

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	AIAE.BO
Bloomberg code	AIAE.IN
Market cap. (US\$ mn)	754
6M avg. daily turnover (US\$ mn)	0.3
Issued shares (mn)	94
Target price (Rs)	350

#### Performance (%) 1M 3M 12M

Absolute	(1)	10	(11)
Relative	2	10	(18)

#### Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	19.4	22.5
+/- (%)	0.0	15.9
PER (x)	18.5	16.0
PBV (x)	2.8	2.4
Dividend/Yield (%)	0.8	0.8
EV/Sales (x)	2.5	2.1
EV/EBITDA (x)	12.1	10.2

#### Major shareholders (%)

Promoters	62
FII's	21
MF's	11
Public & Others	6

#### Financial highlights (Consolidated)

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)	FY12E	YoY (%)	FY13E	YoY (%)
Net sales	2,551	3,589	40.7	9,497	11,369	19.7	13,295	16.9	15,568	17.1
EBITDA	533	725	36.1	2,288	2,248	(1.8)	2,701	20.2	3,217	19.1
EBITDA margin (%)	20.9	20.2	-	24.1	19.8	-	20.3	-	20.7	-
Other income	32	48	50.2	322	490	51.9	212	(56.7)	225	5.9
Depreciation	57	66	17.4	226	254	12.3	339	33.4	459	35.4
Interest	2	6	238.1	14	19	32.8	28	53.2	32	11.7
PBT	507	701	38.3	2,371	2,465	4.0	2,546	3.3	2,951	15.9
Tax	115	180	56.7	659	629	(4.5)	713	13.3	826	15.9
PAT (adjusted)	392	521	32.9	1,712	1,836	7.3	1,833	(0.1)	2,125	15.9
Minority interest	-	-	-	4	2	-	-	-	-	-
PAT after minority interest	392	521	32.9	1,708	1,834	7.4	1,833	(0.0)	2,125	15.9

## AIA Engineering

## Maintain Underperformer

Price: Rs 360

BSE Index: 18,503

01 June 2011

### 4QFY11 Result – Margins impacted

Sales for the quarter grew by 40.7% YoY with equivalent growth in volumes. However, for the year, sales growth of 19.6% lagged volume growth. Other operating income for the year doubled YoY to Rs 349 mn, courtesy a significant jump in DEPP income. Mining related sales have increased to 42,500 T in FY11, almost doubling over last year. Vertical mill parts sales in China have gone up to 2,500 T and quarry crusher parts sales stand at 3,000 T. This also implies that sales tonnage in cement and utilities has remained stagnant. The other expenditure for the quarter includes Rs 180 mn of development and outsourcing cost, which has inflated other expenses. This cost could have possibly been clubbed with material cost.

#### Cost structure

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	FY11	YoY (%)
Material	1,456	1,754	20.5	4,465	5,878	31.6
Employee	122	140	14.8	433	510	17.6
Other	440	969	120.2	2,372	2,734	15.2
Sales	2,551	3,589	40.7	9,730	11,718	20.4
<b>(Tonnes)</b>						
Production	28,533	35,383	24.0	101,561	126,645	24.7
Sales	28,302	39,869	40.9	103,000	125,817	22.2
<b>(Rs/tonne)</b>						
Realisation	88,375	87,060	(1.5)	92,811	90,364	(2.6)
Material cost/tonne	51,441	44,005	(14.5)	43,353	46,716	7.8

Margins in FY11 were impacted due to a 32% increase in material cost as compared to 20% sales growth. In case of material cost, ferro alloys as proportion of total raw material procured has gone up from 16.5% in FY09 to 31.4% in FY10, implying a higher consumption of ferro alloys, as the sales mix moves towards mining. This could possibly lead to higher material cost per tonne, impacting the material cost/sales, as realisations are lower in mining.

The order book is at Rs 4.5 bn, up 9% QoQ. In FY11, inventories and debtors have increased significantly due to warehousing of products in Africa and Australia, increasing working capital. The cash on books is Rs 3.3 bn and the capex for FY11 is Rs 850 mn. Out of this, Rs 450 mn is for the de-bottlenecking, Rs 300-400 mn for land acquisition and Rs 100-150 mn for maintenance. Capex budgeted for the next two years stands at Rs 2.5 bn.

