

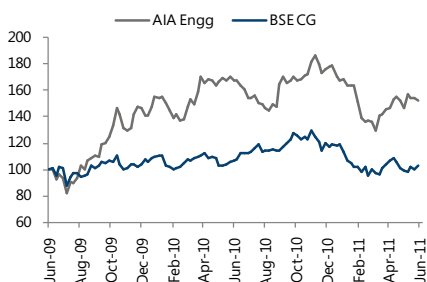
Result Update - Q4FY11

Accumulate

Reco	Downgraded
CMP	₹ 365
Target Price	₹ 405
Upside Potential	10.9%

Price Performance

52 wk Hi/Lo	488/302
All time Hi/Lo	488/75
6 mnth Average Vol	27944
Stock Beta	0.41



Valuation

	FY11	FY12P	FY13P
P/E (x)	18.8	17.7	14.4
P/BV (x)	3.3	2.8	2.4
RONW (%)	18.8	17.3	18.3
ROCE (%)	14.7	15.9	16.9

Peer Valuation (FY12P)

	Mcnally	Elecon
P/E	5.5	6.8
P/BV	1.2	1.4

Equity Data

Market Cap. (₹ bln)	34.5
Face value (₹)	2
No of shares o/s (mln)	94

	Mar10	Mar11	%Δ
Promoters	61.66	61.65	-0.02
DII's	13.50	11.35	-15.93
FII's	17.84	21.33	19.56
Public	7.00	5.67	-19.00

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AIA Engineering

Volume growth overshadowed by margin dip

AIA's consolidated net sales for Q4FY11 rose to ₹ 3.58bln (up 41% y-o-y), largely supported by strong volumes in mining segment. EBIDTA for the quarter grew by 36% y-o-y to ₹ 725mln compared to ₹ 533mln in the same quarter last year. The higher other income during the quarter boosted PAT which grew by 34% y-o-y to ₹ 524mln. AIA carries an order book of ₹ 4.5bln at the end of Q4FY11.

Volumes improve; realizations fall

In Q4FY11, sales in volume terms increased by 42% y-o-y to 39817 MT as against 28000 MT in Q4FY10. For FY11, its volumes reached to 125817 MT, up by 22% y-o-y. However, realizations for the quarter have fallen by 10% q-o-q and 2.4% y-o-y to ₹ 87/kg due to higher mining contribution in total revenues. On yearly basis, the realizations have shown de-growth of 2.1% y-o-y to ₹ 90.4/kg as compared to ₹ 92.3/kg in FY10. The realizations vary as per the product mix; management is confident of maintaining average realizations in the range of ₹ 87-90/kg.

Margins dip due to outsourced components

AIA reported EBIDTA of ₹ 725mln (up 36% y-o-y) during Q4FY11. However, EBIDTA margins dropped marginally by 70 bps and stands at 20.2% as compared to 20.9% in Q4FY10. The drop in margins was due to higher other expenditure of ₹ 969mln (up 120% y-o-y) as company spent on developments related to crusher parts in the quarry segment. This in turn resulted in outsourcing of materials which hampered the margins. However, raw material cost as a percentage of sales was lower by 261 bps at 46.9% as against 49.5% in same quarter last year.

Outlook and Valuation

AIA is moving strongly in mining segment which is clearly visible in strong volumes of 42500 MT in FY11 (up 42% y-o-y). AIA is seeing moderate growth in cement and utilities segment. The stock trades at a forward P/E of 17.7x FY12P and 14.4x FY13P EPS; while its historical average has been 19x. We believe upside from this level is limited as positive surprises in volumes front are built into the stock. Besides, likely pressure on realization and margins for next couple of years for the company to gain foothold in mining segment shall reflect in top line and bottom line. However, strong demand for mill internals shall lead to robust volume growth, we, therefore, downgrade our rating from Buy to Accumulate with a revised target price of ₹ 405 (16x FY13P).

