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Initiating Coverage

Asahi India Glass Ltd.

08-January-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 286	Buy on dips to Rs 262-264 band and add more in Rs 233-235 band	Rs 293	Rs 317	2 quarters

HDFC Scrip Code	ASAIND
BSE Code	515030
NSE Code	ASAHIINDIA
Bloomberg	AISG IN
CMP Jan 7, 2021 (Rs)	285.7
Equity Capital (cr)	24.31
Face Value (Rs)	1
Eq. Share O/S (cr)	24.31
Market Cap (Rs cr)	6945.4
Book Value (Rs)	53.6
Avg.52 Wk Volume	81,500
52 Week High (Rs)	299.0
52 Week Low (Rs)	118.4

Share holding Pattern % (Sep, 2020)	
Promoters	54.27
Institutions	2.47
Non Institutions	43.26
Total	100.0

Fundamental Research Analyst

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Our Take:

Asahi India Glass (AIS) is present across the entire value chain of architectural and automotive glass. The company has been introducing new products looking at the changing life styles and customer demands and in order to stay competitive and relevant in the market. Asahi has a dominant 73% market share in Indian passenger car glass market and is the 2nd largest producer of architectural glass in India (FY20 market share ~16%). Despite the recent adverse business environment due to Covid pandemic, the company has shown resilience and focused on generating incremental benefits on the back of product diversification and cost reduction initiatives. The company is also expanding its capacity keeping in view the growing consumption which will aid revenue growth in the long term. Post the completion of current capex, the company would have sufficient capacity and we expect the company to utilize its cash flows to pare down debt levels.

AIS is likely to be a key beneficiary of revival in the volume of automotive and real-estate industries. Moreover, strong traction in aftermarket business will also aid profitability. The commissioning of Gujarat plant in the coming months is likely to enhance the company's capacity for growth across both architectural and automotive segment.

Valuations & Recommendation:

We expect revenues of the company to grow at a modest CAGR of 6.4% over FY20-FY23. However, tighter control on costs and better operating leverage would drive 8.9% CAGR growth in EBITDA and 130bps expansion in EBITDA margins to 17.7%. Debt repayment and higher asset utilization on back of improving demand in end-user industries would lead to PAT CAGR growth of 13.5%. We expect RoE to improve from 12.2% in FY20 to 14.3% in FY23. We believe, Asahi will continue to trade at a premium to other auto ancillary companies which is mainly on the back of its dominant strong market positioning and MNC parentage with global expertise which makes it a preferred choice for OEMs. Also it faces no threat from the advent of Electric Vehicles. Its presence in high value architectural segment will help grow revenues and maintain high margins. At a CMP of Rs 286, AIS is trading at 29.3x Sept22E EPS; 13.8x FY23E EV/EBITDA. We feel investors can buy the stock on dips to Rs 262-264 band (27.0x Sept22E EPS; 12.8x FY23E EV/EBITDA) and add more in Rs 233-235 band (24.0x Sept22E EPS; 11.7x FY23E EV/EBITDA) for a base case fair value of Rs 293 (30.0x Sept22E EPS; 14.3x FY23E EV/EBITDA) and bull case fair value of Rs 317 (32.5x Sept22E EPS; 15.0x FY23E EV/EBITDA)



Financial Summary

(Rs cr)	Q2FY21	Q2FY20	YoY-%	Q1FY21	QoQ-%	FY20	FY21E	FY22E	FY23E
Revenues	638.8	645.8	-1.1	228.2	179.9	2,643.2	2,294.5	2,845.2	3,200.8
EBITDA	122.2	108.3	12.8	-31.0	-494.0	434.7	344.2	503.6	595.4
APAT	37.3	29.2	27.6	-62.7	-159.4	153.7	69.5	200.5	273.5
Diluted EPS (Rs)	1.5	1.2	27.6	-2.6	-159.4	6.3	2.9	8.2	11.3
RoE (%)						12.2	5.2	13.9	16.5
P/E (x)						45.2	100.0	34.6	25.4
EV/EBITDA (x)						20.0	24.9	16.7	13.8

(Source: Company, HDFC sec)

