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Q4FY20 result review
and earnings revision

Automobiles

Target price: Rs221

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 14.8	↓ 7.2
EBITDA	↓ 33.6	↓ 10.2
EPS	↓ 75.2	↓ 25.9

Target price revision

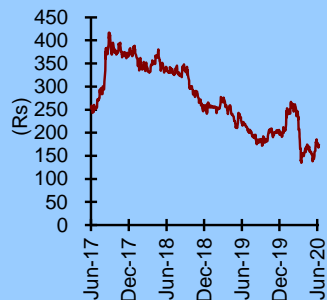
Rs221 from Rs238

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	54.3	54.3	54.3
Institutional investors	2.5	2.5	2.6
MFs and others	1.6	1.3	1.3
FIs/Banks	0.0	0.0	0.1
FII	0.9	1.2	1.1
Others	43.2	43.2	43.1

Source: BSE

Price chart



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INDIA

Asahi India Glass

BUY

Maintained

One challenging quarter down; a few more to go **Rs193**

Asahi India Glass' (Asahi) Q4FY20 results were below estimates as revenues declined ~16% YoY to Rs5.9bn while EBITDA margins shrunk 167bps to 15.7%. We expect steep drop in revenues (~45%) in H1FY21 due to impact of lockdown in Q1FY21 and gradual utilisation ramp-up in Q2FY21. However, the positive levers of: 1) sustainable cost reduction measures (labour, breakeven reduction), and 2) reduction in power and fuel costs, is likely aid margins rebound in H2FY21 and likely to be sustained in FY22. As per management the sales pickup post reopening has been strong yet we remain cautious on sustenance of this pent-up demand. We believe Asahi remains a strong proxy play of PV demand due to its dominant market share (>70%), with capex cycle behind us we expect strong FCF generation (FY20/FY21E/FY22E:Rs1.3bn/Rs3.3bn/4.4bn). **Maintain BUY.**

- **Key highlights of the quarter:** Topline declined 16% YoY at Rs5.9bn due to: a) higher decline of 23% in architectural segment revenues to ~Rs2.3bn; and b) lower auto volumes leading to decline in automotive revenues by ~16% YoY to Rs3.5bn. EBITDA margin shrunk 164bps to 15.7% due to higher other expenses (up 598bps) and higher employee expenses (up 173bps). Gross margin improved (up 530bps) primarily as a result of superior fixed-cost absorption increased due to rise in finished goods inventory resulting from the Mar'20 lockdown; On the positive side, power and fuel cost have reduced 77bps aided by reducing gas prices, the same benefit is likely to sustain in H1FY21. Tax write-back of Rs419mn (revaluation of deferred tax liability) aided reported PAT (grew 16% to Rs558mn).
- **Focus on margins, cash flow conservation and debt reduction:** Asahi is expected to derive margin benefits from cost control measures and reduced spot gas prices. Key focus in FY21 would be on improving productivity and further reducing break-even levels. Gross debt is likely to peak at ~Rs16bn (H1FY21) and we expect a net reduction of Rs2bn in FY22, as the management focuses on deleveraging. For the architectural industry, benefits from extension of anti-dumping duty (ADD) on imports from Malaysia, which were expected in H1FY21, have been delayed due to Covid-19 and is now likely to be decided upon in H2FY21.
- **Maintain BUY:** Asahi's business has unique characteristics: a) dominant automotive market share (>70%) with long term mix benefits and no EV risk; b) rising demand and superior product mix play on the architectural side (No.2 in the segment); and c) improvement in cost structures, FCF / RoCEs. We reduce our FY21E/FY22E EPS estimates by ~75%/25% factoring in the revenue drops due to Covid. Despite the recent price rally (up ~36% since March lows), the stock remains attractive at FY21E FCF yield of 7.1%. We upgrade the multiple to 12x (earlier: 11.5x) FY22E EV/BITDA and maintain **BUY** with a revised target price of Rs221/share (earlier: Rs238/share).