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Total Income	9497	11369	13710	16429
OPBDIT	2288	2248	2927	3639
Net Profit	1711	1834	1953	2392
EPS	18.1	19.4	20.7	25.3
Net worth	9021	10521	12118	14075
Debt	82	212	312	412
Fixed Assets	2427	2975	3874	4803
Net Current Assets	5437	6474	6958	7937

Exhibit 1: Q4FY11 Highlights

(₹ in mln)	Q4FY11	Q4FY10	Y-o-Y	Q3FY11	Q-o-Q
Net Sales	3589	2551	41%	3045	18%
Raw Material Cost	1686	1247	35%	1273	32%
Purchase of traded goods	68	191	-64%	325	-79%
Staff Cost	140	122	15%	129	8%
Other Expenditure	969	440	120%	636	52%
OPBDIT	725	533	36%	681	6%
OPBDIT Margin %	20.2	20.9		22.4	
Depreciation	66	57	16%	71	-7%
Interest Cost	6	2	200%	9	-34%
Other Income	48	32	50%	25	90%
Tax	180	115	57%	162	11%
PAT	521	392	33%	464	12%
Net Profit (incl. minority interest)	524	391	34%	463	13%
EPS	5.6	4.1		4.9	

Source: Company

Key Result Highlights

- AIA Engineering's sales for Q4FY11 grew 41% y-o-y to ₹ 3.58bln as against ₹ 2.5bln in corresponding quarter last year, mainly driven by export revenues which contribute 64% in company's total revenues. For current quarter, the company achieved production of 35383 MT with a growth of 24% y-o-y and its sales in volume terms enhanced 42% y-o-y to 39817 MT out of which mining contributes 11300 MT, crushing is 3000 MT and remaining 25517 MT is from non mining activities (cement and utilities). However, average realization for the quarter was lower by 2.4% y-o-y to ₹ 87/kg mainly due to higher contribution of mining segment in total revenues.
- The company reported EBIDTA of ₹ 725mln (up 36% y-o-y) during the quarter. However, EBIDTA margins dropped marginally by 60 bps y-o-y at 20.2% as compared to 20.9% in Q4FY10. The drop in margins is due to higher other expenditure of ₹ 969mln (up 120% y-o-y) as company has carried out developments related to crusher parts in the quarry segment; which has resulted in outsourcing of materials during the quarter. Raw material cost as a percentage of sales is lower by 261 bps to 46.9% as against 49.5% in same quarter last year.
- PAT for the Q4FY11 rose by 34% y-o-y to ₹ 524mln spurred with increase in other income to ₹ 48mln (up 50% y-o-y). Other income majorly includes DEPB income and recovery income that company received during the quarter.

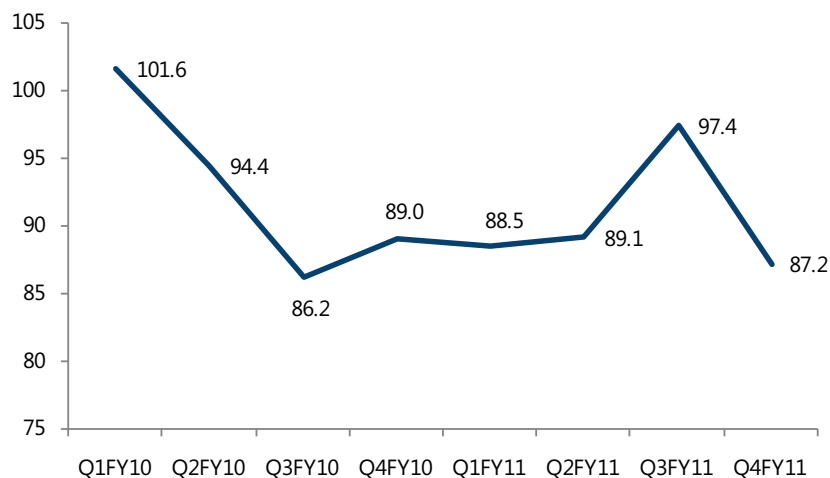
Exhibit: 2 Annual Highlights

(₹ in mln)	FY11	FY10	Y-o-Y
Net Sales	11369	9497	20%
Raw Material Cost	5239	3913	34%
Purchase of traded goods	639	400	60%
Staff Cost	510	433	18%
Other Expenditure	2734	2310	18%
OPBDIT	2248	2288	-2%
OPBDIT Margin %	19.8	24.1	
Depreciation	254	227	12%
Interest Cost	19	14	33%
Other Income	490	322	52%
Tax	631	659	-4%
Adj Net Profit	1834	1711	7%
EPS	19.4	18.1	

