

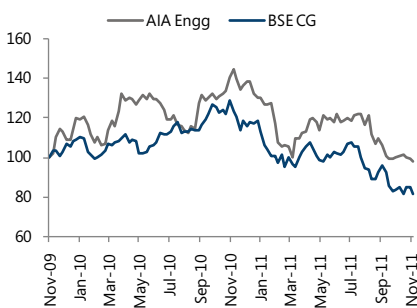
Result Update - Q2FY12

Accumulate

Reco	Maintained
CMP	₹ 301
Target Price	₹ 341
Upside Potential	13.2%

Price Performance

52 wk Hi/Lo	470/290
All time Hi/Lo	488/75
6 mnth Average Vol	41696
Stock Beta	0.30



Valuation

	FY11	FY12P	FY13P
P/E (x)	15.5	16.5	13.7
P/BV (x)	2.7	2.4	2.1
RONW (%)	18.8	15.3	16.2
ROCE (%)	14.7	13.2	14.2

Peer Valuation (FY13P)

	TRF	Elecon
P/E	7.9	6.6
P/BV	1.5	1.2

Equity Data

Market Cap. (₹ bln)	28
Face value (₹)	2
No of shares o/s (mln)	94

	Sep'10	Sep'11	%Δ
Promoters	61.65	61.65	0.00
DFI's	12.53	11.46	-8.54
FII's	19.89	21.44	7.79
Public	5.93	5.45	-8.09

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AIA Engineering

Robust volume growth though higher costs knock margins

AIA reported strong revenue growth of 33% y-o-y to ₹ 3.4bln, mainly led by highest ever volume growth in mining segment. EBIDTA remained under pressure with drop of 2% y-o-y to ₹ 612mln compared to ₹ 624mln a year ago. PAT degrew by 15% y-o-y to ₹ 385mln due to higher tax burden and depreciation cost. In this quarter, company had to pay large entry fees in order to penetrate in the mining space, which has also affected its profitability. AIA carries order backlog of ₹ 4.5bln at the end of Q2FY12.

Robust volume growth, realization flat

In Q2FY12, company recorded highest ever sales in volume terms at 37000 MT compared to 28448 MT year ago, registering growth of 30% yoy and 24% qoq. Out of total volumes, mining segment is the major contributor with substantial growth of 119% yoy and 69% qoq at 18000 MT for the quarter. However, the average realization grew by just 3% to 91.9/per kg.

Margins dipped with higher mining orders

EBIDTA declined marginally by 2% y-o-y to ₹ 612mln for Q2FY12. EBIDTA margins contracted sharply by 630 bps yoy and stands at 17.8%, impacted by increase in raw material cost (65% yoy), employee cost and other expenditure during the quarter. Lower margin orders in the mining segment continue to hamper company's overall margin in the quarter. However, the management has guided for a margin of around 20-21% in the upcoming fiscal year.

Outlook & Valuation

AIA is gradually expanding its wings in the mining space and has primarily used pricing as a tool to penetrate the global market. Hence, it is facing pressure on overall margins since past few quarters but we expect margins to stabilize from the next fiscal year. Management has also guided for a growth of 20% in both top line and bottom line in FY13. We believe demand for mill internals leading to strong volumes; capacity expansion and expansion of new business segment- quarry are likely to be long term growth drivers for the stock. However, due to pressure on realization and margin on account of subdued performance of AIA in cement and utilities; we revise our earnings estimates by 6.6% and 7.2% for FY12P and FY13P respectively and therefore reduce our target multiple from 16x to 15.5x FY13P. We maintain Accumulate on the stock with a revised target price of ₹ 341 (15.5x FY13P).

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Total Income	9497	11369	13329	16039
OPBDIT	2288	2248	2466	3017
Adj. Net Profit	1711	1836	1720	2075
Adj EPS	18.1	19.4	18.2	22.0
Networth	9021	10521	11928	13625
Debt	82	212	312	362
Fixed Assets	2427	2975	3882	4820
Net Current Assets	5437	6474	6973	7632