Market Cap	Rs46.7bn/US\$617mn	Year to Mar (Std)	FY19	FY20P	FY21E	FY22E
Reuters/Bloomberg	AISG.BO /AISG IN	Revenue (Rs mn)	28,590	26,007	22,424	27,420
Shares Outstanding (mn)	243.1	Adj. Net Income (Rs mn)	1,918	1,629	501	1,948
52-week Range (Rs)	267/135	Adj. EPS (Rs)	7.9	6.7	2.1	8.0
Free Float (%)	45.7	% Chg YoY	1.7	(15.1)	(69.2)	288.8
FII (%)	1.1	P/E (x)	24.3	28.7	93.1	24.0
Daily Volume (US\$/'000)	154	CEPS (Rs)	12.6	12.0	8.0	15.1
Absolute Return 3m (%)	36.3	EV/E (x)	11.6	13.4	17.7	10.6
Absolute Return 12m (%)	(11.1)	Dividend Yield (%)	0.5	0.5	0.3	1.0
Sensex Return 3m (%)	30.9	RoCE (%)	15.9	11.7	6.8	13.0
Sensex Return 12m (%)	(10.0)	RoE (%)	16.8	11.9	3.9	13.5

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review (standalone)*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Total operating income	5,911	7,070	-16	6,756	-13
Raw material costs	1,705	2,414	-29	2,303	-26
Employee costs	636	639	-0	635	0
Other expenditures	1,792	1,721	4	1,587	13
Power & Fuel	852	1,073	-21	1,046	-19
Total operating expenses	4,985	5,847	-15	5,570	-11
EBITDA	926	1,223	-24	1,186	-22
EBITDA margin (%)	15.7	17.3	-164 bps	17.6	-189 bps
Depreciation & amortisation	350	287	22	331	6
Other income	19	104	-81	46	-58
Interest costs	341	329	4	365	-6
PBT	254	711	-64	536	-53
Exceptional Items	-	9	NC	37	-100
Taxes	-304	221	NC	169	NC
PAT	558	482	16	330	69
Adjusted PAT	558	488	14	355	57

Source: Company data, I-Sec research

Valuation and recommendation

Asahi's business has unique characteristics: a) dominant automotive market share (>70%) with long term mix benefits and no EV risk; b) rising demand and superior product mix play on the architectural side (No.2 in the segment); and c) improvement in cost structures, FCF / RoCEs;. We reduce our FY21E/FY22E EPS estimates by ~75%/25% factoring in the revenue drops due to Covid. Despite the recent price rally (up ~36% since March lows), the stock remains attractive at FY21E FCF yield of 7.1%. We upgrade the multiple to 12x (earlier: 11.5x) FY22E EV/EBITDA and maintain **BUY** with a revised target price of Rs221/share (earlier: Rs238/share).

Table 2: Earnings revision

	FY21E			FY22E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	26,310	22,424	(14.8)	29,554	27,420	(7.2)
EBITDA	5,055	3,357	(33.6)	5,901	5,296	(10.2)
PAT	2,017	501	(75.2)	2,630	1,948	(25.9)
EPS (Rs)	8.3	2.1	(75.2)	10.8	8.0	(25.9)

Source: I-Sec research

Financial summary

Table 3: Profit and loss statement
(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Total Op. Income (Sales)	28,590	26,007	22,424	27,420
Operating Expenses	23,382	21,510	19,067	22,124
EBITDA	5,208	4,496	3,357	5,296
<i>% margins</i>	<i>18.2%</i>	<i>17.3%</i>	<i>15.0%</i>	<i>19.3%</i>
Depreciation & Amortisation	1,153	1,321	1,441	1,721
EBIT	4,055	3,176	1,916	3,575
Other Income	200	140	119	149
Gross Interest	1,345	1,439	1,365	1,119
PBT	2,910	1,877	670	2,604
Less: Exceptionals	26	37	-	-
PBT after Exceptionals	2,883	1,839	670	2,604
Less: Taxes	983	243	169	656
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
Net Income (Reported)	1,901	1,596	501	1,948
Net Income (Adjusted)	1,918	1,629	501	1,948

