



Report Date	February 4, 2008
Company Name	AIA Engineering
Recommendation	BUY

CMP – Rs. 1,518.35	Target Price – Rs. 2,000/-	Mkt. Cap. - Rs. 2,854 crore
---------------------------	-----------------------------------	------------------------------------

Investment Rationale

- AIA, a niche player in value-added, impact, abrasion, and corrosion resistant high chrome metallurgy segment has put up an excellent performance for Q3 FY08. Consolidated Net Sales grew @ 52.9% to Rs.188.85 crore on back of 44% jump in volumes and 6% rise in realisations Y-o-Y. Higher volumes were on account of commencement of production at the new Changodhar facility. Domestic sales grew @ 39% while exports grew @70% mainly on account of impressive demand from cement sector that constituted 65% of domestic sales and 100% of exports. OPM% improved to 27.8% (25.6%) on back of improved realisations. Consequently, PBT spurted by 62.7% to Rs.55.42 crore and PAT (after minority interest) zoomed by 61.9% to Rs.40.29 crore.
- For 9 months ended December 2007, Consolidated Net Sales grew @ 31.6% to Rs.487.58 crore. However OPM% were low at 23.8% (25.1%) as in H1 FY2008, margins were adversely affected due to jump in raw material costs and inability to pass on cost increase to customers coupled with appreciation in rupee (~50% of revenues are from exports). Higher sales coupled with 55.1% rise in other income led to 27.5% growth in PBT to Rs.123.42 crore and 25.5 % growth in PAT (after minority interest) to Rs.89.19 crore. AIA's order book as on date stands at Rs.430 crore. Domestic market accounts for 55% of order book while the balance comprises exports.
- AIA manufacturers mill internals in high chrome metallurgy. These products find application in crushing and grinding operations in cement, thermal power, and mining plants, where they are used to crush/grind clinker, coal and mineral ore, respectively. High chrome metallurgy offers lower wear rate than the conventionally used parts of manganese steel, nihard iron, hyper steel, and forgings. The company offers complete solutions in grinding to optimise the productivity of grinding mills.
- A lion's share of mill internals' demand arises from the mining industry, followed by cement. Annual global replacement demand for these two sectors is estimated at ~3 million MT, with demand from mining sector at ~2.4 mn MT. However, 90-95% of the mining demand is currently being serviced by conventional and forged mill internals. With the industry moving from cost of parts to total cost of ownership, there is a huge opportunity for AIA to convert users to high chrome mill internals. With over 30% of the global ex-China cement market share for grinding media, AIA is now expanding capacities aggressively to get a foothold in the global mining market. This is likely to ensure strong and sustainable growth for AIA in the coming 3-5 years.
- The new Changodhar plant will be ramped up to near full utilisation in Q4 FY08, while the Phase II of 50,000 tpa will be operational in Q1 FY09, taking total capacity to 1,65,000 tpa. An additional 1,00,000 tpa will be set up over 12-15 months to cater to mining demand globally.

Valuation

- At CMP of Rs1518.35, share (Rs 10/-) is trading at 21.7 times estimated FY 2008 consolidated EPS of Rs.70 and 15.2 times estimated FY 2009 consolidated EPS of Rs.100. Mining segment offers immense growth opportunities for high chrome internals and AIA is expected to be benefited on account of its end-to-end customised solutions for mills, manufacturing in low cost destinations and expanding capacities. We recommend "BUY" at CMP.

Consolidated Financial Summary

Rs. Crore

	FY 2008	FY 2007	%	FY 2008	FY 2007	%	2007 A
	Q3		Change	9 months		Change	12 mths
Net Sales	188.85	123.53	52.9%	487.58	370.36	31.6%	523.03
Total Expenses	136.42	91.97	48.3%	371.78	277.36	34.0%	398.67
EBITDA	52.42	31.56	66.1%	115.80	93.00	24.5%	124.36
EBITDA (%)	27.8%	25.6%		23.8%	25.1%		23.8%
Interest Expenses / (Income)	0.40	0.50	-21.1%	1.23	2.00	-38.3%	2.41
Depreciation	3.67	2.19	67.7%	9.10	5.76	58.0%	8.21
Other Income	7.06	5.18	36.2%	17.96	11.58	55.1%	16.39
P.B.T. before Extra Ordinary Items	55.42	34.06	62.7%	123.42	96.82	27.5%	130.12
Extra Ordinary Income / (Exp.)	-	-			-		
P.B.T. after Extra Ordinary Items	55.42	34.06	62.7%	123.42	96.82	27.5%	130.12
Net Profit	40.29	24.89	61.9%	89.19	71.09	25.5%	94.32
Equity Capital (Rs 10/-)	18.80	18.80		18.80	18.80		18.80
EPS for the period (Rs)	21.43	13.24	61.9%	47.45	37.82	25.5%	50.18

Disclosures

The author may have held / hold the above-mentioned securities in their personal accounts or on behalf of the clients. The information contained has been obtained from sources believed to be reliable. While taking utmost care in making the report, the authors or the company does not take responsibility for the consequences of the report. All investment and information and opinion are subject to change without notice. The investment recommendations may not be suitable to all the investors.
February 04 , 2008