%) with the medium to long term investment horizon.

Business Details

AIA Engineering, a certified ISO 9001 company, specializes in the design, development, manufacture, installation and servicing of high chromium wear, corrosion and abrasion resistant castings used in the process of Crushing/Grinding in the cement, mining and thermal power generation industries.

The Company employs alloy-casting process for manufacture of the products, which require designing of alloys in relation to end application. The casting process is followed by precision heat treatment to develop required end properties. Therefore, Company can generally be classified as a foundry. AIAE has a global footprint with sales and service support in more than 90 countries. For Tube Mill applications, the company manufactures and supplies:

- Grinding Media
- Shell liners
- Diaphragms (partition wall, discharge diaphragms, drying chamber diaphragms and doppel rotator diaphragms)

For Vertical Mill applications- AIA manufactures grinding tables as well as rolls using its static as well as unique centrifugal casting facility which ensures a consistently high quality of components. The manufacturing process achieves significant improvements in the working life of components compared with those using traditional processes.

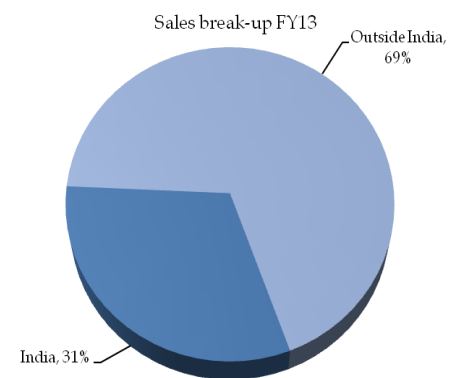
Pre Heaters, Kilns and Coolers can be supplied with heat resistant castings to international standard specifications or improved The Group specifications, which offer improved wear rates, performance and overall cost-effectiveness.

Cone crushers, Hammer crushers, Impeller crushers and Vertical shaft impact crushers can be fitted with wear parts made from The Group specially developed alloys. These combine improved wear resistance with the required toughness and are ideal for replacing conventional Hadfield alloys.

LONGER LASTING WEAR COMPONENTS FOR MINING APPLICATIONS- Reduced downtime is critical to successful mining operations, so wear components that work harder and last longer are essential. The Group Industries has developed new alloys and manufacturing techniques that provide improved wear components for all types of minerals including iron, gold, lead/zinc, bauxite, copper and phosphates, etc.

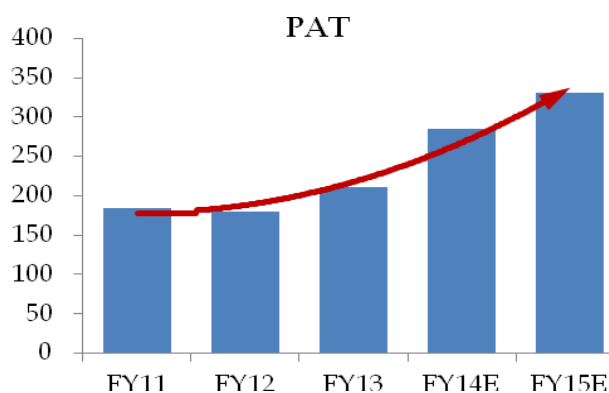
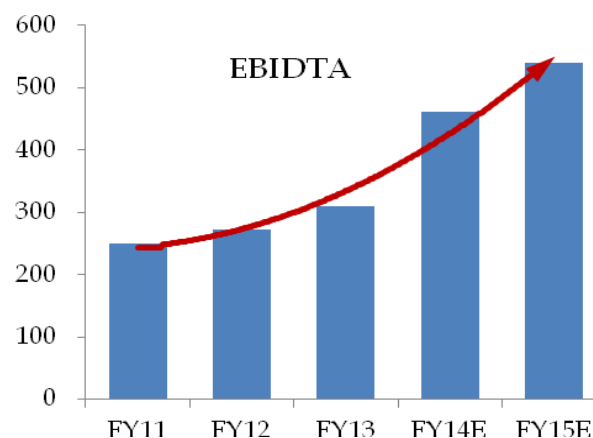
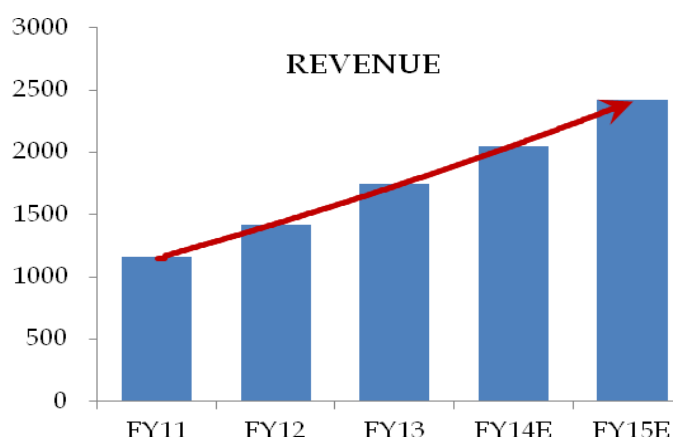
IMPROVED WEAR COMPONENTS AND LOWER FUEL COSTS FOR POWER GENERATION- Processing fuel is a critical part of the cost of power generation. By designing components that significantly reduce downtime and maintenance costs, The Group is helping power plants worldwide to keep down generating costs.