Source: Company data, I-Sec research

Table 4: Balance sheet
(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
ASSETS				
Current Assets	12,320	12,762	11,736	12,709
<i>Cash & cash eqv.</i>	<i>205</i>	<i>136</i>	<i>1,085</i>	<i>963</i>
Current Liabilities & Provisions	10,148	11,149	9,669	11,459
Net Current Assets	2,171	1,613	2,067	1,250
Investments	453	424	1,924	2,924
Goodwill	33	13	13	13
Net Fixed Assets	22,329	24,598	23,656	22,935
<i>Capital Work-in-Progress</i>	<i>4,484</i>	<i>4,882</i>	<i>4,882</i>	<i>4,882</i>
Long term loans & advances	316	0	0	0
Deferred Tax Assets	1,782	1,462	1,462	1,462
Other non-current asset	0	0	0	0
Total Assets	27,084	28,109	29,122	28,584
LIABILITIES				
Borrowings	14,169	13,669	15,169	13,169
<i>long-term borrowings</i>	<i>10,922</i>	<i>11,032</i>	<i>12,532</i>	<i>10,532</i>
<i>short-term borrowings</i>	<i>3,246</i>	<i>2,636</i>	<i>2,636</i>	<i>2,636</i>
Long-term provisions	0	0	0	0
Deferred Tax Liability	1,331	912	912	912
Other Non-current Liabilities	198	0	0	0
Minority Interest	0	0	0	0
Equity Share Capital	243	243	243	243
Reserves & Surplus	11,056	13,189	12,702	14,164
Net Worth	11,299	13,432	12,945	14,407
Total Liabilities	27,084	28,109	29,121	28,583

Source: Company data, I-Sec research

Table 5: 5-stage Du-Pont
(year ending March 31)

<i>All figures in %</i>	FY19	FY20P	FY21E	FY22E
Tax Burden	65.9	86.8	74.8	74.8
Interest Burden	71.1	57.9	35.0	72.9
EBIT Margin	14.2	12.2	8.6	13.1
Asset Turnover	105.3	92.4	76.9	95.8
Financial Leverage	239.7	209.3	225.0	198.4
ROE	16.8	11.9	3.9	13.5

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Cashflow before working capital changes	4,399	4,356	3,307	4,789
Working Capital Changes	1,483	(900)	496	695
Operating Cashflow	5,882	3,456	3,803	5,483
Capital Commitments	(5,015)	(2,180)	(500)	(1,000)
Free Cashflow	867	1,276	3,303	4,483
Cashflow from Investing Activities	(5,497)	(3,512)	(2,000)	(2,000)
Issue of Share Capital	-	-	-	-
Inc/(Dec) in securities premium	-	-	-	-
Buyback of shares	-	-	-	-
Inc/(Dec) in Borrowings	1,501	(500)	1,500	(2,000)
Dividend paid	(317)	(293)	(122)	(486)
Others	(1,527)	(609)	(2,232)	(1,119)
Cashflow from Financing Activities	(343)	(1,402)	(854)	(3,606)
Net Cashflow	41	(69)	949	(122)
Closing Cash & Bank balance	205	136	1,085	963

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
Per Share Data (in Rs.)				
EPS (Basic)	7.8	6.6	2.1	8.0
EPS (Adjusted)	7.9	6.7	2.1	8.0
Cash EPS	12.6	12.0	8.0	15.1
Dividend per share (DPS)	1.0	1.0	0.5	2.0
BVPS (Adjusted)	46.5	55.3	53.2	59.3
Growth Ratios (%)				
Total Op. Income (Sales)	11.2	-9.0	-13.8	22.3
EBITDA	8.3	-13.7	-25.3	57.8
Net Income (Adjusted)	1.7	-15.1	-69.2	288.8
EPS (Adjusted)	1.7	-15.1	-69.2	288.8
Cash EPS	10.2	-4.5	-33.4	88.9
BVPS (Adjusted)	14.2	18.9	-3.6	11.3
Valuation Ratios (x)				
P/E (Adjusted)	24.3	28.7	93.1	24.0
P/BV (Adjusted)	4.1	3.5	3.6	3.2
EV/EBITDA	11.6	13.4	17.7	10.6
EV/Sales	2.1	2.3	2.6	2.1
Return/Profitability Ratios (%)				
EBITDA Margin	18.2	17.3	15.0	19.3
Net Income Margin (Adjusted)	6.6	6.1	2.2	7.1
RoCE	15.9	11.7	6.8	13.0
RoNW	16.8	11.9	3.9	13.5
Dividend Payout Ratio	12.7	14.9	24.3	25.0
Dividend Yield	0.5	0.5	0.3	1.0

Solvency/Wkg. Cap. Ratios (x)

Net D/E	1.2	1.0	1.0	0.7
Debt/EBITDA	2.7	3.0	4.5	2.5
EBIT/Interest	3.0	2.2	1.4	3.2
Current Ratio	1.2	1.1	1.2	1.1
Quick Ratio	1.2	1.1	1.2	1.1
Inventory (days)	86	98	95	87
Receivables (days)	49	52	51	50
Payables (days)	81	81	81	83

Source: Company data, I-Sec research

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