Key Highlights

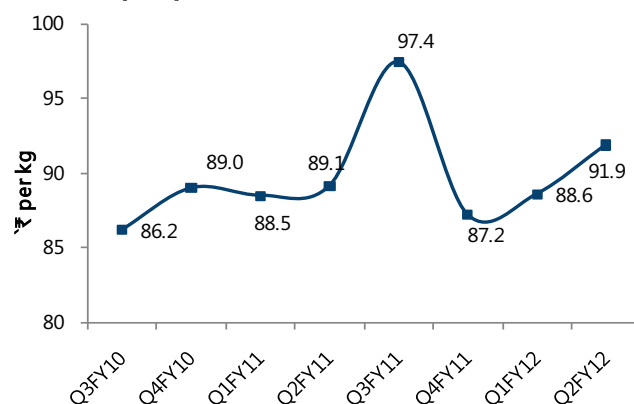
Exhibit 1: Q2FY12 Performance Highlights (consolidated)

(in ₹ Mln)	Q2FY12	Q2FY11	Y-o-Y	Q1FY12	Q-o-Q
Sales	3433	2585	33%	2725	26%
Raw material cost	1874	1134	65%	1129	66%
Purchase of traded goods	4	155	-97%	147	-97%
Staff cost	166	123	35%	152	9%
Other expenditure	777	549	42%	714	8%
OPBDIT	612	624	-2%	583	5%
OPBDIT margin	17.8	24.1		21.4	
Depreciation	71	60	18%	69	3%
Interest cost (Net)	9	2	350%	6	50%
Other Income	31	34	-8%	33	-6%
Tax	178	146	22%	150	19%
PAT	385	452	-15%	391	-2%
EPS	4.1	4.8		4.2	

Source: Company

- AIA's consolidated net sales for Q2FY12 registered sturdy growth of 33% y-o-y to ₹ 3.4bln compared to ₹ 2.5bln in corresponding quarter last year. The company's production for the current quarter reached to 37500 MT, up by 31.7% y-o-y and 2% q-o-q. AIA reported highest ever volume growth of 30% y-o-y and 24% q-o-q at 37000 MT. This is largely contributed by remarkable growth in mining volumes (up by 119.5% y-o-y, 70% q-o-q) at 18000 MT in Q2FY12. The average realization slightly improved by 3% y-o-y from ₹ 89.1/kg in Q2FY11 to ₹ 91.9/kg in Q2FY12.
- EBIDTA for the quarter de grew by 2% y-o-y to ₹ 612mln as against ₹ 624mln in Q2FY11 due to increase in raw material cost (65% y-o-y), employee cost (35% y-o-y) and other expenditure (42% y-o-y), company's EBIDTA margins have gone down by 630 bps y-o-y to 17.8% in Q2FY12. Along with higher cost burden, lower margin orders in mining space affected EBIDTA margins during the quarter.
- AIA's bottom-line dropped by 15% y-o-y to ₹ 385mln, majorly impacted by higher tax burden; depreciation cost and lower other income during the quarter. In initial phase, company had to pay large entry fees to penetrate in the mining space, which has also affected company's profitability. Company's unexecuted order book at the end of Q2FY12 stands at ₹ 4.5bln.

Exhibit 2: Q-o-Q realization trend



Source: Company

Expansion plans on track

AIA has tied up capex of ₹ 2.7bln for Brownfield and Greenfield expansions at various locations. Out of which, around ₹ 340mln has been already spent in H1FY12; while ₹ 300mln is expected to be spent in next 6 months for its different mix of products. Moreover, management is eyeing to spend another ₹ 1.5bln to roll out new products in the next fiscal and remaining capex of ₹ 560mln will be spent in FY14. This would enhance company's capacity by 100,000 MT taking its total capacity to 300,000 MT by end of FY14 from current levels of more than 200,000 MT.

Outlook & Valuation

AIA currently trades at a forward P/E of 16.5x FY12P and 13.7x FY13P EPS; while its historical average has been 19x. We expect; pressure on realization and margin due to subdued performance of AIA in cement and utilities and hence revise our earnings estimates by 6.6% and 7.2% for FY12P and FY13P respectively and therefore reduce our target multiple from 16x to 15.5x FY13P. We maintain Accumulate on the stock with a revised target price of ₹ 341 (15.5x FY13P).

