

“AIA Engineering Limited
Post Results Conference Call”

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Moderator: Good evening, ladies and gentlemen. Thank you for standing by. This is Lizann, the moderator for your call today. Welcome to the post results conference call of AIA Engineering Limited. We have with us today the management team of AIA Engineering Limited. At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press star and one.

I would now like to turn the conference over to the AIA Engineering management team. Please go ahead, sir.

Kunal Shah:

Yes. Hello. A very warm good evening to everyone, and thank you for joining the call. I have Sanjay bhai. This is Kunal. And we have Sanjay bhai also here with me on the call. As usual, we'll start with a quick update on the highlights of this quarter, and we will get into Q&A thereafter.

Headline numbers, our sales tonnages are at 65,780, approximately 66,000 tons, up from 60,000 tons in the sequential second quarter and down from about 74,000 tons in third quarter last year. So for the 9 months to date, our total tonnage stands at about 187,000 tons.

The revenue for the quarter is at INR1,050 crores, our EBITDA is at INR354.57 crores and our profit after tax is at INR259.22 crores. So for the total profit -- and that compares to INR256 crores in the sequential second quarter, and it's a little lower from INR280 crores approximately in the third quarter last year.

So with that, our full year volume, which is 187,000 tons for the 9 months, looks to be between 250,000 and 260,000 depending on invoicing, etcetera, is the guidance for the full year. And there is some amount -- some strategy announcements that we've done through the quarter. We would love to expand a little more on that.

As far as a few other numbers are concerned, our other operating income is at INR16 crores, mostly from export benefits and a few other operating other income. Our non-operating income includes our treasury income of INR58 crores and forex gain of about INR8 crores, for a total other income of INR67.32 crores.

I think rest of the other numbers remain at par with our working capital, our cash on the block after -- cash on the books after the buyback proceeds were paid out. I think everything else is in sync. I think I'll head on to the important numbers -- the important announcement. Sorry, before that, our realization for the quarter is at about INR160 per kilo. And again, in line with what we have done for the last few quarters.

I think raw material continues to be -- is a little stable for last 2 quarters. So our raw material cost as a percent of sales adjusted for inventory, I think, is broadly in line with the sequential second quarter. So I think that volatility looks to have eased out. Also on the freight, the shipping side of things, it looks a little better. Some corridors still continue to have elevated freight rates, but they're starting to reduce or ease up in many sectors. So that is also a positive.

Moving on, the big important announcement was around our change in mindset for carrying out production outside of India. And we have plenty of questions on the context and where does this lead to? So I'll share a little bit of insight into that, and I'll have then Sanjay bhai expand a bit after that.

We are now staying put with our current capacity in India, which stands at 460,000 tons. We had earlier announced a plant in India for 80,000, which we scaled down to 36,000. But now with our intent to do -- to set up production outside of India, we are now staying put and

pausing any work on any further capacity addition in India. So 460,000 tons of current capacity in India now looks to be the number.

The 2 facilities that we have announced for grinding media production are in China and 1 in Ghana, both have their own respective strategies. The change in mindset comes from 5 years of facing volatile and -- volatile freight environment where freight rates have gone up as high as 5x, corrected back and then went up again.

I think we -- it's an acknowledgment that we live in a very, very fragile environment where there were 2 wars in recent history, 1 still continues on. And there are volatile regions in the world. And anything that escalates -- affects freight rates and that affects our whole conversion narrative or the strategy that we have.

So -- and also some of the markets that we are targeting like South America have a very long -- or have a reasonable lead time. And so the plant in China feeds into the ability to ship with less than half the time from India to important corridors that we are looking at. While the plant in Ghana caters to the West Asian opportunity for -- mainly for gold customers. So with that having said, we are looking to set up modular plants, not scale up at one go, but the idea is to go up to 50,000 tons. And the total capex for both plants is currently established at -- estimated at USD50 million.

