Quarterly Result Analysis

AIA Engineering

Rs 1,145

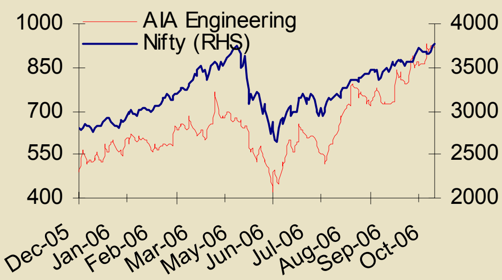
Hold

2nd November 2006

SCRIP DETAILS	
Market Cap (Rs crores)	2035.0
P/E (x)-FY07 (e)	22.5
EV/ EBITDA FY07 (e)	16.2
Market Cap/ Sales FY07 (e)	3.8
Market Cap/ EBITDA FY07 (e)	16.0
Equity Capital (Rs crores)	17.8
Face Value (Rs)	10.0
52 Week High/Low (Rs)	1225/375
Website: www.aiaengineering.com	
NSE Code	AIAENG
Sensex	13092
Nifty	3791

(As on 30th Sept, 2006)	
Promoters	73.7
Mutual Funds/ Banks/ FIs	16.9
FIIs	2.7
Others	2.4
Public	4.3

COMPARATIVE PRICE MOVEMENT



Analyst: Siddharth Purohit
Email: siddharthp@way2wealth.com
Telephone: 022 – 40192900

AIA Engineering has reported impressive results for the quarter. Strong demand from the user industry continued to propel the revenue growth, while favourable change in product mix helped in further margin-expansions during the quarter. The Company's Phase-I of capacity expansions is on schedule; however, looking at the demand scenario, the Company has pre-poned the commencement of the Phase-II of expansions. Surprisingly, the Company has announced its intentions to add further capacity of 1,00,000 MT, of high chrome mill internals, by March 2008. Huge capacity expansions by cement companies, coupled with increasing demand from mining companies, would drive the demand for AIA's products, which find wide application in grinding operations.

Strong Volume growth drives the topline growth: The standalone revenues for the quarter have grown by 35.5%, to Rs 95.5 crores from Rs 70.7 crores, while consolidated revenue has gone up by 38%, to Rs 131 crores. Productions were up 17% YoY, at 17,122 MT from 14,660 MT. On account of a favourable product mix, the realisation during the quarter has improved to Rs 76 per kg, from Rs 72 in Q1FY07. However, for the full year, the realisation is likely to stabilise at around Rs 72 a kg.

Higher Capacity Utilisation and favourable product-mix helps in margins expansions: During Q2FY07, the capacity utilisation has gone up to 100%+, as compared to 93% during FY06. The product mix during the quarter also improved favourably towards high chrome mill internals. This improvement in utilisation and realisation, coupled with favourable product mix, helped in EBITDA margins going up by 840 bps YoY and 70 bps QoQ, to 25.2%. For H1FY07 also, the EBITDA margins are higher, at 24.9% compared to 17.5% in H1FY06 and 20% for FY06. Although the Company believes that currently it is operating at the optimum utilisation level, however, the new production facility with improved technology can operate at a higher utilisation level.

Exports to be the next growth driver: The exports revenue has grown by 43% YoY, to Rs 60 crores from Rs 42 crores; on a sequential basis, exports have grown by 13%. The share of exports in total revenues stood at 45.8%, compared to 44.3% in the same period last year. The entire export revenues were contributed by the cement segment, and the Management is likely to start addressing the needs of the mining and utilities segments in the international market, after the new facility is available for full production.

Internationally, the demand for mill internals for the cement sector is ~2,74,000 MT, while the demand from the mining utility sector is 10x the demand from cement, i.e., ~2.4 million tons. Though the realisation in the exports markets is almost at par with the domestic one, strong volume growth in the international market would drive revenues, going ahead. The Management is targeting for exports to be ~50% of total business, in a couple of years.

