Stock Update

Asahi India Glass Ltd.

November 22, 2021

RETAILRESEARCH

Asahi India Glass Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 490.9	Buy in Rs 490-495 band & add more on dips to Rs 437-442 band	Rs 538	Rs 581	2 quarters

HDFC Scrip Code	ASAIND
BSE Code	515030
NSE Code	ASAHIINDIA
Bloomberg	AISG IN
CMP Nov 18, 2021	490.9
Equity Capital (Rs cr)	24.3
Face Value (Rs)	1
Equity Share O/S (cr)	24.3
Market Cap (Rs cr)	11934
Book Value (Rs)	59.2
Avg. 52 Wk Volumes	207,000
52 Week High (Rs)	533.0
52 Week Low (Rs)	230.3

Share holding Pattern % (Sep, 2021)	
Promoters	54.3
Institutions	2.5
Non Institutions	43.2
Total	100.0

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Atul Karwa
atul.karwa@hdfcsec.com

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. Slowdown in automobile sales and improvement in real estate industry has led to increased revenue share of the float glass business which has a higher margin.

Asahi has a dominant 74% market share in Indian passenger car glass market and is the 2nd largest producer of architectural glass in India (FY21 market share ~18%, up from 16% in FY20). Ambitious investments in the affordable infrastructure space by the Government and increasing volumes in the real-estate industry are likely to be the growth drivers in the coming years. The company has shown resilience and focused on generating incremental benefits on the back of product diversification and cost reduction initiatives. The company had commissioned phase-I of operations at Gujarat plant in H2FY22, which is expected to provide incremental capacities of 0.7mn sq.mtr. for tempered glass and 0.8mn pieces for laminated glass from FY22 onwards. With capex done, the company is paring down its debt levels. It has reduced its borrowing in H1FY22 by Rs 157cr to Rs 1099cr. Further, during FY21, the company had replaced some of high-cost and shorter tenor term loans with low-cost and longer tenor loans to ease its future repayment obligations, exhibiting financial flexibility.

The company is evaluating further expansion opportunities over the next 3-4 years including a greenfield solar plant in partnership with Vishakha group. Its joint strategic understanding is to leverage the entire solar glass value chain of Vishakha Group and its associates / promoter companies and the techno-commercial knowhow of AIS, with a target to set up India's largest solar glass manufacturing plant with the most competitive costs. The project is progressing well on schedule and it should commission the first green-field plant at Mundra, Gujarat within the next 15-18 months.

On January 8, 2021, we had initiated coverage on the stock (Link) with a recommendation to 'Buy on dips to Rs 262-264 band and add more in Rs 233-235 band' for base case fair value of Rs 293 and bull case fair value of Rs 317. The stock entered our buying range on January 18 and achieved base case target on February 3 and bull case target on March 4, 2021.

Valuation & Recommendation:

AIS will be a key beneficiary of growth in passenger vehicles production in India, coupled with rise in content led by premiumisation and rising share of SUVs. Asahi's content per vehicle will rise with the improving segment mix and rise in penetration of value added glasses like

IR and UV shield glasses. The demand outlook for the architectural glass has improved with the revival in residential real-estate demand. For the medium term the recent four initiatives being considered by the company could lead to healthy growth in top and bottom line. We expect PAT CAGR of 51% over FY21-24E, led by EBITDA margin improvement on cost savings, import restrictions on float glass and reduction in net debt. Revenue is expected to grow at 19% CAGR driven by higher share of float glass business. We expect RoE to improve from ~10% in FY21 to ~21% in FY24. AIS faces no threat from the advent of Electric Vehicles. Its presence in high value architectural segment will help grow revenues and maintain high margins. We feel investors can buy the stock in the band of Rs 490-495 and add on dips to Rs 437-442 (32x Sep-23E EPS) for a base case fair value of Rs 538 (32.5x Sept23E EPS) and bull case fair value of Rs 581 (35x Sep-23E EPS).

Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Revenues	796.5	638.8	24.7	603.8	31.9	2,421	3,018	3,466	4,033
EBITDA	186.9	122.2	52.9	118.4	57.9	435	583	690	839
APAT	81.1	37.3	117.7	35.3	129.6	133	255	345	461
Diluted EPS (Rs)	3.3	1.5	117.7	1.5	129.6	5.5	10.5	14.2	19.0
RoE (%)						9.7	16.5	19.1	21.4
P/E (x)						89.7	46.8	34.6	25.9
EV/EBITDA (x)						30.2	22.8	18.8	15.1

(Source: Company, HDFC sec)

Recent Developments

Q2FY22 Result Update

Revenues of the company witnessed strong growth of 25% in Q2FY22 to Rs 797cr driven by solid growth in Float Glass business as real estate construction activities revived. Automotive Glass revenue increased 13.7% yoy to Rs 409cr while Float Glass business reported 37.5% revenue growth to Rs 372cr. Consolidated EBITDA increased 52.9% yoy to Rs 187cr while margin expanded ~440bps to 23.5% led by improved margin in the Float Glass business, offset partially by higher power & fuel expenses. Automotive and Float Glass segments reported EBIT margin of 11.6/29% respectively growing (281)/1174bps yoy. Reported PAT increased by 117.7% yoy to Rs 81cr. The company has generated a positive FCF of ~Rs 210cr in H1FY22 which it has utilized to pare down its debt from Rs 1255cr to Rs 1099cr. Automotive Glass contributed 50% to the revenue and Float Glass contribution stood at 45%.

Expanding margin in float glass segment

The float glass segment of the company has witnessed a strong growth in Q2FY22, growing by 37.5/40.1% yoy/qoq to Rs 372cr while EBIT margins expanded 1174/571 bps to 29%. The growth was led by robust recovery in the real estate industry across the country. Real estate activity gained momentum in Q2FY22 as the country began to cautiously return to normal economic tempo supported by aggressive vaccination drives. Record-low home loan interest rates and sops offered by realty developers has helped Indian property markets move upward after a lull in the April-June quarter marked by the pandemic's resurgence and restrictions imposed by various state governments. We believe, the resurgence in real estate is likely to continue for the next few quarters, driving higher sales in the float glass segment. We expect float glass segment to grow at CAGR of 22% over FY21-FY24 as compared to 16% growth in automotive glass segment.

Anti-dumping probe on imports has led to lower imports and higher realisation

In the float glass segment, the company had benefitted by the imposition of anti-dumping duty on imports of float glass from Malaysia during H2FY21, which had led to improvement in the prospects of domestic industry. Float glass imports had formed a major component of the industry's domestic sales and accounted for over 20% of the total market in FY20. Government has imposed anti-dumping duty (ADD) and countervailing duty (CVD) on import of float glass from China, Malaysia as well as other countries. Subsequently, the share of imports have declined to 10-12% of domestic demand.

As per CARE Reports, India is a net importer of glass and glassware with imports at 21.1% higher than exports during 9MCY20. Further, based on an application filed by top industry players alleging that subsidized imports were harming the domestic market; the Government of India had earlier imposed anti-dumping duty on imports from Malaysia and made ISI marking of float glass mandatory from January 01, 2021 after consulting with the Bureau of Indian Standards. This is not only expected to increase business prospects for the industry, but also alleviate pricing pressures.

Strong opportunities for expansion

AIS is expanding its automotive glass facility and also evaluating investment for solar glass plant. It is looking to undertake the following projects over the next 3-4 years:

- setting up a greenfield project for a 3rd float glass plant, to be used mainly for internal consumption towards localisation of raw glass for auto & architectural processing,
- possibly, a greenfield expansion of a fourth float glass plant for external sale,
- one additional (total 2) greenfield solar (patterned) glass plant, in a minority partnership with Vishakha Group, and
- other adjacent & downstream value-added business expansions of AIS.

Gradual recovery expected for the end-user industries

Currently, the glass industry in India is dominated by manufacturers using float glass manufacturing technology which has major utility in the real estate and automobiles industry. H2FY21 saw a strong growth in automobile sales on account of pent-up demand. However, staggered lockdown in Q1FY22 during the second phase of the pandemic and the semi-conductor shortages has resulted in slowing automobile production. Waiting period for vehicles have elongated. As per OEM commentaries, they expect gradual improvement in mitigating the semi-conductor shortage and believe H2FY22 to be better than H1FY22.