Now we are using the latest manufacturing technology, which allows us to reduce capital investment or do it in a modular fashion, while being capital efficient and utilizing the best automation methods currently available in our space. So that is where we've been able to reduce the spend, the capex and the ability to not do very large plants. These will be modular plants. And depending on how the markets and how that picks up, we can decide on further investment.

So at this time, the Board has approved these 2 plants. We have started work on both the plants. Given that there are new geographies and given that we want to start in a modular fashion, we will be short on details right now to share. You'll have to -- we need a quarter or 2 to get a little better handle on what are the time lines, how are we looking at on the early stage. But think of these as our attempt to get production closer to markets, which includes our access to certain markets, reduces freight cost and the shipping transit time.

And once we create that beachhead, we can still utilize the capacities from India to fulfill the growth in those markets. So I think there's a little -- there's quite a bit of strategy linked to it, but it will be -- it will play out over the next 2 years, and we'll keep sharing updates as things mature. So beyond the point, we may not have much to share on the specifics of exactly what capacity, when will it come along, et cetera.

So having said that, we'll have Sanjay bhai share his update, and then we can go on to Q&A.

Sanjay Majmudar

Thank you, Kunal. Just on -- so Kunal explained the logic. Now going back to the basics about our core business from India. While we explained in the earlier calls that, yes, this year, we do clearly see a degrowth, which is evident. The fact of the matter is that it is nothing structural or

permanent to read about. The opportunity, the business prospects and all our endeavors for conversion continue to remain completely focused on several mines.

We do expect some good conversions to happen within a reasonable period of time, say, hopefully, in next 1 or 2 quarters, the way we are working on some several very, very important mines. And therefore, from that perspective, while China and Ghana, obviously, will add to a medium- to long-term strategic repositioning of company's initiatives and endeavors and abilities to convert the maximum number of mines into our high chrome solutions.

Going forward, till this happens, our business and our growth targets remain more or less the same. So we do expect on a rollover basis, at least 30,000 to 40,000 tons of incremental annual volume growth from conversion from new mines.

And these new endeavor that Kunal talked about and that what we have announced will help us from a 2- to 5-year perspective to become a very, very solid player in this field with massive opportunities that can be converted after effectively facing the challenges that Kunal has elaborated, more on the supply side and the supply chain-related issues as a permanent repositioning strategies. So with this, I would request the moderator to open the house for Q&A.

Moderator: Thank you sir. The first question is from the line of Bhoomika from DAM Capital. Please go ahead.

Bhoomika: Yes, sir. Sir, in terms of, you mentioned that shipping freight rates are starting to come down. So while obviously, the China and Ghana plant will come in, but it will take some time for those plants to be operational. I don't know what the time lines are, if you can elaborate on that?

And in the meanwhile, with the shipping freight rates coming down, does that really help us in terms of scaling back the volumes? And by when do you expect that we come back to our 300 plus and you spoke about the incremental 30,000, 40,000 tons?

Kunal Shah: So Bhoomika, I think like I said, the environment is improving. We have a few other challenges as we've been explaining in the whole conversion journey that we are undertaking. From -- we are still not ready for sharing a guidance on volume. But over next 2, 3 quarters, it looks like that we should be back on a 25,000, 30,000 ton annual addition on a rolling basis.

So I think not yet ready to give -- I mean, at a place where we're ready to give a guidance. And as soon as we see some green shoots, we'll be in a better place to give a better guidance. But from where it appears now in a few quarters, we should be -- in a few quarters, the visibility seems to be opening up for us to be growing at 25,000, 30,000, 35,000 tons a year. I think we should be back on track soon.

Sanjay Majmudar: In terms of time lines, Bhoomika, I think, of course, we will be making announcements. But China should start contributing something in the second half of next year. That is what the target is, but let's see. We are working very hard. Our teams are already there. Ghana should

happen over next 18 months, that is how it looks like. But this is just broad indications. We will go and make specific...