Recent Triggers

Q2FY21 Financials

Revenues of the company dipped marginally in Q2FY21 on account of slowdown in automotive glass segment due to the lockdown. Automotive glass segment witnessed 4.8% decline in sales to Rs 360cr while revenues from float glass segment expanded by a similar percentage to Rs 271cr. Lower power & fuel expenses due to low crude prices and savings in operating expenses led to 12.8% yoy growth in EBITDA while EBITDA margins expanded 236bps yoy to 19.1%. Reported PAT increased by 27.6% yoy to Rs 37cr. Management expects gas costs to inch up in H2FY21 as compared to H1 as crude price have been trending higher; however, it is likely to remain much lower on YoY basis.

Imposition of anti-dumping duty to benefit AIS

The Indian Govt. imposed anti-dumping duty on clear float glass, used in automobiles and refrigeration industries, from Malaysia for five years in Nov-2020, with an aim to guard domestic industry from cheap imports. It notified an additional CVD /anti-subsidy duty of ~9.74%-11.15% on imports from Malaysia. As per the notification, Malaysia contributed ~81% of total imports into India. This could effectively lead to increase of import prices by ~20-30% assuming other costs remain stable. The duty was imposed after a recommendation was made by the commerce ministry's investigation arm Directorate General of Trade Remedies (DGTR). Further in Dec-2020, the Govt. extended anti-dumping duty on clear float glass imported from China by two months, till February 6, 2021. Imposition of duties will help the company to gain in both pricing and volume.



Long term Triggers

Market leader in the passenger vehicle segment

AIS has been the market leader in the Indian passenger vehicle segment with a market share of ~75%. The density of cars in India has been increasing as the growing income, increasing affordability, easy finance options available and being a status symbol in some areas is driving passenger car sales. Off late, social distancing norms has also resulted in spurt in passenger car sales as people tend to avoid public transport in such times. AIS being the market leader will be benefiting from the growing trend. These could be definitive tailwinds for Indian Automotive Component Industries thereby providing AIS with huge opportunities in the future. Any sustained uptick in volume growth in the PV space and particularly Maruti Suzuki will be a big positive for Asahi Glass.

Strong manufacturing capabilities

From a single-location manufacturing company, AIS has expanded into an organization with multiple production and assembling facilities across India. It has five state-of-the-art production facilities, strategically located in proximity to its customers' manufacturing facilities, thereby ensuring seamless service and effective delivery of quality products. AIS's plants are optimally automated and deploy the most modern shop floor practices. The company has plants located at Bawal (Haryana), Roorkee (Uttarakhand), Chennai (TamilNadu), Taloja (Maharashtra) and latest one in Patan (Gujarat). It also has four sub-assembly plants located near automotive hubs to be able to meet the client demand quickly

AIS constantly monitors changing consumer requirements and provide them with an array of high-performance glass products and solutions. Besides, investments in LCAs (Low-Cost Automation), specialized tooling, R&D, new product development, new machine development, continue relentlessly.

Increasing traction in non-passenger car products

Besides passenger cars, AIS also develops products for other vehicles as well. AIS's products for commercial vehicles (trucks and buses), railways, city trains, tractors and off-highways are also finding increasing traction. With a strong track record and superior R&D capabilities this could witness strong growth in the coming years.

Fast-paced developments in the Indian construction and real estate industry, driven by demand for housing and retail construction, also continue to propel demand for architectural glass. Despite a slowdown in the realty sector post RERA and GST, growth in the segment has



remained buoyant mainly for the large organized players, who are clearly benefiting from the policy reforms. AIS is the 2nd largest producer and supplier of architectural glass in India with one of the widest product bouquet across Clear Float glass, Tinted, Coated, Frosted, Back-painted, High-Performance glass, Processed glass and Mirrors. This augurs well for AIS.

Capex to moderate, margins to improve

AIS is at the end of its capex cycle and capex would moderate going forward. Over the last 5 years from FY16-FY20 the company has spent ~Rs 1500cr towards augmenting its capacity and expanding its range of products both in the automotive and architectural segment. Change in the product mix towards higher margin architectural segment would enable the company to expand its margins. Lower capex requirement and improvement in automotive and real-estate industries would drive better cash flows which the company might utilize to reduce its debt levels.

