

March 11, 2024

Visit Update

Key Financials - Consolidated

| Y/e Mar | FY20 | FY21 | FY22 | FY23 |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m) | 29,700 | 28,815 | 35,665 | 49,088 |
| EBITDA (Rs. m) | 6,585 | 6,552 | 7,209 | 12,406 |
| Margin (%) | 22.2 | 22.7 | 20.2 | 25.3 |
| PAT (Rs. m) | 5,904 | 5,661 | 6,197 | 10,559 |
| EPS (Rs.) | 62.6 | 60.0 | 65.7 | 112.0 |
| Gr. (%) | 15.6 | (4.1) | 9.5 | 70.4 |
| DPS (Rs.) | 27.0 | 9.0 | 9.0 | 16.0 |
| Yield (%) | 0.7 | 0.2 | 0.2 | 0.4 |
| RoE (%) | 16.4 | 14.2 | 13.8 | 20.2 |
| RoCE (%) | 16.5 | 14.9 | 14.9 | 21.6 |
| EV/Sales (x) | 10.6 | 10.9 | 8.8 | 6.4 |
| EV/EBITDA (x) | 47.9 | 48.1 | 43.8 | 25.4 |
| PE (x) | 58.4 | 60.9 | 55.6 | 32.6 |
| P/BV (x) | 9.31 | 8.1 | 7.2 | 6.1 |

Key Data

AIAE.BO | AIAE IN

| | |
|---------------------|--------------------------|
| 52-W High / Low | Rs. 4,630 / Rs. 2,620 |
| Sensex / Nifty | 74,119 / 22,494 |
| Market Cap | Rs. 343.5bn/ \$ 4,146.7m |
| Shares Outstanding | 94.3m |
| 3M Avg. Daily Value | Rs. 332.4m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 58.47 |
| Foreign | 18.29 |
| Domestic Institution | 20.47 |
| Public & Others | 2.77 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|--------|--------|------|
| Absolute | (10.0) | 1.6 | 37.0 |
| Relative | (11.9) | (11.8) | 10.8 |

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Riding on high-chrome conversion opportunity

We recently visited AIA Engineering's (AIA) plants in Ahmedabad and interacted with management. Incorporated in 1991, AIA is engaged in the development, production, installation, and servicing of mill internals used in Mining, Cement and Thermal Power Generation for grinding & crushing applications. It is one of the top 2 global players in high chromium grinding media, and also offers mill liners, diaphragms, blow bars, hammers, pulp lifters, etc. with total capacity of 440,000MTPA. The company is leading the conversion of the 2.5mn MT global grinding media market for Mining from forged to high chrome. Scope for growth is robust with ~80% of the market yet to be converted. It also added 50,000MT mill liner capacity in FY23 and tied up with EEMS (USA) and MPS (Australia) to improve liner efficiency, in order to become a comprehensive solution provider to mining customers.

AIA has healthy growth prospects on the back of 1) market leadership in high chrome grinding media with robust conversion opportunity in mining, 2) comprehensive customized solution portfolio, 3) strong technical expertise, and 4) healthy margins, return profile and balance sheet. Key monitorables include price competition, working capital, and success in mine conversion. The stock is trading at 30.2x TTM P/E. Not Rated.

Key Highlights

Strategies to drive growth

- AIA's primary growth driver will be conversion of mining customers from traditional forged grinding media to high chrome grinding media. Only ~20% of the ~2.5mn MT global mining grinding media market has converted to high chrome, leaving substantial room for growth through further conversions.
- The company is incurring ~Rs2bn capex to expand its grinding media capacity by 80,000MT. The plant will be operational by end of FY25, taking its grinding media capacity to ~420,000MTPA and total capacity to ~520,000MTPA.
- AIA aims to be a complete solutions provider to mining mills by providing both grinding media and mill liners to customers as a comprehensive offering.
- The company has a technical collaboration with US-based EE Milling Solutions (EEMS), which has expertise in re-designing mill internals to optimize efficiency & output of grinding equipment. It also acquired Mining & Product Services (MPS) Australia in Oct-23, which specializes in design & optimization of mill liners for the mineral processing industry. These collaborations will enable AIA to increase throughput & recovery rates and generate better power cost savings for its customers.
- Greenfield expansion of 50,000MTPA mill liner capacity was commissioned in FY23, dedicated to serve the mining industry. The company expects to deliver ~35,000MT liner volume in FY24. Annual metal liner market opportunity for SAG mills is ~300,000MT.

