Equity Research

March 14, 2022
BSE Sensex: 55550

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Company update earnings revision and TP change

Automobiles

Target price: Rs553

Earnings revision

(%)	FY22E	FY23E	FY24E
Sales	↓ 0.6	↓ 2.4	↑ 0.9
EBITDA	↓ 9.2	↓ 14.8	↓ 9.9
EPS	↓ 14.1	↓ 18.2	↓ 10.9

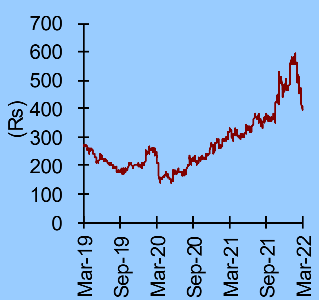
Target price revision
Rs553 from Rs671

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	56.4	56.4	56.4
Institutional investors	38.6	38.5	38.9
MFs and others	7.5	7.5	7.3
FIs/Banks	8.0	8.2	7.8
FIIs	23.1	22.8	23.8
Others	5.0	5.1	4.7

Source: BSE

Price chart



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INDIA

ICICI Securities

Asahi India Glass

BUY
Maintained
Rs421

Energy cost inflation to drive margin reversion

We believe, it would be tough for Asahi India Glass (AIG) to sustain its present elevated profitability levels amidst steep rise in energy costs. Past 5-year average energy cost/sales has been ~13.5%, which increased to ~17% in Q3FY22. We expect it to surge a further ~400bps by Q1FY23E, assuming present natural gas and crude oil prices. Also, logistics cost to sales is ~5-6%, and ~20% increase in fuel costs would add a further 100bps pressure on margins. We therefore cut our FY23E/FY24E EBITDA margin by ~400bps/~300bps, resulting in an EBITDA cut of ~15%/10% respectively, with revenue estimates largely unchanged. We do not foresee much risk to the realisation levels for domestic float glass industry at least till FY23E, given: 1) limited global supply, 2) rising need from solar panel space, and 3) container shortage issues persisting. Domestic supply addition from GoldPlus and AIG (9-10% of industry capacity addition) will be in FY24E-FY25E, thus allowing AIG to operate at close to full capacity by FY24E. Company is currently operating at ~75%/~90% utilisations in the auto/architectural glass segments, with equal revenue mix. Even post the reduction in EBITDA margin estimates, we expect the margin to be at robust levels of 24-25% as against FY18-FY22E mean of ~19%. Maintain BUY with a revised DCF-based target price of Rs553 (earlier: Rs671), implying 22x FY24E earnings (doubling in FY22E-FY24E).

- **Energy cost inflation to drive margin reversion from Q3FY22 highs:** EBITDA margin was at ~27% in Q3FY22, and we expect it to be hit in FY23E due to energy cost inflation, though input material costs are not yet an area of concern. With domestic architectural glass prices having inched up by ~25-30% in YTDFY22, we see limited incremental triggers for further price hikes. This would result in profitability succumbing to cost inflationary pressures. Power/fuel costs (~17% of sales) are likely to witness 20-25% increase in next two quarters (~400bps), led by rise in cost of natural gas (~70% of energy cost) and crude oil. Also, logistics cost (~6% of sales) is likely to undergo ~20% inflation, impacting the margin by ~100bps.

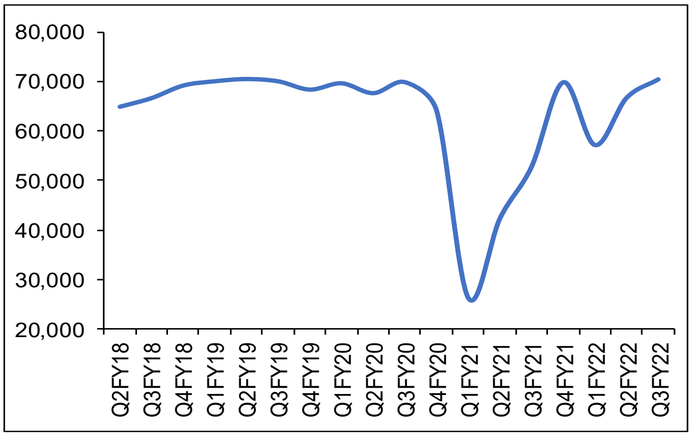
- **Growth trajectory intact:** With residential unit sales growing by ~50% YTD-FY22 and scope for further opening up of the economy, demand for glass in residential segment is likely to witness ~15% CAGR in FY22E-FY24E. In the commercial real estate space, CY21-CY23E supply is estimated to grow at ~6-7% CAGR. In the PV space, we are building-in 14% industry CAGR for FY22E-FY24E, with gradual improvement in chip supply. Thus, we are factoring-in a revenue CAGR of ~19% in FY22E-FY24E, with ~14% volume growth and rest from value mix improvement.