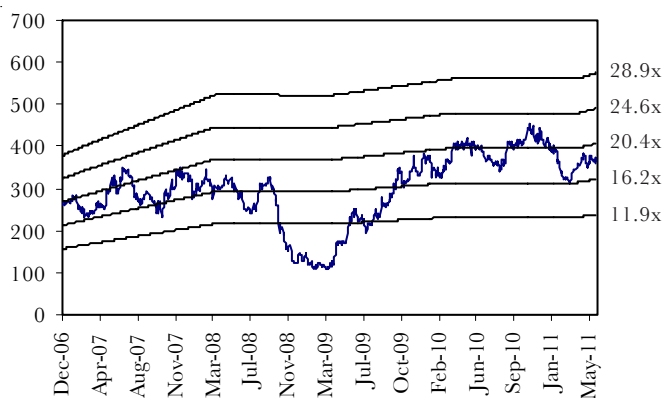
### Outlook

Sales tonnage for FY12 is expected at ~150,000 T with 50,000 T from mining sales. Vertical mill parts sales to China are expected to scale up to 5,000 T and aggregates to 4,000 T. Blended realisations are anticipated at Rs 87-90/kg and are marginally lower than FY11 realisations. The scale up in vertical mill and crusher related sales will benefit overall realisations.

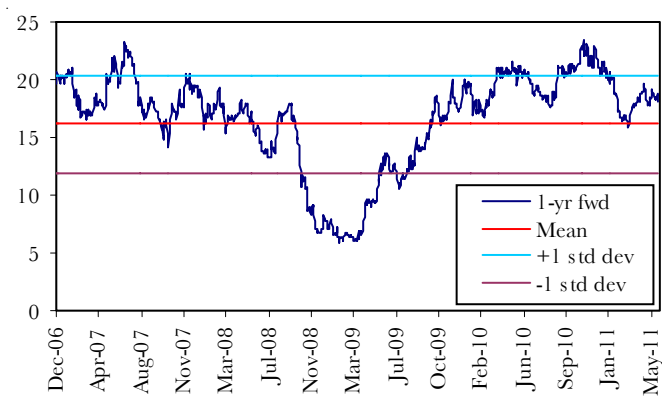
### Valuation

At the current market price of Rs 360, the stock is trading at 18.5x FY12E and 16x FY13E earnings. Upsides from present level are limited. Valuations are at 5-year mean with earnings CAGR (FY11-13E) at 7% and RoE marginally lower. We retain our Underperformer rating on the stock.

#### PER Band



#### One-year forward PE



Source: B&K Research

**Income Statement**

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
<b>Net sales</b>	<b>9,497</b>	<b>11,369</b>	<b>13,295</b>	<b>15,568</b>
<i>Growth (%)</i>	<i>(7.2)</i>	<i>19.7</i>	<i>16.9</i>	<i>17.1</i>
Operating expenses	(7,209)	(9,121)	(10,594)	(12,351)
Operating profit	2,288	2,248	2,701	3,217
<b>EBITDA</b>	<b>2,288</b>	<b>2,248</b>	<b>2,701</b>	<b>3,217</b>
<i>Growth (%)</i>	<i>(7.2)</i>	<i>(1.8)</i>	<i>20.2</i>	<i>19.1</i>
Depreciation	(226)	(254)	(339)	(459)
Other income	322	490	212	225
<b>EBIT</b>	<b>2,385</b>	<b>2,484</b>	<b>2,575</b>	<b>2,983</b>
Interest paid	(14)	(19)	(28)	(32)
Pre-tax profit	2,371	2,465	2,546	2,951
(before non-recurring)				
Pre-tax profit	2,371	2,465	2,546	2,951
(after non-recurring)				
Tax (current + deferred)	(659)	(629)	(713)	(826)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,712	1,836	1,833	2,125
Minority interests	(4)	(2)	0	0
Reported PAT	1,708	1,834	1,833	2,125
<b>Adjusted net profit</b>	<b>1,708</b>	<b>1,834</b>	<b>1,833</b>	<b>2,125</b>
<i>Growth (%)</i>	<i>0.3</i>	<i>7.4</i>	<i>(0.0)</i>	<i>15.9</i>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash & Marketable securities	2,093	1,531	1,433	1,647
Other current assets	7,024	9,920	11,378	13,322
Investments	1,415	1,501	1,501	1,501
Net fixed assets	2,422	2,975	3,582	4,432
Other non-current assets	17	0	0	0
<b>Total assets</b>	<b>12,970</b>	<b>15,927</b>	<b>17,894</b>	<b>20,902</b>
Current liabilities	3,679	4,977	5,487	6,662
Total debt	82	212	316	353
Other non-current liabilities	134	152	0	0
<b>Total liabilities</b>	<b>3,895</b>	<b>5,341</b>	<b>5,803</b>	<b>7,015</b>
Share capital	189	189	189	189
Reserves & surplus	8,832	10,333	11,837	13,633
<b>Shareholders' funds</b>	<b>9,020</b>	<b>10,521</b>	<b>12,026</b>	<b>13,822</b>
Minorities interests	55	65	65	65
<b>Total equity &amp; liabilities</b>	<b>12,970</b>	<b>15,927</b>	<b>17,894</b>	<b>20,902</b>
<b>Capital employed</b>	<b>9,291</b>	<b>10,950</b>	<b>12,406</b>	<b>14,239</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Pre-tax profit	2,371	2,465	2,546	2,951
Depreciation	226	254	339	459
Change in working capital	(956)	(2,286)	(1,309)	(1,409)
Total tax paid	(68)	96	(504)	(187)
<b>Cash flow from oper. (a)</b>	<b>1,572</b>	<b>528</b>	<b>1,072</b>	<b>1,814</b>
Capital expenditure	(261)	(807)	(945)	(1,308)
Change in investments	(1,001)	(87)	(0)	(0)
Others	(4)	0	(0)	0
<b>Cash flow from inv. (b)</b>	<b>(1,266)</b>	<b>(894)</b>	<b>(945)</b>	<b>(1,308)</b>
<b>Free cash flow (a+b)</b>	<b>306</b>	<b>(365)</b>	<b>127</b>	<b>506</b>
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	(360)	130	105	37
Dividend (incl. tax)	(224)	(330)	(329)	(329)
Others	(218)	4	0	0
<b>Cash flow from fin. (c)</b>	<b>(800)</b>	<b>(197)</b>	<b>(224)</b>	<b>(292)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(494)</b>	<b>(562)</b>	<b>(97)</b>	<b>214</b>