Kunal Shah: And also it is modular, so we'll have specific guidance come out as the progress is a little more clearer.

Bhoomika: No, sure. That definitely helps because we at least get a trajectory that towards the end of '26 or sometime in '27, these plants will get operational. So that definitely helps. I understand that time line might not be exact, but at least it gives us some direction. Sir, on the incremental -- sorry to harp about this incremental volumes a little bit more?

While I understand the challenges continue, conversion rates are slow and shipping is just off-late stating to ease off, et cetera. But this year, we've seen a very steep decline when we're talking about 250,000, 260,000. So do we take that as a base and then look at the incremental volumes? Do we take it come back to 300,000 and then take the volume increase?

Kunal Shah: It should be -- listen, whatever is reduced is not structural, but it's just a little more complex to say this is from what we did last year. I mean, we consider 250,000 and getting us from growth from here, right? There is volume in Canada that we're expecting to come back, but that was from 2 years or 3 years ago. So all I'm saying is that the -- when do we get back to a little more predictable growth path, I think we should be there in the next few quarters, and we'll share what those volumes look like. And the starting point has to be this year.

Bhoomika: Got it. Got it. Okay. So the other aspect is in terms of our international foray, when we have decided to go to China, Ghana, why are we not looking at Chile because that's much larger market for us in terms of our potential conversion. So is there a reason why we are not going directly to Chile? Is there some challenges out there that you foresee, which is where you're looking to kind of service this market out of China?

Sanjay Majmudar: We are spoiled for choice in terms of where to go, right? So I think today marks the day where our mindset is changing, our approach to growth is changing. I think just take it with that, right? There will be more plants. There will be more announcements around that. We have to be careful. We don't want to announce and not do it, right? So -- and this is -- there are learnings built into it.

So I mean there is a certain strategy with which we are working. And there will be more plants, a plant in Chile could also be a possibility, but allow us some time, right? This is where we were a little better prepared. Our teams were a little better prepared. There was some work done ahead of others, and that is where we are saying, let's start with these 2 markets.

Bhoomika: Sure, sure. Understood. And just on the current business profile, we've seen margins actually hold up quite well for the last couple of years. I remember earlier, we used to guide for a more structural 21%, 23% kind of a range. But over the last 2 years, we've kind of worked a lot in terms of our pass-through of the shipping freights, in terms of power and fuel has also more domestic availability of raw material. So does that structurally change our margin profile more towards the 24%, 26% kind of a range?

Kunal Shah: So Bhoomika, you're right, we have been consistently doing and giving better margins. Even if you knock off my treasury and other income, we are talking of operating margins in the range of 27%, 28%. We do believe that this is helping us through multiple factors, product mix being one of them. Again, why we have been a little more conservative than we should be is because of the fact that we still anticipate that when there is a considerable increase in volumes coming through, increased conversions, there could be price challenges.

But you're right, a 21% or 22% looks to be much lower than what we can do. History is with you. Let us not speculate, but yes, we should do. I personally believe we should do definitely better than 21%, 22% on a medium- to long-term basis. Having said that, strategically, we are not guiding anybody for the margins, and we want to maintain that for at least a few more quarters.

Moderator: The next question is from the line of Priyankar Biswas from BNP Paribas.

Priyankar Biswas: So sir, my first question is, if I recall from your statements in the previous quarter, there were some destocking-related impact at certain large customers that you had highlighted. So what's the status on that? And when can we see those volumes coming back? So that's the first question.

Kunal Shah: I think at least for one customer, we expect that to come back from the June quarter. Some in March, but mostly in June quarter.

Priyankar Biswas: So should it be fair to say that from June quarter and let's say, the freight disruptions being largely behind. So we should be back to earlier normal quarterly run rate...

Kunal Shah: Yes. So that is what we explained to the previous -- on the previous question by Bhoomika that consider the current year, let's say, 250,000 to 260,000, whatever we close as a starting point. There are a few several things that have happened over the last 3, 4 years. I mean, it will be difficult to go reconcile with each customer or each event.