LONGER LASTING WEAR COMPONENTS FOR QUARRYING APPLICATIONS- The Group Industries has developed new alloys and manufacturing techniques that provide improved wear components for all types of minerals including iron, gold, lead/zinc, bauxite, copper and phosphates.



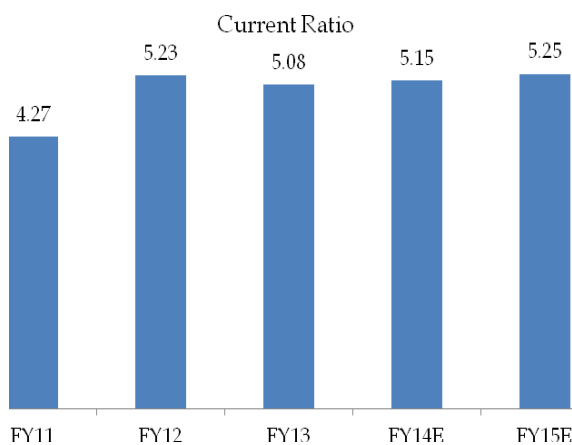
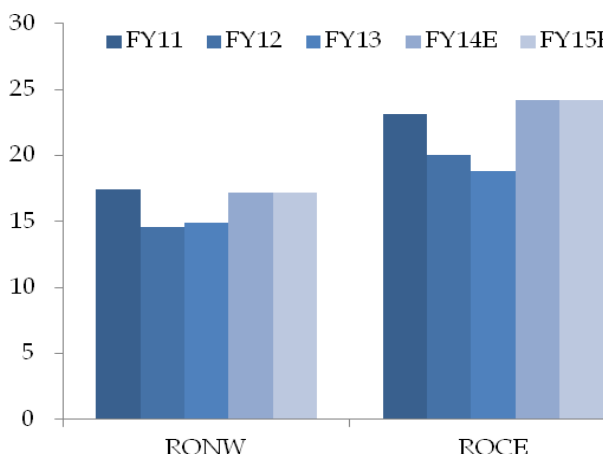
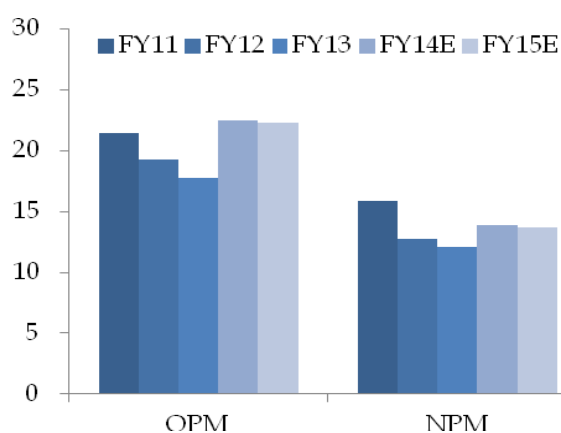
Mining segment to grow further