Order book remains firm: AIA had an order backlog of Rs 240 crores at the end of the quarter .The order book is also well balanced, with ~60% for exports. Also, the replacement and project demand for the order book was in the ratio of 70:30, and this mix is likely to continue in the years to come. Due to capacity constraints, the Company is not able to accept big-sized orders, which cannot be delivered as per schedule. However, we believe the situation is going to improve, as the new capacity comes into play and the Company would start booking big-sized orders, once the production facilities stabilise.

Production in Phase-I to start from Dec-06……………..: AIA's capacity expansion plan is going ahead, as scheduled. Around 52,000 MT of new capacity is likely to be added by December 2006, while the full production is likely to be seen in Q4FY07 itself. The new facility would be an export-oriented unit (EOU) entirely, which would enable the Company to avail tax benefits, thus reducing the overall tax rate of the organisation. With increasing demand, the Company plans to start the commercial productions of its Phase-II, with an annual capacity of 52,000 MT, from October 2007, two months ahead of plan. The new facility, being technologically advanced, is expected to run at more than a 100% capacity utilisation level.

……………to add further capacity of 1,00,000 MT: Looking at the strong demand from the user industry, the Company has announced its intentions to set up an additional manufacturing facility with an installed annual capacity of 1,00,000 MT. The cost of the new project is estimated to be Rs 150 crores, including the working capital requirements, which would be funded through ECCB/ GDR/ QIP issue. The Company would actively start working on the new project from January 2007 and intends to complete the facility by March 2008; as a result, for FY09, the total production capacity available for the Company would be at 2,69,000 MT from the current 65,000 MT. The Company is also looking at acquisitions, both in the domestic and global markets. Meanwhile, to ensure availability of its key raw material - ferrochrome, the Company is looking at entering into long-term contracts with various suppliers in Orissa.

Cement segment continues to be the dominating contributor to the Company's revenue: In the domestic market, AIA supplies grinding media to most major cement players like ACC, Gujarat Ambuja, Ultratech and Grasim, while in the mining segment, it's clients include companies like Hindustan Zinc, Bharat Aluminium and Kudremukh Iron Ore Company. The domestic revenues grew by 35% YoY, to Rs 71 crores, and formed 54% of the total business. Within the domestic business, the cement segment accounted for 62% of the revenue, while the utilities and mining segments formed 26% and 13% of the revenues, respectively.

Quarterly Performance

In Rs Crores	Q2FY07	Q2FY06	Chg (%)	Q2FY07	Q2FY06	Chg (%)
		Consolidated			Standalone	
Revenues	131.1	94.8	38.3	95.5	70.7	35.1
Total Expenditure	98.0	78.9	24.2	74.8	60.1	24.5
EBITDA	33.1	15.9	108.2	20.7	10.6	95.3
EBITDA (%)	25.2	16.8		21.7	15.0	
PBT	32.5	15.2		21.8	10.8	
Tax	8.1	4.6	76.1	6.9	3.4	102.9
PAT	24.1	10.4	131.7	14.8	6.7	120.9
PAT (%)	18.4	11.0		15.5	9.5	
Equity	17.8	17.8		17.8	17.8	
Face Value	10.0	10.0		10.0	10.0	
EPS	13.6	5.9	131.7	8.3	3.8	120.9

WAY2WEALTH Securities Pvt. Ltd., 002, Raheja Paramount, 138, Residency Road, Bangalore – 560 025. Ph: (080) 22121512
Research Desk - Mumbai contact no.: .:022-40192900 email:content@way2wealth.com website:www.way2wealth.com