I'm saying going forward, and we are saying that in the next 2 or 3 quarters, it looks like that we should be back to a 25,000, 30,000 annual predictable growth rate, right? We are not in that shoes yet, but we should be getting there in the next 2 quarters is the current sense.

So for now, we are at 250,000 and no clear guidance for exactly the next 4 quarters or the FY '25-'26. But we -- as we -- it looks like that whatever headwinds are settling down a bit, we should have better clarity in the next 2 quarters. So allow us that time to give you a firmer data point.

Priyankar Biswas: Okay. That's very clear. The second question from my side is, see, if we are, let's say, putting up, let's say, plants in China, Ghana and maybe later on Indonesia as how it's planned, so it would be very similar to, let's say, the strategy which our peer Magotteaux was following earlier. What we had observed is that their margins are not that great when we compare versus yours. So how will our business model be different from theirs and how will we be able to protect our margins? That's my question.

- Kunal Shah:** You are asking me the nuts and bolts of our strategy on a...
- Priyankar Biswas:** No, just how will it be different from Magotteaux because they don't get margins.
- Kunal Shah:** I will -- we are plenty conscious of margins. We believe the purpose of business is to create value for the customer and so that we also make a reasonable return on the efforts and resources that we invest inside it. And rest assured that we are mindful and we learn from mistakes that we or our competitors have made. We'll make sure that what we are doing is margin accretive rather than negative.
- Priyankar Biswas:** Sir, just one last question here. See, in recent times, we are seeing a lot of talk about U.S. tariffs on various countries. So especially like there's the possibility of let's say, tariff wars between U.S. and China. In that context, can you throw some light, do you expect some impact on our volumes or, let's say, on our investments that we may be doing at China? So that's my final questions.
- Kunal Shah:** Not really. I mean, U.S. is not -- may not be the destination country from China. I mean there is -- we're trying to do a few things. And today, it is considering that U.S. may not be the top destination from that plant.
- Moderator:** We'll move on to the next question that is from the line of Yash Nerurkar from Ionic Wealth.
- Yash Nerurkar:** So the first question that I had was, so what made you go global, like in terms of the plants in China and Ghana? So do your customers see this as positive as you've been closer to the mine? And is your global competitor making similar moves to tackle the freight issue and higher lead times?
- Kunal Shah:** I don't want to comment as much on what the competitor is thinking about it. For us, all we are saying right now is that our model was Make in India and then ship to the world. Now a large part of the world still will operate under that model, but we do recognize that there are merits in having plants where you -- there are some benefits linked to that.
- And whether we do 2 plants, we do 2 full plants, whether we do 10 plants, these are works in progress because we also have to have the learnings from that in terms of what works, what doesn't work. So today, what we have announced are plants where we are going to be modular. We are looking at them being automated. We're looking at them that they don't eat into margin but they feed into that.
- Now there are several things that we need to work upon, and which is where over the next 2 years, we will have clarity on what that means, what is the form and shape of this strategy. But for now, it looks like that for certain markets where there is exposure to high freight rates or volatile freight rates, there the plant in China can help us with that. That is one assumption that we are working with, while keeping the benefits of efficient production base, so -- and making sure there is market access, right? So there are -- that's a three-pronged strategy that we are working with.

We are going to make sure that the capital invested is limited. We are not dependent on 1 or 2 customers, but there's a little wider approach that we can do from that and making sure that the margins are -- the cost structures are not haywire. So that's where we have approached this from. Ultimately, that should translate into higher sales, right? So -- and that's still some time away. Today, I think the focus is going to be to make sure that we don't -- we are efficient with our investments and the location and things like that, right? So that's the current effort base, and we will share more information in the coming year as we get more information.