The Company's foray in the mining segment is proving beneficial and adding to the revenues. The company today services different mineral ores like iron, copper, gold, platinum and zinc for blue chip mining customers with emphasis on the replacement markets in geographies like USA, Canada, Brazil, South Africa, Australia etc. It has continued its pace of customer addition. The addressable market opportunity relating to the replacement demand of consumable ware parts from the key ores can be regarded to be at least 1.5 million tons per annum and as against that not more than 15% has been converted into the high Chrome use- on which the company is well focused thereby taking away some market share from its existing key competitor Magotteaux based out of Belgium. The company with a sales tonnage of 75000 tons already in FY13 is well positioned as a serious long term committed player in this space and with many new mines underdevelopment. The company is positioned as perhaps the only company in the world offering the complete range of Mining High-Chrome consumables including grinding media products as well as mining liners made out of chrome alloys. Further, it remains optimistic on this particular business going ahead and plans to increase its presence across the Globe with strong focus on outside India major mining centers like Australia, Africa, North America etc.



Firm growth ahead

AIA is targeting to implement its Capex plans for FY13-14 and FY14-15 to effectively augment the total available capacity from the existing level of 2 lac TPA as on 31st March 2013 to 3 lac TPA by end of FY14-15. Out of this in the current fiscal 2013-14, the company has plans to implement the Moraiya Brown field capacity expansion project and in fiscal 2014-15 the Kerala Greenfield project is expected to come on stream. The Brownfield expansion was supposed to be commissioned in the last quarter of FY14. With the start of commercial production the plant would give about 50,000 to 60,000 tons of additional capacity. Thereby, there would be net tonnages increase between 20,000 tons and 30,000 in fiscal 2014 and fiscal 2015. Further, Capex between the first and the second phase of Greenfield expansion is expected to be in the range of about Rs.640 to 650 crores. The first phase is targeted to be achieved in March 2015 and the second phase should happen in about October'15. The Company expects to further increase its market share in the mining space by targeting increased business from existing customer as well as new customers. In the cement market, it plans to continue to focus on countries with high growth potential. EBITDA margins are estimated to stay in the range of 20%-22% for FY14. Capex for FY14 is estimated at around Rs.100 crores.



Consolidated Profit & Loss Account

Rs. Crore

Particulars	FY11	FY12	FY13	FY14E	FY15E
Net sales	1160.66	1416.67	1751.31	2049.03	2417.86
Growth		22.06%	23.62%	17.00%	18.00%
Expenditure	911.45	1143.37	1441.07	1588.00	1878.68
EBITDA	249.21	273.30	310.24	461.03	539.18
Growth		9.67%	13.52%	48.61%	16.95%
EBITDA margin	21.47%	19.29%	17.71%	22.50%	22.30%
Other income	24.72	13.27	21.32	26.64	31.43
Depreciation & Amortization	25.40	29.44	34.48	42.39	53.73
EBIT	248.54	257.13	297.07	445.28	516.88
EBIT margin	21.41%	18.15%	16.96%	21.73%	21.38%
Interest	2.03	4.39	5.50	20.49	23.13
PBT	246.51	252.74	291.57	424.79	493.76
Tax	62.93	71.53	79.95	140.18	162.94
PAT	183.59	181.20	211.62	284.61	330.82
Minority interest	0.00	0.75	0.80	0.00	0.00
Share of profits in Associates	0.00	0.00	0.00	0.00	0.00
Adjusted PAT	183.59	180.46	210.82	284.61	330.82
Growth		1.70	16.82	35.00	16.24
Net Profit margins	15.82	12.74	12.04	13.89	13.68
Exceptional item	0.00	0.00	0.00	0.00	0.00
Reported PAT	183.59	180.46	210.82	284.61	330.82
Equity Shares	9.43	9.43	9.43	9.43	9.43
Adjusted EPS	19.46	19.13	22.35	30.17	35.07