Demand for housing sales was strong in Q2FY22 and expected to improve further in H2FY22. Similarly, with the opening up of businesses and resumption of economic activities, commercial real estate is expected to pick-up.

Risk & Concern

Slowdown in end-user industries

Automobile industry is once again facing prospects of slowdown due to semi-conductor shortage while real estate industry has posted robust growth. However, the growth may remain muted due to a high base effect of last year. Sustenance of demand would be key monitorable in the coming years. Maruti Suzuki, one of the promoters, contributed for around 37% of automotive glass sales in FY21. Covid impact meant that in FY21, for passenger vehicles, sales volumes were lowest since FY16, for two wheelers - lowest since FY15, for commercial vehicles - lowest since FY11 and three wheelers - lowest since FY03.

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 prices of crude oil have been rising which could keep the operating margins of the company under pressure. However the company has the ability to change the fuel mix as when required as per the fuel’s respective prevailing prices to enable optimum savings in the fuel cost.

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 611cr as of FY21.

Removal of import duty/ADD and cheaper imports can impact Architectural glass segment which contributes ~42% of overall revenues.

Company Background:

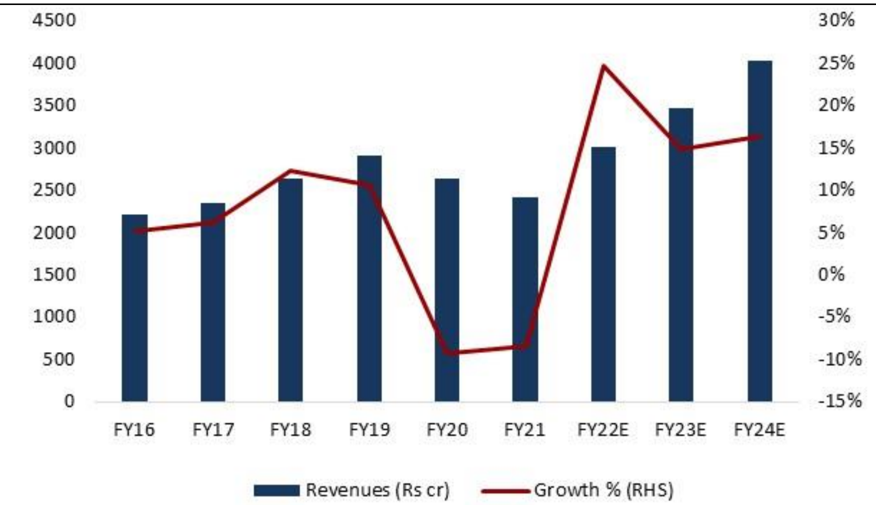
Asahi India Glass Ltd. (AIS) is India's leading integrated glass solutions company and a dominant player both in the automotive and architectural glass segments. AIS is the market leader in India across the automotive segments — from passenger cars and commercial vehicles to railways and Earth-moving vehicles. It commands over 70% market share in the Indian passenger car glass market. Established in

1984, AIS is a JV between the Labroo family (21%), Asahi Glass Co. Ltd. (AGC), Japan (22%) and Maruti Suzuki India Ltd. (11%) 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.

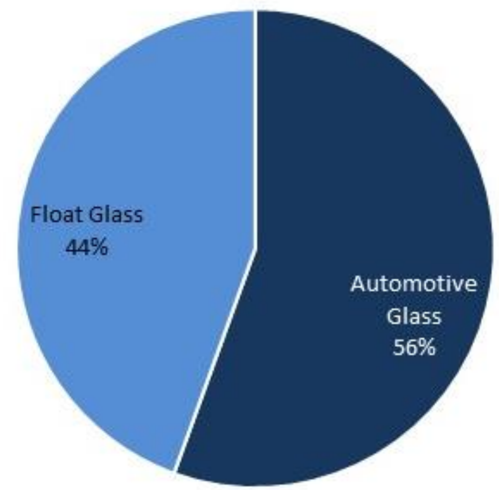
AIS operates under two strategic business units (SBUs) namely AIS Auto Glass (laminated and tempered glass) and AIS Float Glass (Architectural Glass and Consumer Glass) with revenue contribution of around 53% and 42% respectively in FY21. The company initially began operations as a toughened glass manufacturer 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' Float Glass units produce a wide range of value-added varieties of glass such as Heat Reflective Glass, Heat Absorbing Glass, Solar Control Glass, Coloured Glass, and Mirrors and is the second largest player in terms of production capacity in the float glass industry in India.