Sanjay Majmudar:

So just to add very quickly, let me expand one point when we say modular, we mean that there's a huge amount of investments in R&D, knowledge bank, knowledge base, infrastructure support, technical support that is available from India. So for these plants, you don't have to go too much on the capex side, and they are very efficient. So that way, things will be much better, and we will be able to control the costs and margins both.

Yash Nerurkar:

Right. So actually, I was about to ask you on the profitability as well because India, your manufacturing units in India considers the low-cost unit. So how will the profitability look like for these units in China and...

Kunal Shah:

So that is what I told the previous participant as well. That's -- this is the strategy, the nuts and bolts of strategy, it will be difficult for us to explain on a call this way. Please allow us the credit that we will make sure that there is everything right about it when we go forward with it. We are working acutely. We are acutely aware about that, and we'll make sure we learn from mistakes we've made or others have made when they go venture out in other countries. So these are all -- which is where modular and being cautious about it, right?

This is -- so today, again, I'll reemphasize for others who have this question, that it is a change in mindset that maybe there are locations, and there is a method and approach to setting up staff, cost-efficient plants, which allow us to get market access. That's the direction. Now there'll be learnings within that. There will be change in strategy. There will be other things that will happen, that will happen over the next 2 years, and we are working actively in that direction. So which is where sharing too much information today will be a little premature.

And at the same time, our current business, which is dependent on -- there is a freight exposure. It looks like that the Red Sea and all of that crisis is abating. And to that extent, at least that headwind is softening. But whether it will mean immediate sales, we don't know, which is where we will have -- it looks like we'll take 2 or 3 quarters before we are -- we feel confident enough to say back to 25,000, 30,000 predictable growth. We're not there yet.

Yash Nerurkar:

No, makes sense, makes sense, absolutely. So just another question that I had on this plant is, I mean it's okay if you can't share too much of detail. But just wanted to know in which region in China is this plant going to be? And see -- I mean most of the countries they are kind of diversifying the supply chains away from China. So what was the reason for you to get into China in the first place? And which market is that plant going to serve?

Kunal Shah: Like I said, it's a little bit nuts and bolts of strategy. We would like to -- there is a lot of consideration done on why the plant in China. In our business, it makes sense to go there. I may not be at a liberty to share much more colour on it today or at this time.

Moderator: The next question is from the line of Anupam Gupta from IIFL.

Anupam Gupta: Sir, a few questions. Firstly, the U.S. tariffs came into being in the third quarter. Any impact we have seen of that so far?

Kunal Shah: Not really, not really, no.

Anupam Gupta: No impact. Okay. Okay. Understand. And the second question is on the volume commentary, which you said that, let say, 2, 3 quarters down the line, possibly you'll come back to that run rate of adding 30,000 incrementally every year. But just to dwell there, what is -- so let's say, if it was a problem of destocking of certain customers, which you said will come back in, let's say, March and June sort of quarters, what is stopping us from recovering the volume which we lost versus last year? So we were at 290,000 last year. Has there been a customer loss, which has resulted in a reset to 250,000, 260,000 or what is it that is resetting it at a lower level versus recovering it faster?

Sanjay Majmudar: So just -- this is Sanjay here. Just to elaborate a little more on what your questions are. So as we said in the previous call, there are multiple factors that we feel are attributable. So all our teams have already very aggressively taken up with all the customers. And as Kunal explained, we do expect the order book or the order inflow from the existing customers to start coming at a regular level in next 1 or 2 quarters, primarily because of the fact that things look like stabilizing, even freight rates are normalizing.

And more or less, we believe that their own mining and production cycles are also becoming normal. So that destocking doesn't go overnight. It takes 1 or 2 quarters. We believe that by end of this year or maybe from the first quarter of next year, things should -- so I don't think we have lost any major customers. That is your first answer from our side.

Second, more importantly, we also have, therefore, as a matter of strategy, decided that we need to rethink from a medium- to long-term perspective, and that is exactly the reason why you have seen our announcement. We are very, very bullish on the prospects, medium- to long-term prospects. We also have to change our gears and evaluate the situation as it unfolds. And that is what proactiveness is very critical for long-term growth of the company. And that's what exactly we are doing.

