

RESULT UPDATE

MID CAP

Share Data

Reuters code	AIAE.BO
Bloomberg code	AIAE IN
Market cap. (US\$ mn)	601
6M avg. daily turnover (US\$ mn)	1.4
Issued shares (mn)	94
Target price (Rs)	310

Performance (%)	1M	3M	12M
Absolute	0	34	85
Relative	12	39	24

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	18.8	20.8
+/- (%)	3.8	10.4
PER (x)	16.1	14.6
PBV (x)	3.1	2.6
Dividend/Yield (%)	0.8	0.8
EV/Sales (x)	2.8	2.2
EV/EBITDA (x)	10.8	9.8

Major shareholders (%)

Promoters	65
FII's	11
MF's	16
Public & Others	8

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY08	FY09	YoY (%)	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	2,865	2,260	(21.1)	4,864	4,574	(6.0)	6,912	10,233	48.0	9,554	(6.6)	11,952	25.1
EBITDA	673	592	(12.0)	1,208	1,202	(0.5)	1,638	2,466	50.5	2,444	(0.9)	2,700	10.5
EBITDA Margin (%)	23.5	26.2	-	24.8	26.3	-	23.7	24.1	-	25.6	-	22.6	-
Other Income	21	41	96.8	94	81	(14.4)	317	218	(31.0)	289	32.4	340	17.6
Depreciation	57	56	(3.2)	102	113	11.7	136	203	49.6	232	14.4	275	18.2
Interest	4	1	(71.4)	8	11	26.8	17	21	23.3	33	60.1	40	20.7
PBT	633	576	(9.0)	1,193	1,159	(2.8)	1,802	2,460	36.5	2,468	0.3	2,725	10.4
Tax	181	156	(13.7)	330	332	0.6	460	750	63.0	700	(6.7)	774	10.6
PAT (adjusted)	452	420	(7.1)	863	827	(4.1)	1,342	1,710	27.4	1,767	3.4	1,951	10.4

AIA Engineering

Maintain Outperformer

Price: Rs 300

BSE Index: 15,405

03 November 2009

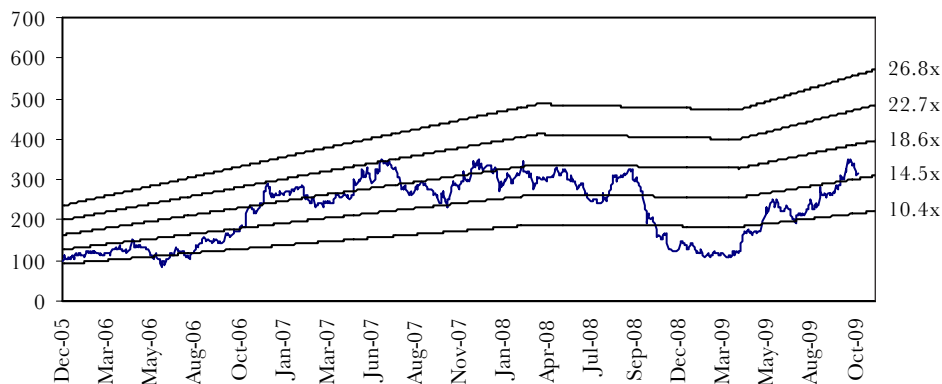
2QFY10 Result – Realisations to correct

Sales dropped by 21% YoY on a consolidated basis for the quarter. The tonnage sold in the quarter dropped by 14% YoY to 23,118T and the production dropped by 25% YoY to 22,004T. Exports composed 60% of the total sales in the quarter and dropped 17.5% YoY to Rs 1,309.4 mn. In domestic sales, 58.4% was in the cement sector, 10.7% in the mining sector and 31% in the power utility sector. 3,200T of grinding media were exported to mines outside India in the quarter. In 1HFY10, 7,200T of grinding media has been supplied to mines outside India, generating a sales of Rs 500 mn, which implies an average realisation of Rs 69.5/kg. The average realisation in the quarter was down 8.2% YoY and 6% QoQ to Rs 98/kg whereas the average material cost/kg was down 26% YoY and 2% QoQ to Rs 41.4/kg. Other operating income for the quarter includes Rs 45 mn of exchange rate gain and Rs 28 mn as DEPP income. Other expenses include Rs 118 mn of forex loss. The outstanding MTM loss on export related hedges (worth US\$ 90 mn), stands at Rs 850 mn. The present order backlog stands at Rs 405 mn out of which Rs 195 mn is based outside India. The cash on books stands at Rs 3.7 bn. The company has negotiated a large order in platinum mines for export and expects firm orders from three gold and one copper mine subsequently. Sales have also resumed in iron ore to Vale and Quebec mines although in limited quantities.