Ratios

Particulars	FY11	FY12	FY13	FY14E	FY15E
Return on Equity	17.45	14.61	14.87	17.19	17.15
Return on Capital employed	23.16	20.03	18.82	24.18	24.16
Debt/Equity	0.02	0.04	0.11	0.11	0.11
Asset turnover	0.90	0.95	0.95	0.96	0.98
Current Ratio	4.27	5.23	5.08	5.15	5.25
Book value per share	111.55	130.99	150.32	175.49	204.57

Balance Sheet

Rs. Crore

Particulars	FY11	FY12	FY13	FY14E	FY15E
Share Capital	18.86	18.86	18.86	18.86	18.86
Reserves & Surplus	1033.26	1216.65	1,398.94	1,636.39	1,910.62
Shareholders' funds	1052.12	1235.51	1417.80	1655.25	1929.48
Borrowings	21.08	47.93	160.92	186.28	210.25
Deferred tax liability	15.24	15.77	13.21	13.21	13.21
Minority Interest	6.47	4.38	8.08	8.08	8.08
Sources of funds	1094.91	1303.60	1600.01	1862.82	2161.02
Gross block	410.21	512.13	566.51	706.56	895.50
Accumulated Depreciation	127.88	156.06	189.35	231.74	285.47
Net block	282.33	356.07	377.17	474.83	610.04
Capital work in progress	15.16	18.08	31.57	35.88	40.49
Investments	150.13	140.26	194.10	213.38	234.62
Deffered tax assets	0.00	0.00	0.00	0.00	0.00
Goodwill on consolidation	0.00	0.00	0.00	0.00	0.00
Inventories	236.67	301.09	402.98	432.42	472.83
Sundry debtors	354.39	371.73	340.07	409.81	457.07
Cash and bank balance	152.66	149.64	279.14	310.89	346.74
Other current assets	4.94	9.55	4.54	5.65	7.88
Loans and advances	96.42	143.82	215.09	254.36	291.58
Total current assets	845.08	975.83	1,241.82	1,413.13	1,576.09
Current liabilities and provisions	197.80	186.64	244.64	274.39	300.21
Net current assets	647.29	789.18	997.17	1,138.73	1,275.88
Misc exp	0.00	0.00	0.00	0.00	0.00
Uses of funds	1,094.91	1,303.60	1,600.01	1,862.82	2,161.03

Quarterly Financial Highlights

Rs. Crore

Particulars	Q3FY14	Q3FY13	Q2FY14	YoY%	QoQ%
Revenues	526.22	415.99	491.75	26.50	7.01
Expenditures	405.97	333.29	379.01	21.81	7.11
Operating Profit	120.25	82.70	112.74	45.40	6.66
Adjusted Net Profit	97.50	53.10	73.61	83.62	32.45
Exceptional item	31.11	0.00	0.00	----	---
Reported Net Profit	66.39	53.10	73.61	25.03	(9.81)
OPM%	22.85	19.88	22.93	297bps	(8bps)
NPM %	18.53	12.76	14.97	577bps	356bps
Adjusted EPS	10.37	5.63	7.80	84.20	32.95

Past Price movement of the stock



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<i>Disclosure of Interest Statement</i>	<i>Company Name</i>
1. Analyst Ownership of the Stock	No
2. Hem & its Group Company Ownership of the Stock	Yes
3. Hem & its Group Companies' Director Ownership of the Stock	Yes
4. Broking relationship with company covered	No

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