

AIA Engineering**Rs1589**
OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs29.9bn; US \$712m

Bloomberg code: AIAE IN

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Result: Q4FY07 and FY07

Comment: Results in line with expectation

Last report: 23 May 2007 (Price Rs1429; Recommendation: Outperformer)

Key valuation metrics#

Year to Mar (Rs m)	Net sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
2006	4070	38.6	524	29.4	45.4	34.0	54.0
2007	5230	28.5	944	50.1	80.2	23.2	31.7
2008E	8414	60.9	1482	78.7	57.0	15.1	20.3
2009E	11156	32.6	1926	102.4	30.0	11.7	15.6

All numbers are consolidated * all numbers are fully diluted

AIA Engineering (AIAEL) has reported strong Q4FY07 results, which were broadly in line with our expectations with operating profit growth of 20% yoy to Rs 313m and net profit growth of 84% yoy to Rs 249m. For FY07, consolidated operating profit margins improved 350bps yoy to 25.5% while profits went up 80%yoy to Rs 944m. AIAEL is a play on the ongoing capex spree across core sectors especially in the cement sector where over 99MT capacity is expected to come on stream over next 3 years coupled with major investments in power and mining space. Volume addition of 4x in stages coupled with better realization will drive consolidated earnings growth of 43% over FY07-09. Reiterate Outperformer.

KEY HIGHLIGHTS

AIAEL's Q4FY07 consolidated EBIDTA of Rs 313m is in line with our expectation of Rs 304m while the net profit stood at Rs 231m as against our expectation of Rs 250m. Operating profits would have been much better had it not been for Rs 30m paid as advance in relation to commission for new orders.

The salient points of the results are as follows:

- Strong demand has helped AIAEL achieve net sales growth of 11.6%yoy to Rs1.53bn in Q4FY07. That included Rs200m of trading sales pertaining to Vega Middle East. For FY07, consolidated sales grew 28.5% yoy to Rs 5.23bn. With the new capacity coming on stream in stages going forward revenue growth would accelerate.
- Production during the quarter stood at 18,046MT, up 6%yoy. For FY07, consolidated production stood at 69,398MT vis-à-vis 59,329MT in FY06. For FY07, exports contributed ~51% of the total revenues. Cement sector remains the core earnings driver with contribution of 78% to total sales – the rest came from mining (5%) and utilities (17%).
- Order backlog stands at Rs4.05bn vis-à-vis Rs 3.17bn in Q3FY07. Of that, domestic markets constitute ~65% while the rest was constituted by exports.
- Better product mix, coupled with operating efficiencies and scale benefits, helped boost EBIDTA margin by 350bp yoy to 25.5% for FY07. However, for Q4FY07, operating margins dipped 510bps qoq (but up 140bps yoy) to 20.5% as company paid Rs 30m as advances for strategic customer acquisitions.

- Out of Initial Public Offer proceeds of Rs.1.48bn, so far the Company has utilized Rs.1.24bn. Pending Utilization of balance funds as at 31.3.2007; the same have been invested in various investments. As a result, other income went up 72% yoy to Rs48m while interest charges came off 50%yoy to Rs 4m.
- Robust volume growth, coupled with margin expansion, helped AIAEL record net profit growth of 39%yoy to Rs231m for Q4FY07. For FY07, consolidated profits were up 80% yoy to Rs 944m. The company has started commercial production run on its first phase of expanded capacity and expects full ramp up by Q2FY08.

□ Maintain earnings estimates

AIAEL is a play on the ongoing capex spree across core sectors especially cement where nearly 99MT capacity is expected to come on stream over next 3 years coupled with major investments in power and mining space. Volume addition of 4x in stages coupled with better realization will drive consolidated earnings growth of 43% over FY07-09. Reiterate Outperformer.

AIAEL – quarterly results

Year to 31st March (Rs m)	Dec-06	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
Net sales	945	1,368	1,158	1,311	1,235	1,527
Total expenditure	727	1,107	874	980	919	1,214
Operating profit	218	261	284	331	316	313
Other income	23	28	45	19	52	48
Interest	17	8	8	7	5	4
Depreciation	18	22	18	18	22	25
PBT	206	259	303	326	341	333
Tax rate (%)	31.1	33.3	26.4	24.9	26.1	28.9
Tax	64	86	80	81	89	96
Net profit	142	173	223	244	252	237
Less minority interest	6	6	2	3	3	6
PAT after minority interest	136	167	221	242	249	231
Operating parameters						
OPM (%)	23.1	19.1	24.5	25.2	25.6	20.5
NPM (%)	14.4	12.2	19.1	18.4	20.2	15.1
Valuation						
Outstanding shares (m)	17.8	17.8	17.8	17.8	18.8	18.79
EPS (Rs)	7.6	9.4	12.4	13.6	13.3	12.3
Cash EPS (Rs)	8.7	10.6	13.4	14.6	14.4	13.6
Production volumes	15,000	17,006	16,700	17,122	17,522	18,046
Sales volumes (MT)			16,000	16,150		17,200

All numbers are consolidated

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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