Experienced and Resourceful promoter group

AIS is promoted by the Asahi Glass Co Ltd (AGC; shareholding of 22%), Labroo family (shareholding of 21% share), and Maruti Suzuki India Ltd (MSIL; shareholding of 11%). AGC is the leading glass manufacturer of the world with 12% global market share in the float glass segment and 30% global market share in the automotive glass segment.

Sustained relationship with OEMs

AIS supplies auto glass to a majority of leading OEMs in the domestic market including MSIL, Hyundai Motors India Ltd, Honda, Tata Motors Ltd, Mahindra & Mahindra Ltd, Toyota Kirloskar Motors Pvt. Ltd., Volkswagen India, Ford India, Skoda Auto and Fiat India and has sustained good relationships with them throughout the years. MSIL is also co-promoter of AIS' with 11.11% equity stake and contributed to around 33% of automotive glass sales in FY20.

What could go wrong

Slowdown in end-user industries

Both the major industries i.e. automobiles and real estate to which AIS caters to are emerging from a major slowdown. Although the improving trends are encouraging, a large part of the growth was on account of pent-up demand. Sustenance of demand would be key monitorable in the coming years.



Volatility in fuel cost

The glass industry is highly energy extensive industry with power and fuel costs constituting a significant portion of the total cost. The power and fuel cost of the company has increased from ~12.5% of sales in FY18 to ~15.1% in FY20. The prices of crude oil have remained volatile over the past years and any upward movement in the crude oil prices can keep the operating margins of the company under pressure.

Slower ramp up in new greenfield plant

The company has set up a new greenfield plant at Gujarat. It might take a few years for the plant to become profitable.

Exposure to foreign exchange fluctuation risk

The Company is exposed to the risks associated with volatility in foreign exchange rates mainly on account of import raw materials, stores & spares and foreign currency loan payments. The net exposure of the company in foreign currency stood at Rs 567 crore as of FY20.

Removal of import duty and cheaper imports can impact Architectural glass segment which contributes ~40% of overall revenues.

About the company

Asahi India Glass Ltd. (AIS) is India's leading integrated glass solutions company and a dominant player both in the automotive and architectural glass segments. It commands over 70% market share in the Indian passenger car glass market. Established in 1984, AIS is a JV between the Labroo family, Asahi Glass Co. Ltd. (AGC), Japan and Maruti Suzuki India Ltd. As promoter group, the three entities jointly hold about 54% in the company. AIS provides end to end solutions right from manufacturing of glass, processing, fabrication and installation services.

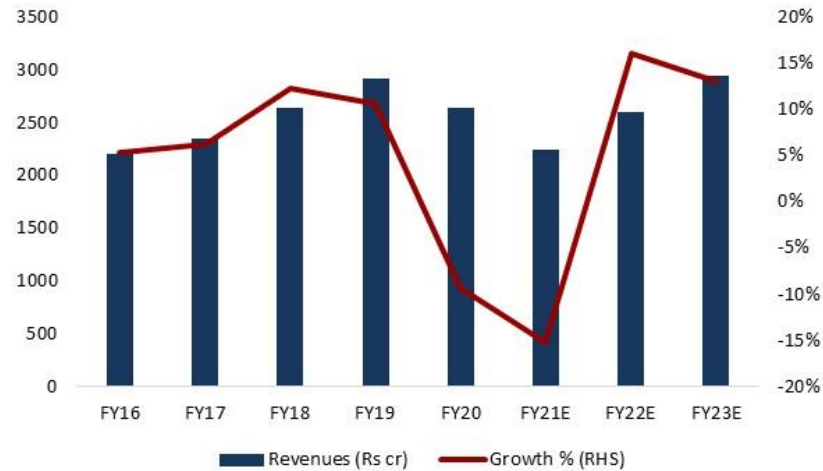
AIS operates under two strategic business units (SBUs) namely AIS Auto Glass (laminated and tempered glass) and AIS Float Glass (Architectural Glass and Consumer Glass) with revenue contribution of around 59% and 41% respectively in FY20. The company initially began operations as a toughened glass manufacturer for Maruti Suzuki. Subsequently, with the acquisition of Floatglass India limited, it forayed into the construction glass business. Asahi has 5 manufacturing facilities spread across North, West and South India strategically located in close proximity to OEMs manufacturing plants.