- The company has been pre-dispatching goods and maintaining inventory at warehouses in key geographies in order to overcome freight delays and remain competitive against peers that have local presence.
- Copper market opportunity in grinding media is huge, driven by demand for copper in electronics, renewable power distribution, etc. While many gold mines have been converted in the past 4 years, copper mines remain relatively untapped. The market in Chile & Peru itself is ~500,000MT.
- High chrome grinding media market in Cement has matured and is not expected to grow meaningfully. Demand from thermal power is also not growing much. Hence, growth will be driven primarily by mining industry.

Key strengths of the company

- AIA's moat is in its manufacturing process. Its facilities are fully automated – with manpower of just 300 it is able to produce 8,000-10,000MT per month at its plant in Ahmedabad.
- The company leverages its strong technical & engineering expertise to offer highly customized solutions in mining as each mine has different requirements.
- It has long-term contracts with customers with provision for 100% pass-through of raw material and freight costs, thereby keeping the margin profile steady.
- Over 2019-2022, AIA evaluated setting up manufacturing facilities in other countries, but India's ecosystem is the best given the talent in engineering & design as well as the established vendor supply chain.

Competitive environment

- AIA and Belgium's Magotteaux (MAGO) have a duopoly in the high chrome grinding media market for mining (AIA: ~175,000MT; MAGO: ~250,000MT).
- Anti-dumping duties on grinding media were imposed in some of the countries where MAGO has local manufacturing presence (Brazil, Canada, South Africa, etc.), making AIA's offerings uncompetitive. AIA ended up losing ~65,000MTPA of base volumes (~25% of its total volume).
- MAGO has 13 manufacturing plants with ~350,000-380,000MTPA capacity. ~40% of its grinding media production is in Thailand, making it competitive with AIA's exports from India. Thus, there is pricing competition between the two companies in the global market.

Recent challenges faced due to COVID

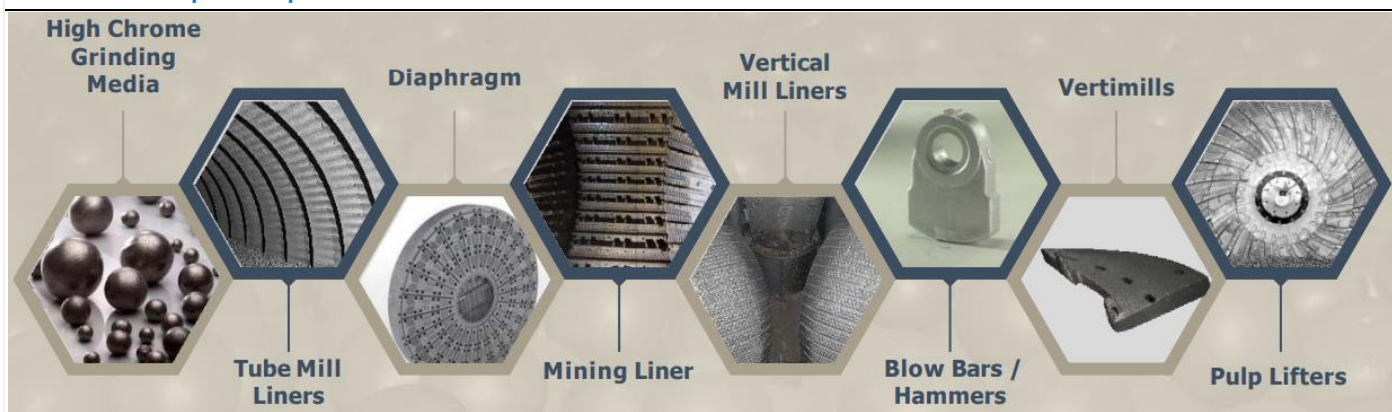
- New client additions were impacted during COVID as mines require physical inspection, which was not possible for ~ 2 years.
- During COVID, the company faced shipping issues as freight costs jumped almost 5x and lack of container availability led to delays.
- Raw material prices also jumped 2-3x post-COVID.