Source: Company

- AIA's total revenue for the full year rose by 20% y-o-y to ₹ 11.4bln vis-a-vis ₹ 9.5bln in the previous year. The exports contributed 61% to overall revenue for FY11. In FY11, total sales in volume terms were 125,817 MT (up 22.3% y-o-y). Out of this; mining contributed 42,500 MT, (up by 42% y-o-y). Growth in cement remained muted in domestic as well as international markets. Utilities registered a moderate growth of 6-8% in volume terms. The average realization for FY11 dropped to ₹ 90.4/kg, which is lower by 2.1% as compared to previous year of ₹ 92.3/kg.
- EBIDTA for FY11 dropped marginally by 2% y-o-y to ₹ 2.25bln compared to ₹ 2.29bln last year. The EBIDTA margins, however, sharply contracted by over 400 bps y-o-y to 19.8%, mainly affected by continuous rising pricing trend in its key raw material ferro chrome. The company could not pass on the increased cost to its customers particularly in mining sector. However, company has been taking certain pricing related measures like contracting with various suppliers for raw materials at a different pricing and therefore management is confident of improving its EBIDTA margins. PAT for FY11 grew by 7.4% y-o-y to ₹ 1.8bln

Exhibit: 3 Q-o-Q realization trend (₹/kg)



Source: MSFL Research

Mining segment is gaining traction; while growth from cement continues to be moderate

For FY11, AIA reported strong volume growth of 42% y-o-y in mining. The management is targeting total volumes of 150000-155000 MT for FY12, out of which 50000-60000 MT would be from mining segment.

AIA is seeing moderate growth in its cement segment (excluding china) as currently cement industry is facing problems such as lower utilization levels. The company is strongly making move in the Chinese cement market, which is the largest cement market. The company supplied 500 MT of vertical mill internals in FY11. Further management expects to supply another 2500 MT of vertical mill internals in FY12. Management is expecting decent growth from its utility segment at 10-12% for FY12 and confident of maintaining 70-75% of market share in Indian market of vertical mill internals.

Change in estimates

AIA has surpassed volume expectations in FY11; which calls for change in volume assumptions for FY12 and FY13. Realization has dropped in FY11 and the company expects realization to be in the range of ₹ 87-90/kg. Margin has corrected sharply and we believe better inventory management and leeway for negotiations going forward with clients shall help AIA improve its margins in coming years.

Exhibit 4: Revised Estimates (in ₹ mln)

	FY12P			FY13P		
	New	Old	% chg	New	Old	% chg
Volumes in tonnes	150500	148,000	2%	178000	178,000	-
Realization (₹/kg)	91.1	95.9	-5%	92.3	96.9	-5%
Total Income	13710	14194	-3%	16429	17254	-5%
EBITDA	2927	3429	-15%	3639	4,271	-15%
PAT	1953	2207	-12%	2392	2735	-13%

Source: MSFL Research

Outlook & Valuation

AIA currently trades at a forward P/E of 17.7x FY12P and 14.4x FY13P EPS; while its historical average has been 19x. We believe that positive surprises for FY11 in terms of volume growth is already priced in and hence upside from this level is capped considering pressure on realization and margins for next couple of years as the company gains foothold in the mining segment. However, strong demand for mill internals will continue to result in strong volume growth. We roll forward our valuation to FY13 and downgrade our rating from Buy to Accumulate on the stock with a revised target price of ₹ 405 (16x FY13P).

