



India Infoline Result Update
AIA Engineering Ltd (Q2 FY07)
CMP Rs1,078, Target Price Rs1,250
November 01, 2006

AIA engineering Ltd. continued on its growth path during the quarter ended September 30, 2006. The company has reported revenues of Rs1310mn up 38% and net profit is up 131% in Q2FY07 at Rs244mn as against Q2F06. EPS for H1 FY07 stood at Rs26. AIA plans to add another 100,000 MT capacity to the already planned 104,000 MT capacity owing to the high demand for its products from the international mining industry.

Financials

(Rs mn)	Q2 FY07	Q2 FY06	Growth	Q1 FY07	Growth	FY06	FY07
	(3)	(3)	(%)	(3)	(%)	(12)	(12)
Net sales	1311	948	38.2	1158	13.2	4070	4931
Expenditure	(980)	(789)	24.2	(874)	12.1	(3255)	(3797)
Operating Income	331	159	108.0	284	16.5	815	1134
Other income	19	12	57.1	45	(57.0)	104	95
EBIDTA	350	171	104.3	328	6.5	919	1229
Interest	(7)	(11)	(40.2)	(8)	(18.5)	(53)	(45)
Depreciation	(18)	(8)	128.2	(18)	0.1	(71)	(76)
PBT	325	152	113.8	302	7.6	795	1108
Tax	(81)	(47)	74.8	(80)	1.8	(252)	(310)
PAT	244	106	131.0	222	9.7	543	798
Less: minority interest	(3)	(1)	97.2	(2)	48.1	(20)	(34)
Net Profit	241	104	131.4	221	9.4	524	764
OPM%	25.2	16.8	8.5	24.5	3.0	20.0	23.0
EPS	13.6	8.0	5.6	12.4	1.2	29.5	43.0

Source: Company

Note: previous year & previous quarter are not comparable, as Welcast became a subsidiary on 30th September 2005 only.

- OPM was at 25.2% during Q2FY07 up 850bps over the corresponding quarter previous year and up 300bps over Q1FY07. The improvement in the operating and net margins is attributable to a better product mix. In addition, improved focus on value added high chrome mill internals, and increased production volumes have resulted in better operational efficiencies.
- Raw material costs were at Rs586mn up only marginally by 6.3% from Rs552mn in Q2FY06.
- Current order book is Rs3220mn with a 60:40 export to domestic mix.
- Exports contributed Rs600mn during the current quarter. This was around 46% of the total revenues for the quarter. We believe exports will form around 55% of the total revenues by FY08 and grow further beyond FY08.
- Realization per ton was at Rs71.4 per ton in Q2 FY07 as against Rs68.25 per ton in FY06. This led to a better than expected increase in operating income at Rs331mn an increase of 108% over the corresponding quarter previous year.
- Current quarter's effective tax rate is at 25%. We expect current year effective tax rate to be close to 28%. Thereafter, as full utilization of the 100% EOU materialises by FY08, effective tax rate is expected to go down to around 20%.
- The first phase of 52,000 MT expansion is as per schedule and trial production has already started. This capacity is expected to be fully operational by January and the company plans to start taking orders for this new capacity from the third week of December. The second phase of 52,000 MT is now expected to be operational in October 2007 instead of December 2007.
- The company's plan to put up a 30MW power plant is currently put on hold due to lack of clarity in regulatory and tariff issues in Gujarat.



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- International mining companies has shown interest in the company's products and few of them are already in talks with the company. To tap this market more effectively AIA plans to raise upto US\$150mn for putting up an additional 100,000 MT capacity by mid FY08.
- AIA is also looking at acquiring a chromium plant with a 40,000 to 50,000 MT capacity to secure its chrome supplies for the future. AIA is already in talks with few players in India regarding the same.

Outlook

International mining segment is expected to continue the current boom. Moreover, the company has decided to add another 100,000 MT in addition to the already planned 104,00 MT expansion. The stock is trading at 21x its FY07 EPS of Rs43. Given the growth opportunity for the company's products, near monopoly in the domestic market and very little international competition, the company looks attractive. We **maintain BUY** with a revised price target of Rs1250, an upside of 16%.

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