Exhibit 1: Industries served by AIA



Source: Company, PL

Exhibit 2: AIA's product portfolio of wear-resistant mill internals



Source: Company, PL

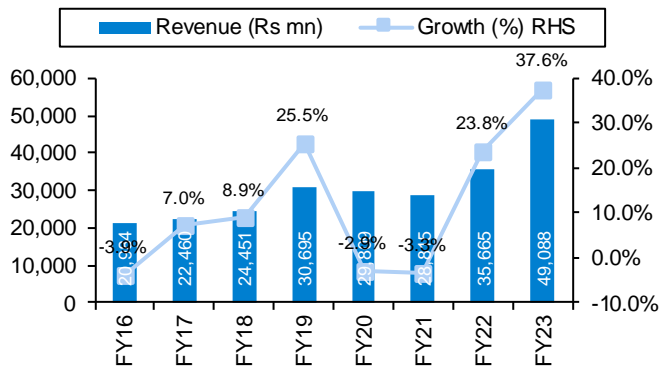
Exhibit 3: AIA's service offerings for customization and extension of product life



Source: Company, PL

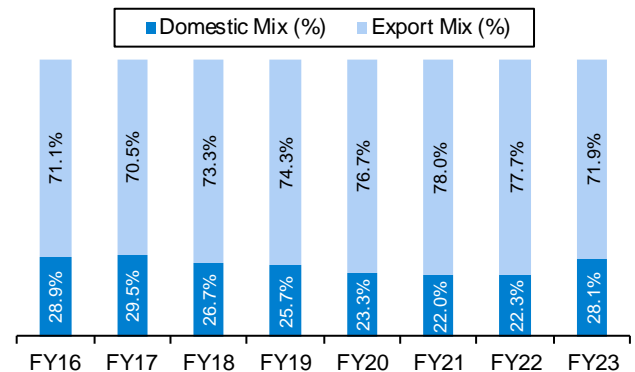
Story in Charts

Exhibit 4: Revenue CAGR of 12.9% over FY16-23



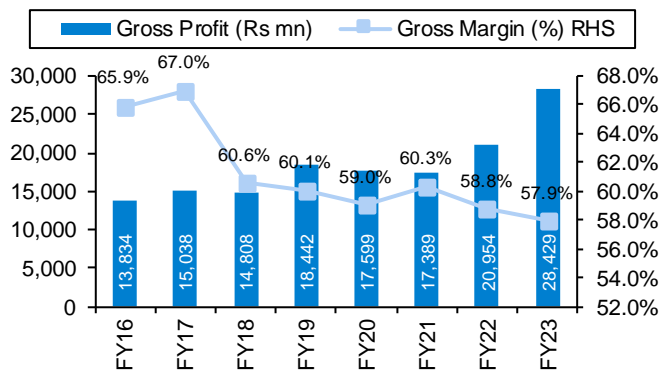
Source: Company, PL

Exhibit 5: Business is largely export oriented (~72% of mix)