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Total Income	10233	9497	11369	13710	16429
Total Expenditure	7766	7209	9122	10783	12790
EBITDA	2467	2288	2248	2927	3639
EBITDA Margin (%)	24.1	24.1	19.8	21.3	22.2
Depreciation	203	227	254	289	363
EBIT	2265	2061	1994	2638	3276
Interest cost	21	14	19	26	36
Operating Profit	2244	2047	1975	2611	3240
Other Income	218	322	490	139	154
Extraordinary Item	31	0	0	0	0
PBT	2493	2370	2465	2751	3394
Tax	752	659	631	798	1001
PAT	1741	1711	1834	1953	2392
PAT Margin (%)	17.0	18.0	16.1	14.2	14.6
EPS	18.4	18.1	19.4	20.7	25.3
Sales Growth (%)	48.0	-7.2	19.7	20.6	19.8
EBITDA Growth (%)	50.6	-7.2	-1.8	30.2	24.3
PAT Growth (%)	29.8	-1.8	7.2	6.5	22.5

Key Assumptions

Volume growth %	-	-	-	19.6%	18.3%
Realization growth %	-	-	-	0.8%	1.3%

Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Sources of Funds					
Share Capital	188	189	189	189	189
Reserves & Surplus	7537	8832	10333	11930	13887
Net worth	7725	9021	10521	12118	14075
Secured Loans	425	66	66	66	66
Unsecured Loans	17	16	16	16	16
Total Loans	442	82	212	312	412
Deferred Tax Liability	100	117	152	152	152
Minority Interest	58	60	65	65	65
TOTAL	8324	9280	10950	12647	14704
Application of Funds					
Net Fixed Assets	2383	2427	2975	3874	4803
Investment	414	1415	1501	1815	1965
Current Assets	8532	9117	11451	12675	15004
Current Liabilities	3005	3679	4977	5717	7067
Net Current Assets	5527	5437	6474	6958	7937
Misc expenses not written off	-	1			
TOTAL	8324	9280	10950	12647	14704

Cash Flow

Particulars (₹ in mln)	2009	2010	2011P	2012P	2013P
Internal accruals	1944	1938	2085	2239	2752
(Inc)/Dec in Net Current Assets	-93	-432	-1599	-633	-619
Other Adjustments	138	336	41	0	0
Cash flow from Operations	1950	1303	527	1606	2133
Inc/(Dec) in Debt	306	-360	130	100	100
Inc/(Dec) in Equity	0	0	0	0	0
Dividend & Tax	-176	-313	-331	-353	-432
Cash flow from Financing	130	-673	-202	-253	-332
Fixed Asset formation	-401	-275	-801	-1188	-1292
Inc/(Dec) in Investment	534	-1001	-87	-313	-150
Interest and Dividend Received	110	151	0	0	0
Cash flow from Investments	242	-1124	-888	-1502	-1442
Net Change in Cash	2322	-494	-562	-148	360

Ratios

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	19.9	20.2	18.8	17.7	14.4
P/BV	4.5	3.8	3.3	2.8	2.4
EV/EBIDTA	13.1	14.2	14.7	11.4	9.1
EV/Sales	3.2	3.4	2.9	2.4	2.0
Dividend Yield (%)	0.7%	0.7%	0.8%	0.9%	1.1%
EPS	18.4	18.1	19.4	20.7	25.3
DPS	2.5	2.5	3.0	3.2	3.9
Book Value	81.9	95.6	111.5	128.5	149.2
ROE	25.2%	20.4%	18.8%	17.3%	18.3%
ROCE	21.5%	16.9%	14.7%	15.9%	16.9%

Solvency Ratio (x)

Debt/Equity	0.06	0.01	0.02	0.03	0.03
Debt/EBIDTA	0.18	0.04	0.09	0.11	0.11

Turnover Ratio (x)

Fixed Asset Turnover	4.5	3.9	4.2	4.0	3.8
Assets turnover	1.4	1.1	1.1	1.2	1.2
Current Ratio	2.8	2.5	2.3	2.2	2.1
Inventory (days)	49	56	46	43	42
Debtors (days)	64	76	92	87	82
Creditors (days)	33	43	49	49	49

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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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