Sales volumes for the year FY10 are anticipated at 105,000-110,000T with 20,000T coming from mining segment. Average realisations are expected to fall some more from the 2QFY10 levels as raw material costs have come down and share of mining will gradually increase. Sales volumes for FY11 are anticipated at 140,000-150,000T with 40,000-50,000T coming from mining (20,000 Platinum, 20,000 gold & copper, 10,000 Iron ore). Considering the lower realisations in mining however, sales in FY11 are likely to grow by 20-25%. Also, as raw material mix is likely to remain similar or have an increased proportion of ferro-chrome, a

35-40% increment in production tonnage implies at least as much increase in volume and value of material cost expense unless scrap and ferro-chrome prices fall. This can possibly impact margins in FY11 in spite of operating leverage but could be countered if the product mix moves in favour of mill components as against grinding media, thereby increasing realisations and top-line for the same increase in volume tonnage. At the current market price of Rs 300, the stock is trading at 16x FY10E and 14.6x FY11E earnings. We retain our Outperformer rating with a target price of Rs 310 based on 15x FY11E earnings.

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	6,912	10,233	9,554	11,952
Growth (%)	32.1	48.0	(6.6)	25.1
Operating expenses	(5,273)	(7,767)	(7,110)	(9,252)
Operating profit	1,638	2,466	2,444	2,700
EBITDA	1,638	2,466	2,444	2,700
Growth (%)	31.7	50.5	(0.9)	10.5
Depreciation	(136)	(203)	(232)	(275)
Other income	317	218	289	340
EBIT	1,819	2,481	2,501	2,765
Interest paid	(17)	(21)	(33)	(40)
Pre-tax profit (before non-recurring)	1,802	2,460	2,468	2,725
Non-recurring items	–	31	–	–
Pre-tax profit (after non-recurring)	1,802	2,491	2,468	2,725
Tax (current + deferred)	(460)	(750)	(700)	(774)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,342	1,741	1,767	1,951
Minority interests	(9)	(7)	–	–
Reported PAT	1,333	1,734	1,767	1,951
Adjusted net profit	1,333	1,703	1,767	1,951
Growth (%)	41.6	27.8	3.8	10.4

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and Marketable sec.	266	2,587	3,154	3,867
Other current assets	5,057	5,943	5,621	6,876
Investments	947	414	414	414
Net fixed assets	2,148	2,383	2,296	2,492
Other non-current assets	16	9	–	–
Total assets	8,434	11,336	11,485	13,648
Current liabilities	2,041	3,005	1,763	2,124
Total debt	136	442	415	501
Other non-current liabilities	73	108	–	–
Total liabilities	2,250	3,554	2,178	2,625
Share capital	188	188	188	188
Reserves & surplus	5,913	7,537	9,062	10,779
Shareholders' funds	6,100	7,725	9,250	10,967
Minorities interests	84	57	57	57
Total equity & liabilities	8,434	11,336	11,485	13,648
Capital employed	6,391	8,332	9,722	11,524

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,802	2,491	2,468	2,725
Depreciation	136	203	232	275
Change in working capital	(1,602)	(716)	338	(968)
Total tax paid	(40)	(38)	(2,003)	(700)
Cash flow from oper. (a)	297	1,941	1,035	1,332
Capital expenditure	(815)	(399)	(145)	(470)
Change in investments	518	533	–	–
Others	(4)	(40)	–	–
Cash flow from inv. (b)	(302)	95	(145)	(470)
Free cash flow (a+b)	(5)	2,036	889	862
Debt raised/(repaid)	(29)	306	(27)	86
Dividend (incl. tax)	(78)	(99)	(329)	(275)
Others	(71)	79	31	40
Cash flow from fin. (c)	(178)	286	(324)	(149)
Net change in cash (a+b+c)	(183)	2,321	565	713

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	14.2	18.1	18.8	20.8
Growth	41.6	27.8	3.8	10.4
Book NAV/share (Rs)	65.8	82.8	99.0	117.3
Dividend/share (Rs)	0.8	1.9	2.5	2.5
Dividend payout ratio	6.7	13.0	15.6	14.1
Tax	25.5	30.1	28.4	28.4
EBITDA margin	23.7	24.1	25.6	22.6
EBIT margin	26.3	24.2	26.2	23.1
RoCE	31.4	33.7	27.7	26.0
Net debt/Equity	(2.1)	(27.6)	(29.4)	(30.5)

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	21.3	16.7	16.1	14.6
PCE	19.3	14.9	14.2	12.8
Price/Book	4.6	3.7	3.1	2.6
Yield (%)	0.3	0.6	0.8	0.8
EV/Net sales	3.8	2.6	2.8	2.2
EV/EBITDA	16.1	10.7	10.8	9.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	19.3	16.6	18.5	16.3
Asset turnover	0.9	1.0	0.8	1.0
Leverage factor	1.4	1.4	1.3	1.2
Return on equity (%)	23.8	24.4	20.7	19.2

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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