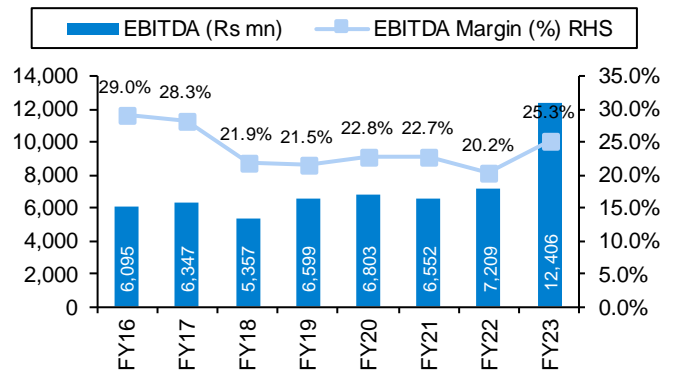
Source: Company, PL

Exhibit 6: Steady gross margin over last ~6 years



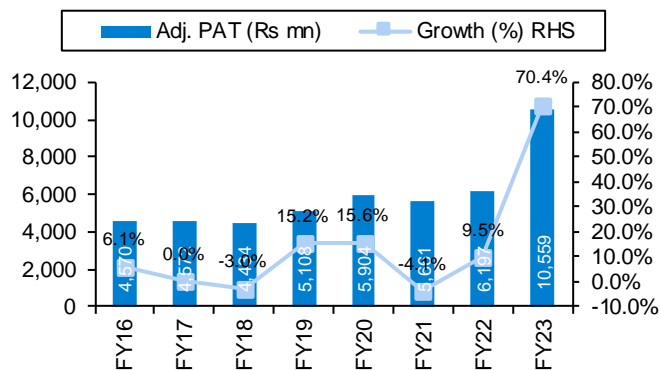
Source: Company, PL

Exhibit 7: Margin expanded in FY23 due to scale benefits



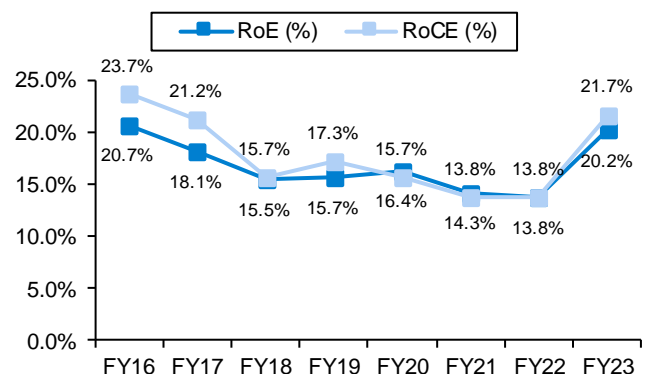
Source: Company, PL

Exhibit 8: Adj. PAT CAGR of 12.7% over FY16-23

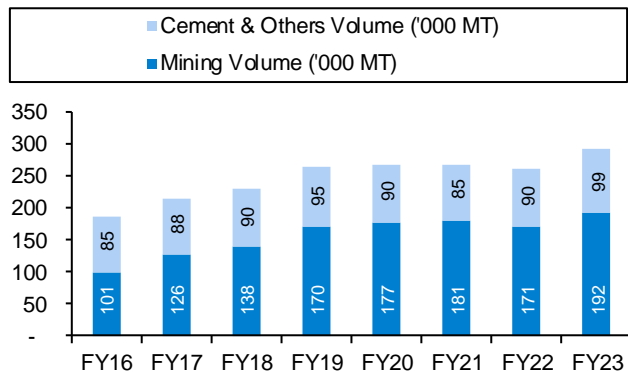


Source: Company, PL

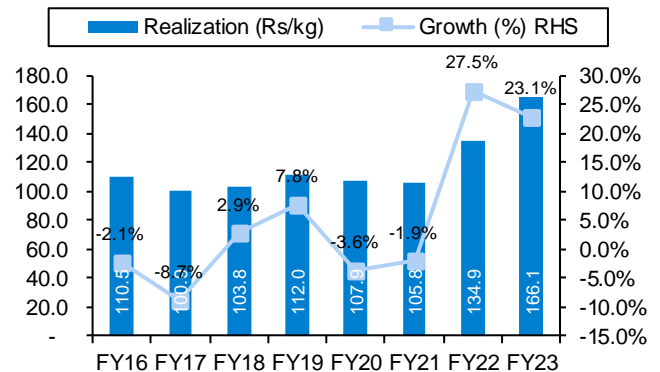
Exhibit 9: Steady return profile with improvement in FY23