**Key Ratios**

Yr end 31 Mar (%)	FY10	FY11E	FY12E	FY13E
Adjusted EPS (Rs)	18.1	19.4	19.4	22.5
Growth	(0.1)	7.4	(0.0)	15.9
Book NAV/share (Rs)	96.2	112.2	128.2	147.2
Dividend/share (Rs)	1.7	3.0	3.0	3.0
Dividend payout ratio	11.8	17.9	17.9	15.5
Tax	27.8	25.5	28.0	28.0
EBITDA margin	24.1	19.8	20.3	20.7
EBIT margin	25.1	21.8	19.4	19.2
RoCE	27.1	24.5	22.0	22.4
Net debt/Equity	(22.2)	(12.5)	(9.2)	(9.3)

**Valuations**

Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
PER	19.9	18.5	18.5	16.0
PCE	17.6	16.3	15.6	13.1
Price/Book	3.7	3.2	2.8	2.4
Yield (%)	0.5	0.8	0.8	0.8
EV/Net sales	3.4	2.8	2.5	2.1
EV/EBITDA	13.9	14.4	12.1	10.2

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
Net margin (%)	18.0	16.1	13.8	13.6
Asset turnover	0.8	0.8	0.8	0.8
Leverage factor	1.4	1.5	1.5	1.5
Return on equity (%)	20.3	18.7	16.2	16.4

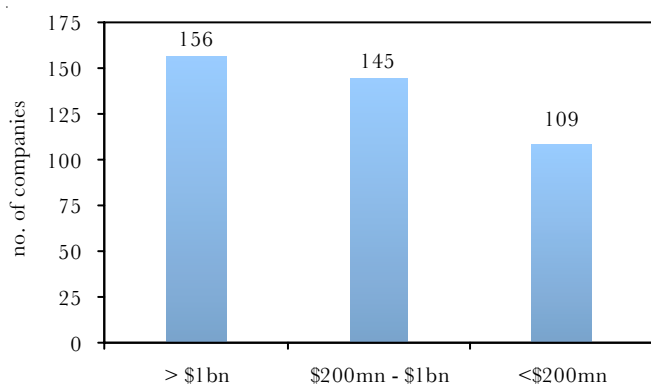
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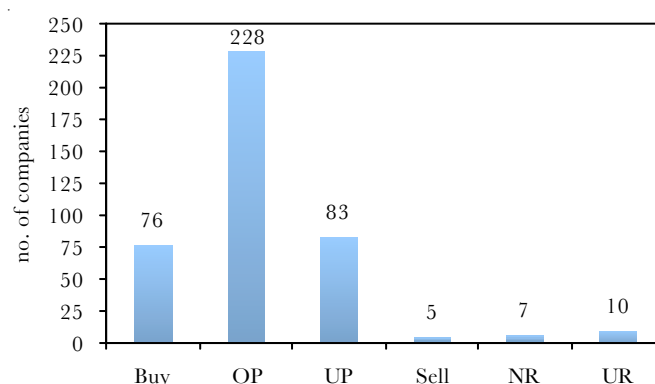
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## B&amp;K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



**B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.**

**B&K Investment Ratings:**

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

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