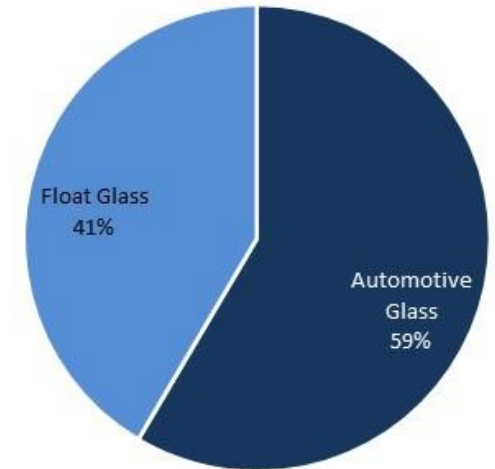
AIS has 3 subsidiaries – (i) AIS Glass Solutions Ltd. (82.55%) (ii) GX Glass Sales & Services Ltd (93.48%) (iii) Integrated Glass Materials Ltd (100%) and 4 associates – (i) AIS Adhesives Ltd (49.98%) (ii) AIS Distribution Services Ltd. (47.83%) (iii) Timex Group Precision Engineering Ltd. (30.00%) (iv) Fourvolt Solar Private Ltd. (40%).

AGC Inc., Japan: Established in 1907, it is one of the leading glass producers of the world. The AGC Group has operations in over 20 countries with a total of over 200 subsidiaries and approximately 50,000 group employees worldwide.

Revenue growth trend



Segment breakup



(Source: Company, HDFC sec)

Financials

Income Statement

(Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	2913.0	2643.2	2294.5	2845.2	3200.8
Growth (%)	10.6	-9.3	-13.2	24.0	12.5
Operating Expenses	2402.6	2208.5	1950.3	2341.6	2605.5
EBITDA	510.5	434.7	344.2	503.6	595.4
Growth (%)	10.1	-14.8	-20.8	46.3	18.2
EBITDA Margin (%)	17.5	16.4	15.0	17.7	18.6
Depreciation	118.5	137.1	135.6	144.2	156.6
Other Income	18.9	12.9	11.5	14.2	16.0
EBIT	410.8	310.5	220.0	373.6	454.7
Interest expenses	135.2	146.1	144.7	126.9	111.4
Exceptional item	273.0	161.0	75.3	246.7	343.4
PBT	92.1	19.5	18.8	61.7	85.8
Tax	180.9	141.5	56.5	185.0	257.5
PAT	9.3	12.2	13.0	15.5	16.0
Adj. PAT	190.2	153.7	69.5	200.5	273.5
Growth (%)	7.2	-19.2	-54.8	188.7	36.4
EPS	7.8	6.3	2.9	8.2	11.3

Balance Sheet

As at March (Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS					
Share Capital - Equity	24.3	24.3	24.3	24.3	24.3
Reserves	1191.4	1277.9	1335.3	1511.5	1760.7
Total Shareholders' Funds	1215.7	1302.2	1359.6	1535.8	1785.0
Minority Interest	-11.3	-13.7	-16.7	-20.2	-24.2
Total Debt	1642.9	1762.4	1642.4	1452.4	1297.4
Net Deferred Taxes	-72.4	-87.1	-87.1	-87.1	-87.1
TOTAL SOURCES OF FUNDS	2775.0	2963.9	2898.2	2880.9	2971.1
APPLICATION OF FUNDS					
Net Block	1956.4	2035.1	2002.1	2173.4	2283.3
CWIP	452.6	488.6	461.0	230.5	89.0
Investments	81.5	91.6	110.9	147.6	175.4
Total Non-current Assets	2490.5	2615.4	2574.0	2551.5	2547.7
Cash & Equivalents	21.6	14.2	27.6	17.0	72.0
Inventories	691.0	722.1	597.2	701.5	771.7
Debtors	269.5	261.2	276.6	327.4	350.8
Other Current Assets	144.5	163.1	172.9	198.8	214.8
Total Current Assets	1126.6	1160.6	1074.3	1244.7	1409.3
Creditors	638.4	578.0	502.9	623.6	657.7
Other Current Liabilities & Provns	203.7	234.0	247.2	291.7	328.2
Total Current Liabilities	842.1	812.1	750.1	915.3	985.9
Net Current Assets	284.5	348.5	324.2	329.4	423.4
TOTAL APPLICATION OF FUNDS	2775.0	2963.9	2898.2	2880.9	2971.1