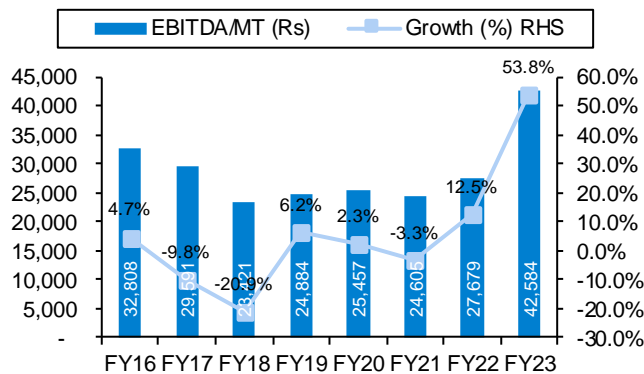
Source: Company, PL

Exhibit 10: 10%/2% FY16-23 CAGR in Mining/Cement volume


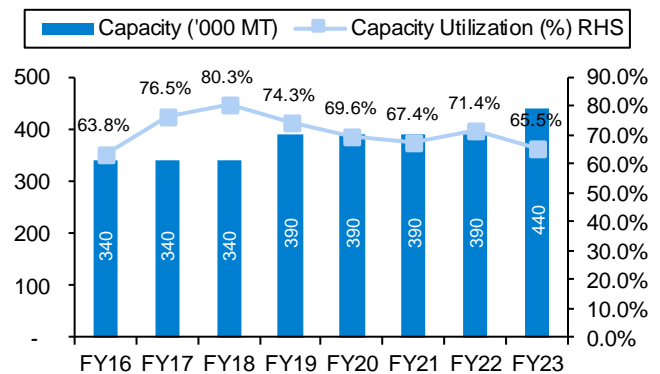
Source: Company, PL

Exhibit 11: 6.0% CAGR in realizations over FY16-23


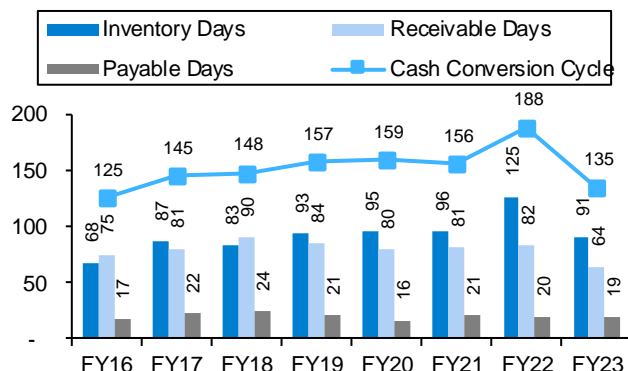
Source: Company, PL

Exhibit 12: Sharp increase in EBITDA/MT in FY23


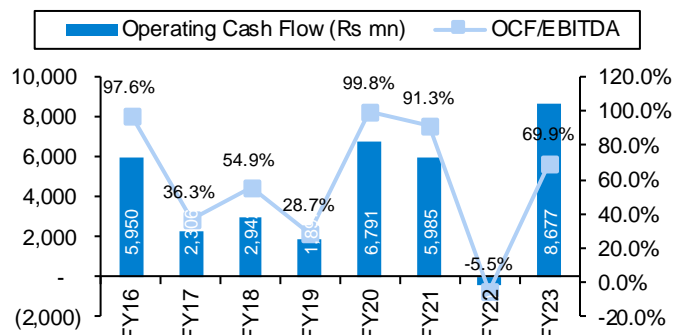
Source: Company, PL

Exhibit 13: Capacity to expand to 520,000MTPA by FY25


Source: Company, PL

Exhibit 14: Improvement seen in working capital cycle


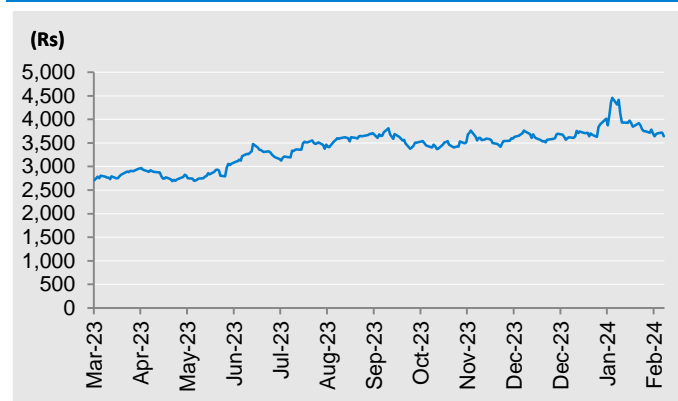
Source: Company, PL

Exhibit 15: Healthy operating cash flow generation


Source: Company, PL

Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|------|--------|----------|-------------------|
|-----|------|--------|----------|-------------------|

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|----------------------------------|------------|---------|------------------|
| 1 | ABB India | Accumulate | 5,329 | 4,985 |
| 2 | Apar Industries | Accumulate | 6,890 | 6,069 |
| 3 | Bharat Electronics | Hold | 182 | 186 |
| 4 | BHEL | Reduce | 200 | 224 |
| 5 | Carborundum Universal | BUY | 1,347 | 1,116 |
| 6 | Cummins India | Hold | 2,480 | 2,585 |
| 7 | Engineers India | Hold | 257 | 244 |
| 8 | GE T&D India | Reduce | 631 | 736 |
| 9 | Grindwell Norton | Accumulate | 2,512 | 2,243 |
| 10 | Harsha Engineers International | Accumulate | 441 | 396 |
| 11 | Hindustan Aeronautics | Hold | 2,787 | 2,923 |
| 12 | Kalpataru Projects International | BUY | 1,025 | 873 |
| 13 | KEC International | Hold | 686 | 657 |
| 14 | Larsen & Toubro | BUY | 4,071 | 3,480 |
| 15 | Praj Industries | BUY | 636 | 474 |
| 16 | Siemens | Accumulate | 4,572 | 4,313 |
| 17 | Thermax | Reduce | 3,017 | 3,319 |
| 18 | Triveni Turbine | BUY | 532 | 425 |
| 19 | Voltamp Transformers | Hold | 7,619 | 7,910 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : >15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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