As you see, our margins are good, we do expect the business potential to remain the same. I also made an announcement that very soon, you can look at some significantly large incremental orders from new mines which are under development. So everything is more or less as it is, except for this, I would say, temporary disruption and nothing really structural about it.

Anupam Gupta: Sure. Understand. And next question would be, sir, generally, we talk about Magotteaux in terms of competition, but we have also seen the large guy in the phone segment entering that

high chrome segment as well. Have you started to see competition from them for your existing customer...

Sanjay Majmudar: No, not really, not really. Which large guy you are talking about, Molycop?

Anupam Gupta: Yes.

Sanjay Majmudar: No, I don't think so. I'm sorry, I can't go beyond that, but there really is not, I would say, a threat or a competition for us.

Anupam Gupta: Sure. Okay. And just one last question. One last question on the liner business. So you had put up that 50 kt capacity, which came up, then you had also ventured into the rubber lining -- rubber liners. So far, how has been the traction on liners been? Are we on track for that 4-year full utilization, which you had initially said? Or what's the trajectory there?

Kunal Shah: The trajectory -- this is Kunal. The trajectory is a little slower than how we had expected. In fact, there were quite a bit of learnings in terms of how -- what customers looking at their perception, what is our approach and strategy to go break some of those customers. I think we are delayed with full utilization. I think it will take longer. And given another learning was we were sharing too much information trying to explain everyone about liners that it also got -- our competitors updates on exactly what we're trying to do.

So now I mean, as a policy, we are rolling up our volume. We are not sharing separate line item on volume and et cetera, with the mining liners, so -- but it is lower. I mean that does not take away from the fact that the liners have been slower for mining. But from a strategy standpoint, they remain one of the most important opportunities for us to discuss with customers and bring in all of these suite of solutions and benefits for the customer. So as we look to add more grinding media, mill liners are important tool to break into the customers.

Sanjay Majmudar: And just to add, this rubber and composites have been added very, very strategically to complete our product offering, solution offering capability. Again, we believe there is no direct competition to what we are actually offering.

Anupam Gupta: Okay. And this rubber composite has started in terms of deliveries or no?

Kunal Shah: Yes, we just started small quantities. They'll ramp up over the next 1 year.

Moderator: The next question is from the line of Suraj Sonulkar from Asian Market Securities.

Suraj Sonulkar: Some clarification that now we are -- we will not be expanding grinding media expansion of 36,000 ton in India, right?

Kunal Shah: Yes, right.

Suraj Sonulkar: And rubber and composite liner capacity of 20,000 tons that we commissioned in Jan, that included in our total 460,000 tons capacity, right?

Kunal Shah: That's right.

- Suraj Sonulkar:** Okay. And what will be your capex guidance for FY '26 and '27?
- Kunal Shah:** So this year -- the next coming year, we'll do about -- up to INR50 crores in renewable power. And I think we'll be done with most of the strategy as far as optimizing power cost is concerned, up to INR50 crores in maintenance capex per year. So once you remove that, not more than INR35 crores to INR50 crores of maintenance capex, plus our investment in the 2 plants that we've announced. I think our capex will not be more than that in the near future.
- Suraj Sonulkar:** Okay. Okay. So we have planned \$50 million for this China and Ghana separate?
- Kunal Shah:** That's right, exactly.
- Moderator:** Thank you.
- Kunal Shah:** Operator, I think there are no more questions, we can wrap up.
- Moderator:** Sure. As there are no more questions, I would now like to hand the conference over to AIA Engineering management team for the closing comments.
- Kunal Shah:** Thank you so much. And as always, Sanjay bhai and I remain available to taking off-line questions. Have a great evening, and we'll connect at the end of the fourth quarter. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Chorus Call Conferencing Services. You may please disconnect your lines now. Thank you, and have a great evening.