Financials

(Rs Crores)	FY05	FY06	Chg (%)	FY07 (E)	Chg (%)	FY08 (E)	Chg (%)
Net Sales	**293.7**	**407.0**	**38.6**	**530.0**	**30.2**	**801.0**	**51.1**
Raw material	168	179	6.5	239	32.9	368	54.5
% To TOI	57.4	44.1		45.0		46.0	
Other expenses	70.5	123.4	75.0	137.8	11.6	208.3	51.1
% To TOI	24.0	30.3		26.0		26.0	
Total expenditure	254.8	325.5	27.7	402.8	23.8	616.8	53.1
Operating Profit	**38.9**	**81.5**	**109.6**	**127.2**	**56.1**	**184.2**	**44.8**
OPM (%)	13.2	20.0		24.0		23.0	
Non-Operating Income	8.0	10.4	30.4	10.0	-3.8	10.0	
PBT	40.7	79.5	95.2	124.7		172.2	38.1
PBT (%)	13.9	19.5		23.5		21.5	
Profit after Tax	**26.9**	**54.3**	**102.0**	**90.7**	**66.9**	**131.2**	**44.7**
Minority Interest	**0.26**	**1.97**					
PAT Reported	**26.9**	**54.3**	**102.0**	**90.7**	**66.9**	**131.2**	**44.7**
PAT (%)	**9.2**	**13.4**		**17.1**		**16.4**	
Equity Share capital	13.1	17.8		17.8		17.8	
EPS (Rs)	20.6	30.6		51.0		73.8	

Valuations and Conclusion

AIA Engineering's Q2FY07 results have been better-than-expectations. The business growth continued be strong, both in the domestic and exports markets. One of the key positive developments during the quarter was improvement in the product mix towards the more value-added high-chrome mill internals. Higher capacity utilisation and an improved product-mix have resulted in better profitability and increase in average realisation per unit. Though alternative-grinding media is cheaper, in terms of pricing, the use of high-chrome grinding media improves the productivity to a large extent. And since any disturbance in the grinding process impacts the production of the cement and mining industry directly, we believe that the demand for AIA's products would accelerate, going ahead. The production of Phase-I is likely to start from December 2006; while looking at the demand scenario, the Company plans to start production of Phase -II by October 2007, ahead of the earlier planned December 2007. Further, the Company has announced to set up an additional capacity of 1,00,000 MT by March 2008, after which the total annual capacity available would stand at 2,69,000 MT, from the current 65,000 MT.

On account of better-than-expected volume growth and improved realisation, we are revising our FY07 revenues upwards by 4%, while on account of better-than-expected margin expansions, we are revising our EPS upwards by 16% and 6.5%, for FY07 and FY08, respectively. At the CMP of Rs 1145 the stock is quoting at 22.5x its FY07 (E) EPS of Rs 51 and 15.5x its FY08 (E) EPS of Rs 73.8. We remain positive about the fundamentals of the Company and advise investors to continue to hold the stock, with an investment objective.

WAY2WEALTH Research

WAY2WEALTH Securities Pvt. Ltd., 002, Raheja Paramount, 138, Residency Road, Bangalore – 560 025. Ph: (080) 22121512
Research Desk - Mumbai contact no.: .:022-40192900 email:content@way2wealth.com website:www.way2wealth.com

Disclaimer, Disclosure and Copyright Notice

The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers.

This material does not take into account the specific investment objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s. A qualified professional should be consulted before making an investment decisions or acting on any information contained in this material.

All investments involve risk and past performance does not guarantee future results. Investigate before you invest. You are strongly cautioned to verify any information before using it for any personal or business purpose.

Way2wealth Brokers (P) Limited (herein after called Way2Wealth) does not guarantee the accuracy, quality or completeness of any information. Much of the information is relevant only in India. Way2wealth makes no warranties, either express or implied, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement.

In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has been advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others.

This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities thereof, of companies mentioned herein.

WAY2WEALTH Securities Pvt. Ltd., 002, Raheja Paramount, 138, Residency Road, Bangalore – 560 025. Ph: (080) 22121512
Research Desk - Mumbai contact no.: .:022-40192900 email:content@way2wealth.com website:www.way2wealth.com