

Sept 25, 2019

AIA Engineering Ltd

AIA Engineering is one of the world's leading manufacturers of value-added, impact abrasion, and corrosion resistant High Chrome Mill Internals (HCMI). The company has delivered 10% revenue CAGR for 5 years ended FY19. Net profit also grew at a speedy 19.2% during the said period. However, in 1QFY19 there was a slowdown in the revenue growth due to shut down in a large mine in Brazil. This resulted in decline in volume by 1% yoy but the company took a 4.3% hike in realization. The combined effect resulted in sales growth of 3.3%. Nonetheless, operating profit margin widened by 111bps yoy owing to better sales mix. The company also commissioned Phase-2 of its Kerala GIDC plant, increasing manufacturing capacity to 390k tonnes (+50k tonnes) and Phase-3 will be commissioned by Dec'20.

Going forward, it expects sales volume of 15,000 tonnes by FY21 after having completed a trial for a gold mine in Africa. It will also be commissioning an additional 50,000MT capacity for these liners by Dec'20 at a cost of ₹250cr towards grinding media mill liners.

On the balance sheet front, the company is virtually debt-free. The working capital days were elongated to 133 days on account of accumulation of ferrochrome (raw material) to avoid buying it at a high price later. This will help in improving margins and working capital days is expected to normalize after this inventory effect. The company's stocks trade at 4.5x of its book value and delivers 15.7% RoE. It also pays dividend each year averaging to 20%. Hence Buy.

BUY
CMP ₹1,734

Stock Info

Sector	Castings/Forgings
Market Cap (₹ cr)	1,63,540
Beta	0.4
52 Week High / Low	1865/1453
Avg. Daily Volume	1,815
Face Value (₹)	2
BSE Sensex	38,594
Nifty	11,440
Reuters Code	AIAE.BO
Bloomberg Code	AIAE IN

Shareholding Pattern (%)

Promoters	58.5
MF / Banks / Indian FIs	14.8
FII / NRIs / OCBs	21.8
Indian Public / Others	4.9

Abs. (%)	3m	1yr	3yr
Sensex	(2.1)	5.3	36.4
AIAENG	(0.6)	(0.3)	44.3

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Disclosure of Interest Statement

AIA Engineering

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)