As on March 31, 2021, total installed capacity stood at 12.02mn sq.mtrs for tempered glass, 6mn pieces for laminated glass and 78.32mn Converted Square metres (CSQM) for float glass. The company had commissioned phase-I of operations at Gujarat plant, which is expected to provide incremental capacities of 0.7mn sq,mtrs for tempered glass and 0.8mn pieces for laminated glass from FY22 onwards.

Revenue growth trend



Segment breakup



(Source: Company, HDFC sec)

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.

Segmental information

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Segment Revenue									
Automotive Glass	409	360	*13.7*	330	*24.2*	1730	1752	1519	1346
Float Glass	372	271	*37.5*	266	*40.1*	893	1124	1077	1078
EBIT									
Automotive Glass	47.5	51.9	*-8.5*	27	*-131.9*	280	296	193	170
Float Glass	108.1	46.8	*130.9*	62	*111.2*	125	131	131	191
EBIT Margin (%)									
Automotive Glass	11.6	14.4	*-281 bps*	8.1	*351 bps*	16.2	16.9	12.7	12.7
Float Glass	29.0	17.3	*1174 bps*	23.3	*571 bps*	14.0	11.7	12.2	17.7

Peer Comparision

FY21	CMP (Rs)	Mcap (Rs cr)	Net Sales (Rs cr)	EBITDA (%)	PAT (%)	P/E (x)	P/B (x)	RoE (%)
Asahi India	491	11934	2421	17.9	5.5	89.7	8.3	9.5
Saint-Gobain Sekurit	71	643	105	15.3	7.2	56.5	4.6	5.6

Financials

Income Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	**2643**	**2421**	**3018**	**3466**	**4033**
Growth (%)	***-9.3***	***-8.4***	***24.7***	***14.8***	***16.3***
Operating Expenses	2209	1987	2436	2776	3194
EBITDA	**435**	**435**	**583**	**690**	**839**
Growth (%)	***-14.8***	***0.0***	***34.0***	***18.4***	***21.6***
EBITDA Margin (%)	***16.4***	***17.9***	***19.3***	***19.9***	***20.8***
Depreciation	137	132	150	160	169
Other Income	13	36	15	17	20
EBIT	**311**	**339**	**448**	**547**	**690**
Interest expenses	146	143	116	105	94
PBT	**161**	**195**	**332**	**441**	**596**
Tax	19	74	96	119	161
PAT	**142**	**121**	**236**	**322**	**435**
Share of Asso./Minority Int.	12	12	19	23	26
Adj. PAT	**154**	**133**	**255**	**345**	**461**
Growth (%)	***-19.2***	***-13.4***	***91.5***	***35.3***	***33.6***
EPS	6.3	5.5	10.5	14.2	19.0