Cash Flow Statement

(Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	288.3	170.7	85.3	258.7	355.4
Non-operating & EO items	-8.2	-7.9	-10.4	-2.9	1.1
Interest Expenses	134.5	146.1	144.7	126.9	111.4
Depreciation	115.3	137.5	135.6	144.2	156.6
Working Capital Change	-16.9	-135.8	38.9	-29.6	-47.9
Tax Paid	-97.0	-17.5	-18.8	-61.7	-85.8
OPERATING CASH FLOW (a)	416.1	293.2	375.3	435.6	490.6
Capex	-499.0	-202.7	-75.0	-85.0	-125.0
Free Cash Flow	-82.9	90.5	300.3	350.6	365.6
Investments	-0.2	-11.0	-10.0	-20.0	-20.0
Non-operating income	0.0	0.0	0.0	0.0	0.0
INVESTING CASH FLOW (b)	-499.2	-213.7	-85.0	-105.0	-145.0
Debt Issuance / (Repaid)	264.6	118.4	-120.0	-190.0	-155.0
Interest Expenses	-134.5	-146.1	-144.7	-126.9	-111.4
FCFE	47.0	51.8	25.6	13.7	79.3
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-44.0	-58.6	-12.2	-24.3	-24.3
FINANCING CASH FLOW (c)	86.1	-86.3	-276.9	-341.2	-290.7
NET CASH FLOW (a+b+c)	3.0	-6.8	13.5	-10.6	55.0

Key Ratios

	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)					
EBITDA (%)	17.5	16.4	15.0	17.7	18.6
EBIT (%)	14.1	11.7	9.6	13.1	14.2
APAT (%)	6.5	5.8	3.0	7.0	8.5
RoE (%)	16.6	12.2	5.2	13.9	16.5
RoCE (%)	15.5	10.5	7.3	12.5	15.0
Solvency Ratio					
Net Debt/EBITDA (x)	3.2	4.0	4.7	2.9	2.1
Net D/E (x)	1.3	1.3	1.2	0.9	0.7
PER SHARE DATA (Rs)					
EPS	7.8	6.3	2.9	8.2	11.3
CEPS	12.7	12.0	8.4	14.2	17.7
BV	50.0	53.6	55.9	63.2	73.4
Dividend	1.0	1.0	0.5	1.0	1.0
Turnover Ratios (days)					
Inventory	37	37	43	39	39
Debtor	82	98	105	84	84
Creditors	77	85	86	73	73
VALUATION (x)					
P/E	36.5	45.2	100.0	34.6	25.4
P/BV	5.7	5.3	5.1	4.5	3.9
EV/EBITDA	16.8	20.0	24.9	16.6	13.7
EV / Revenues	2.9	3.3	3.7	2.9	2.6
Dividend Yield (%)	0.4	0.4	0.2	0.4	0.4

(Source: Company, HDFC sec Research)



Segmental information

(Rs cr)	FY16	FY17	FY18	FY19	FY20
Revenues					
Automotive Glass	1470.5	1710.9	1729.6	1752.3	1519.2
Architectural Glass	803.1	801.0	892.7	1124.4	1077.5
EBIT					
Automotive Glass	185.0	237.1	280.0	295.7	193.3
Architectural Glass	123.8	141.8	124.9	131.3	130.9
EBIT Margin					
Automotive Glass	12.6%	13.9%	16.2%	16.9%	12.7%
Architectural Glass	15.4%	17.7%	14.0%	11.7%	12.2%

Price Chart





Disclosure:

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