



ENAM Securities
India Research

CMP: Rs 307
Target Price: Rs 365
Potential Upside: 19%
Absolute Rating: **BUY**

AIA Engineering

Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 94 mn
Market cap	: Rs 29 bn
52 week high/low	: Rs 467/ Rs 298
Avg. daily vol. (6mth)	: 84,500 shares
Bloomberg code	: AIAE IB
Reuters code	: AIAE.BO

Shareholding (%) Sep-11 QoQ chg

PPromoters	: 61.7	0.0
FIs	: 21.4	(0.4)
MFs / UTI	: 11.5	0.3
Banks / FIs	: 0.0	0.0
Others	: 5.4	0.1

* kT: '000 tonnes

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2010	9,497	1,708	-	18.1	(0.4)	-	20.4	27.1	-	2.5
2011	11,369	1,612	-	17.1	(5.6)	-	16.5	24.6	-	3.0
2012E	12,381	1,638	20.9	17.4	1.6	17.7	14.7	20.2	10.7	3.0
2013E	15,083	2,154	24.7	22.8	31.5	13.4	16.9	23.2	7.9	3.0

Source: *Consensus broker estimates, Company, ENAM estimates

HIGH MINING VOLUMES SUPPRESS MARGINS

AIA Engineering (AIA) reported robust Q2FY12 sales of Rs 3.4 bn (up 33% YoY), on account of a higher than expected volume growth of ~32% YoY (~37.5 kT*). AIA delivered its highest ever quarterly volumes in the mining segment (17.8 kT, up 2.2x YoY), resulting in lower than expected EBITDA margin of 17.8% (vs. 20% expected). PAT declined by ~14% YoY to Rs 386 mn (vs. 402 mn expected) which is broadly in-line with our estimates.

Key Highlights

- **FY12 performance to be driven by mining volumes:** AIA's Q2FY12 volume growth was mainly led by the low-margin mining segment (17.8 kT vs. ~8 kT in Q2FY11), as the cement segment continues to remain sluggish. The flattish volume performance for the non-mining business is expected to continue in H2FY12. The management remains confident of delivering consol vols. of > 140 kT in this fiscal (~66 kT sold in H1FY12 and ~129 kT in FY11), primarily driven by the mining segment.
- **Mgmt is positive on margin recovery in H2:** Robust sales of mining products led to a subdued margin of 17.8% in Q2. However, a better sales mix (value added products in mining having higher profitability) in H2FY12 is expected to reverse the margin trend. Mgmt has guided for 20-21% margin for FY12 (in-line with our estimates).

Maintain BUY with a TP of Rs 365 (upside of 19%)

AIA would continue to benefit from the volume growth in the mining sector. Potential price hikes from existing mining customers and any recovery in global cement sector volumes would lead to margin expansion in FY13. We maintain our estimates and rating on the stock, with a TP of Rs 365 (valued at 16x FY13E EPS). At CMP of Rs 307, the stock trades at 17.7x FY12E EPS and 13.4x FY13E EPS.

Results update (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Sep-11	Sep-10	% Chg	Jun-11	% Chg	Mar-12E	Mar-11	% Chg
Net Sales	3,433	2,585	32.8	2,725	26.0	12,381	11,369	8.9
EBIDTA	612	624	(1.9)	583	5.0	2,563	2,248	14.0
Other income	31	34	(10.7)	33	(8.3)	150	192	(22.0)
PBIDT	643	658	(2.4)	617	4.3	2,713	2,440	11.2
Depreciation	71	60	20.1	69	3.2	355	254	39.8
Interest	9	2	454.6	6	45.8	42	19	126.0
PBT	563	597	(5.8)	541	3.9	2,316	2,168	6.8
Tax	178	146	22.1	150	18.8	672	554	21.3
Minority Interest	(1)	3	-	0	-	6	2	210.9
Adjusted PAT	386	449	(13.9)	391	(1.4)	1,638	1,612	1.6
Extra ordinary income/ (exp.)	0	0	-	0	-	0	222	-
Reported PAT	386	449	(13.9)	391	(1.4)	1,638	1,834	(10.7)
No. of shares (mn)	94	94	0.0	94	0.0	94	94	0.0
EBIDTA margin (%)	17.8	24.1	-	21.4	-	20.7	19.8	-
PBIDT margin (%)	18.7	25.5	-	22.6	-	21.9	21.5	-
EPS - annualized (Rs.)	16.4	19.0	(13.9)	16.6	(1.4)	17.4	17.1	1.6

Source: Company, ENAM Research

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