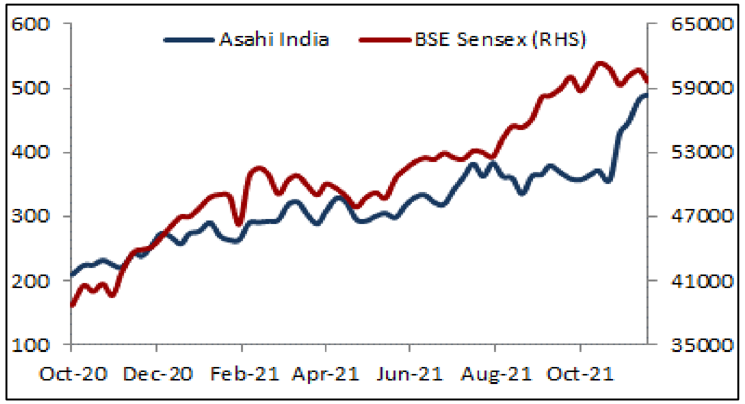
Balance Sheet

As at March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	24	24	24	24	24
Reserves	1278	1415	1634	1930	2333
Shareholders' Funds	**1302**	**1440**	**1658**	**1954**	**2357**
Minority Interest	**-14**	**-16**	**-19**	**-23**	**-27**
Borrowings	1388	1255	1380	1255	1065
Net Deferred Taxes	-87	-51	-51	-51	-51
Total Source of Funds	**2590**	**2628**	**2968**	**3135**	**3344**
APPLICATION OF FUNDS					
Net Block & Goodwill	2035	2219	2286	2316	2304
CWIP	489	262	131	66	33
Investments	55	69	68	83	108
Other Non-Curr. Assets	37	31	66	76	89
Total Non-Current Assets	**2615**	**2581**	**2551**	**2541**	**2534**
Inventories	14	58	52	185	279
Trade Receivables	722	654	744	836	972
Cash & Equivalents	261	268	347	380	442
Other Current Assets	163	161	227	261	304
Total Current Assets	**1161**	**1141**	**1371**	**1662**	**1997**
Trade Payables	578	639	645	712	773
Other Current Liab & Provisions	608	455	309	355	413
Total Current Liabilities	**1186**	**1094**	**954**	**1068**	**1187**
Net Current Assets	-26	47	416	594	810
Total Application of Funds	**2590**	**2628**	**2968**	**3135**	**3344**

Cash Flow Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
PBT	171	205	348	460	618
Non-operating & EO items	-8	-6	-14	1	2
Interest Expenses	146	143	116	105	94
Depreciation	138	133	150	160	169
Working Capital Change	-136	127	-398	-56	-136
Tax Paid	-17	-75	-96	-119	-161
OPERATING CASH FLOW (a)	**293**	**526**	**106**	**553**	**586**
Capex	-203	-84	-85	-125	-125
Free Cash Flow	90	442	21	428	461
Investments	-11	-10	1	-15	-25
Non-operating income	0	0	0	0	0
INVESTING CASH FLOW (b)	**-214**	**-93**	**-85**	**-140**	**-150**
Debt Issuance / (Repaid)	118	-234	125	-125	-190
Interest Expenses	-146	-143	-116	-105	-94
FCFE	52	56	31	182	152
Share Capital Issuance	0	0	0	0	0
Dividend	-59	0	-36	-49	-58
FINANCING CASH FLOW (c)	**-86**	**-377**	**-27**	**-279**	**-342**
NET CASH FLOW (a+b+c)	**-7**	**56**	**-6**	**133**	**93**

Price chart



Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	16.4	17.9	19.3	19.9	20.8
EBIT Margin	11.7	14.0	14.8	15.8	17.1
APAT Margin	5.8	5.5	8.4	9.9	11.4
RoE	12.2	9.7	16.5	19.1	21.4
RoCE	11.7	12.6	15.6	17.5	20.8
Solvency Ratio (x)					
Net Debt/EBITDA	3.2	2.8	2.3	1.6	0.9
Net D/E	1.1	0.8	0.8	0.5	0.3
PER SHARE DATA (Rs)					
EPS	6.3	5.5	10.5	14.2	19.0
CEPS	12.0	10.9	16.6	20.8	25.9
BV	53.6	59.2	68.2	80.4	96.9
Dividend	1.0	1.0	1.5	2.0	2.4
Turnover Ratios (days)					
Inventory days	37	40	37	38	37
Debtor days	98	104	85	83	82
Creditors days	84	92	78	71	67
VALUATION (x)					
P/E	77.6	89.7	46.8	34.6	25.9
P/BV	9.2	8.3	7.2	6.1	5.1
EV/EBITDA	30.6	30.2	22.8	18.8	15.1
EV/Revenues	5.0	5.4	4.4	3.7	3.1
Dividend Yield (%)	0.2	0.2	0.3	0.4	0.5
Dividend Payout (%)	15.8	18.3	14.3	14.1	12.7

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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