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2008	2009	2010	2011	2012P	2013P
Sales	6912	10233	9497	11369	13329	16039
Total Expenditure	5274	7766	7209	9121	10863	13022
EBIDTA	1638	2467	2288	2248	2466	3017
EBIDTA Margin (%)	23.7	24.1	24.1	19.8	18.5	18.8
Depreciation	136	203	227	254	285	359
EBIT	1503	2265	2061	1994	2181	2658
Interest cost	17	21	14	19	33	43
Operating Profit	1486	2244	2047	1975	2148	2616
Other Income	317	218	322	490	274	307
Extraordinary Item	0	31	-	-	-	-
PBT	1802	2493	2370	2465	2422	2923
Tax	460	752	659	629	702	848
PAT	1342	1741	1711	1836	1720	2075
PAT Margin (%)	19.4	17.0	18.0	16.1	12.9	12.9
EPS	14.1	18.4	18.1	19.4	18.2	22.0
Sales Growth (%)	32.1	48.0	-7.2	19.7	17.2	20.3
EBITDA Growth (%)	31.7	50.6	-7.2	-1.8	9.7	22.3
PAT Growth (%)	40.6	29.8	-1.8	7.3	-6.3	20.7

Key Assumptions

Volume growth %	-	-	-	-	17.2%	20.0%
Realization growth %	-	-	-	-	0.0%	0.3%

Balance Sheet

Particulars (₹ in mln)	2008	2009	2010	2011	2012P	2013P
Sources of Funds						
Share Capital	188	188	189	189	189	189
Reserves & Surplus	5912	7537	8832	10333	11739	13436
Networth	6100	7725	9021	10521	11928	13625
Secured Loans	118	425	66	169	269	319
Unsecured Loans	17	17	16	42	42	42
Total Loans	136	442	82	212	312	362
Deferred Tax Liability	59	100	117	152	152	152
Minority Interest	84	58	60	65	65	65
TOTAL	6378	8324	9280	10950	12456	14204
Application of Funds						
Net Fixed Assets	2150	2383	2427	2975	3882	4820
Investment	946	414	1415	1501	1601	1751
Current Assets	5323	8532	9117	11451	12580	14571
Current Liabilities	2041	3005	3679	4977	5607	6938
Net Current Assets	3282	5527	5437	6474	6973	7632
Miss expenses not written off	-	-	1	-	-	-
TOTAL	6378	8324	9280	10950	12456	14204

Cash Flow

Particulars (₹ in mln)	2008	2009	2010	2011	2012P	2013P
Internal accruals	1478	1944	1938	254	2003	2432
(Inc)/Dec in Net Current Assets	-1170	-93	-432	-2292	-678	-718
Other adjustments	118	138	336	-	-	-
Cash flow from Operations	228	1950	1303	378	1325	1714
Inc/(Dec) in Debt	-29	306	-360	130	100	50
Inc/(Dec) in Equity	-	-	-	-	-	-
Dividend & Tax	-95	-176	-313	-188	-311	-376
Cash flow from Financing	-124	130	-673	-59	-211	-326
Fixed Asset formation	-820	-401	-275	-806	-1193	-1296
Inc/(Dec) in Investment	455	534	-1001	-75	-100	-150
Interest and dividend received	78	110	151	-	-	-
Cash flow from Investment	-287	242	-1124	-881	-1293	-1446
Net Change in Cash	-183	2322	-494	-562	-179	-58

Ratios

Valuation Ratio	2008	2009	2010	2011	2012P	2013P
P/E	21.3	16.4	16.6	15.5	16.5	13.7
P/BV	4.7	3.7	3.1	2.7	2.4	2.1
EV/EBIDTA	17.2	10.6	11.5	12.0	11.1	9.1
EV/Sales	4.1	2.6	2.8	2.4	2.1	1.7
Dividend Yield (%)	0.3%	0.8%	0.8%	1.0%	0.9%	1.1%
EPS	14.1	18.4	18.1	19.4	18.2	22.0
DPS	0.8	2.5	2.5	3.0	2.8	3.4
Book Value	64.7	81.9	95.6	111.5	126.5	144.5
ROE	24.4%	25.2%	20.4%	18.8%	15.3%	16.2%
ROCE	19.4%	21.5%	16.9%	14.7%	13.2%	14.2%

Solvency Ratio (x)

Debt/Equity	0.02	0.06	0.01	0.02	0.03	0.03
Debt/EBIDTA	0.08	0.18	0.04	0.09	0.13	0.12

Turnover Ratio (x)

Fixed Asset Turnover	1.0	4.5	3.9	4.2	3.9	3.7
Assets turnover	1.2	1.4	1.1	1.1	1.1	1.2
Current Ratio	2.6	2.8	2.5	2.3	2.2	2.1
Inventory (days)	62	49	56	51	50	47
Debtors (days)	84	64	76	92	89	85
Creditors (days)	46	33	43	49	52	55

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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