

# AIA Engineering Ltd.

**CMP: Rs 319**

**Target Price: Rs 222**

DOLAT CAPITAL



**Engineering / Sell**

AIA results were in line with our expectations. Realizations were down at Rs.94.4/kg (vs. Rs. 106.4/kg in Q2FY09 and Rs. 101.7/kg in Q1FY10) mainly on account of lower material prices which were passed on to the customer. Sales volume declined by 14% to 23118 MT due to slowdown in off take from the overseas cement companies. AIA is receiving enquiries from overseas mining companies and the company expects good amount of orders from the mining segment in the coming quarters. We have estimated volumes of ~103k MT in FY10 and ~118k MT in FY11. We would revisit our volume assumption on demonstrated ramp up in mining volumes in the coming quarters. We remain positive on the long term prospects of the company but in our view the recent run up in stock price has stretched the valuations. Therefore, we recommend a SELL on the stock with a target price of Rs.222 (10x FY11E).

## Q2FY10 Results

Particulars (Rs Mn)	Q2FY10	Q2FY09	YoY (%)	H1FY10	H1FY09	YoY (%)
<b>Revenue</b>						
Sales	2,183.0	2,860.7	-23.7	4,449.7	4,859.7	-8.4
Other op. Income	76.7	3.9	1844.4	123.9	58.0	113.6
<b>Total Income</b>	<b>2,259.7</b>	<b>2,864.7</b>	<b>-21.1</b>	<b>4,573.6</b>	<b>4,917.7</b>	<b>-7.0</b>
Raw Material	957.5	1,504.9	-36.4	1,862.5	2,404.3	-22.5
<b>RM/Rev.</b>	<b>43.9%</b>	<b>52.6%</b>		<b>41.9%</b>	<b>49.5%</b>	
Employee Cost	105.0	99.5	5.5	204.7	202.5	1.1
Other Expenses	605.0	587.0	3.1	1,303.9	1,048.7	24.3
<b>Total Expenditure</b>	<b>1,667.5</b>	<b>2,191.5</b>	<b>-23.9</b>	<b>3,371.2</b>	<b>3,655.5</b>	<b>-7.8</b>
EBIDTA (excludg. OI)	592.2	673.2	-12.0	1,202.4	1,262.2	-4.7
<b>OPM (excludg OI)</b>	<b>26.2%</b>	<b>23.5%</b>		<b>26.3%</b>	<b>25.7%</b>	
Other Non operating income	40.5	20.6	96.8	80.7	40.3	100.4
Interest	1.0	3.7	-71.4	10.5	8.3	26.8
Depreciation	55.6	57.5	-3.2	113.5	101.6	11.7
Exceptional item						
<b>PBT</b>	<b>576.0</b>	<b>632.7</b>	<b>-9.0</b>	<b>1,159.1</b>	<b>1,192.6</b>	<b>-2.8</b>
Tax	155.9	180.7	-13.7	331.7	342.0	-3.0
<b>RPAT</b>	<b>420.2</b>	<b>452.0</b>	<b>-7.1</b>	<b>827.4</b>	<b>850.7</b>	<b>-2.7</b>
<b>NPM</b>	<b>18.6%</b>	<b>15.8%</b>		<b>18.1%</b>	<b>17.3%</b>	
Equity	943.0	943.0		943.0	943.0	
<b>EPS</b>	<b>4.5</b>	<b>4.8</b>	<b>-7.1</b>	<b>8.8</b>	<b>9.0</b>	<b>-2.7</b>

## Result Analysis

- The consolidated revenue declined by 23.7% to Rs.2.18bn in Q2FY10 due to decline in volumes and realizations.
- Total production for the quarter was 22004MTs (sales 23118MTs) vs. 29550MTs (sales 26900MTs) in the last corresponding quarter. Volumes were down due to slowdown in off take from overseas cement companies.
- Realizations were down at ~Rs.94.4/kg as against Rs.106.4/kg in last corresponding quarter (Rs.101.7/kg in Q1FY10) mainly due to fall in commodity prices and change in product mix. With the share of mining industry increasing the realizations are expected to fall further.
- Operating margin (excluding other non operating income) this quarter has improved by 270bps on a YoY basis on account of fall in raw material prices.
- The domestic market contributed 40% of AIA's revenues, while the proportion of international revenues was at 60% in Q2FY10.

## Key Business developments:

- The current order book of the company stands at Rs.4.05bn (0.4x FY09 sales). Share of domestic market stands at Rs.2.1bn and exports at Rs.1.95bn.
- Slowdown in the housing segment in the overseas market is impacting the demand from the cement industry.

- The average receivables as at the end of Sept 09 stand at ~75 days vs. ~65 days at the end of FY09.
- The cash and cash equivalent as on 30th Sept 09 stands at Rs.3750mn (Net cash)

### Valuation

We expect the company to witness a volume CAGR of 11% from FY09-11E. We would revisit our volume assumptions on demonstrated ramp up in mining orders in the coming quarters. Realizations are expected to be under pressure due to higher contribution from the mining segment going forward. We remain positive on the long term prospects of the company but the recent run up in the stock price in our view has stretched the valuations beyond its fair value. Therefore, we recommend a SELL on the stock with a target price of Rs.222 (10x FY11E).

### Financials (Consolidated)

Year	Net Sales	% growth	EBITDA	OPM%	PAT	% growth	EPS(Rs.)	% growth	PER(x)	ROANW(%)	ROACE(%)
FY08	7,119	36.1	1,846	25.9	1,342	40.4	14.3	40.4	21.0	24.4	31.9
FY09	10,337	45.2	2,571	24.9	1,743	29.9	18.5	29.5	16.2	25.5	35.2
FY10E	10,219	(1.1)	2,569	25.1	1,784	2.3	18.9	2.3	16.9	21.5	29.7
FY11E	11,787	15.3	2,935	24.9	2,089	17.1	22.2	17.1	14.4	21.1	29.7

Figure in Rs mn



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The ratings are based on the absolute upside of our target price from the current price.

**Upside**

> 25 %  
15% - 25%  
0% - 15%  
< 0 %

**Ratings**

Buy  
Accumulate  
Reduce  
Sell

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