- **To operate at RoE in excess of ~20% *vs* past 5-year mean of ~15%:** Despite the cut in margin estimates, we expect AIG to deliver >20% RoE in FY23E-FY24E led by strong revenue CAGR of ~19% and EBITDA margin of ~24%. Post factoring in capex of Rs4bn p.a. to fund the next leg of capacity addition, an EBITDA margin of ~24% (~600bps higher than the FY17-FY21 mean) would help AIG generate FCF of Rs3.5bn p.a. and reduce net debt/equity from 0.8x in FY21 to 0.2x in FY24E. We are not building-in numbers for the Vishakha solar glass JV in FY23E-FY24E.

Market Cap	Rs102bn/US$1.3bn
Reuters/Bloomberg	AISG.BO/AISG IN
Shares Outstanding (mn)	243.1
52-week Range (Rs)	612/283
Free Float (%)	43.6
FII (%)	23.8
Daily Volume (US$/'000)	2,317
Absolute Return 3m (%)	(11.3)
Absolute Return 12m (%)	26.7
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	9.4

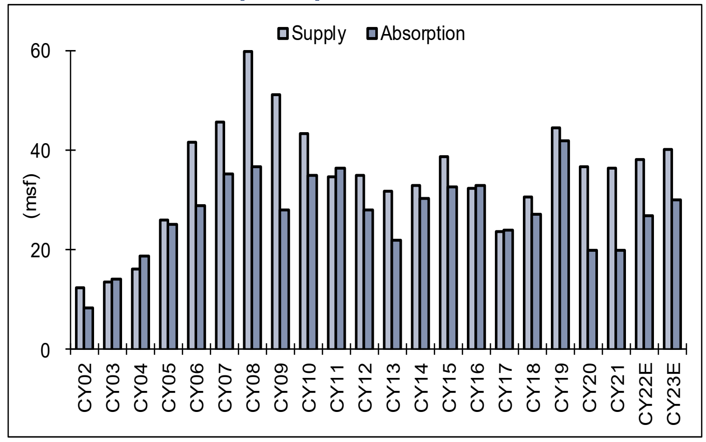
Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	23,935	30,761	37,137	43,871
Net Income (Rs mn)	1,387	3,054	4,466	6,023
EPS (Rs)	5.7	12.6	18.4	24.8
% Chg YoY	(14.8)	120.1	46.2	34.9
P/E (x)	73.7	33.5	22.9	17.0
CEPS (Rs)	10.9	19.1	25.6	33.0
EV/E (x)	25.1	15.8	12.3	9.7
Dividend Yield (%)	0.2	0.5	0.7	1.0
RoCE (%)	12.0	18.9	23.5	26.9
RoE (%)	9.3	17.5	21.1	23.0

Chart 1: Residential unit sales trending back towards long-term average briskly



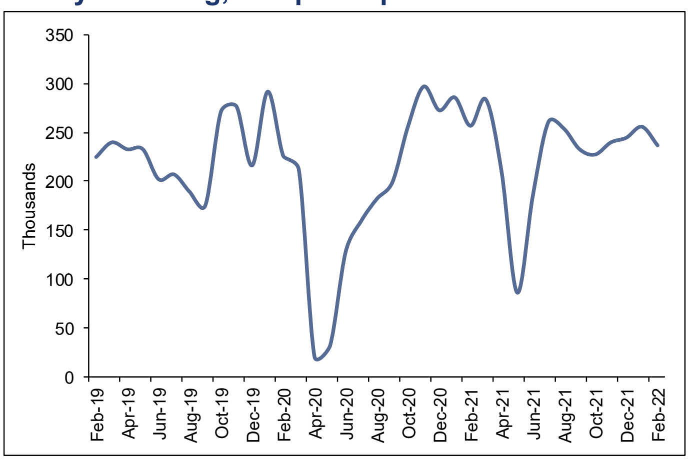
Source: Company data, I-Sec research

Chart 2: Commercial RE absorption to pick pace as offices start to open up from FY23E



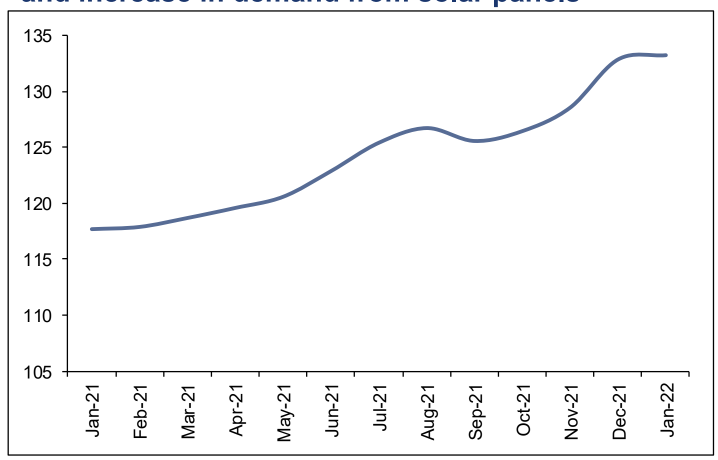
Source: Company data, I-Sec research

Chart 3: Expecting PV sales to grow at ~14% CAGR in FY22E-FY24E led by base effect, chip issue slowly resolving, and pent-up demand



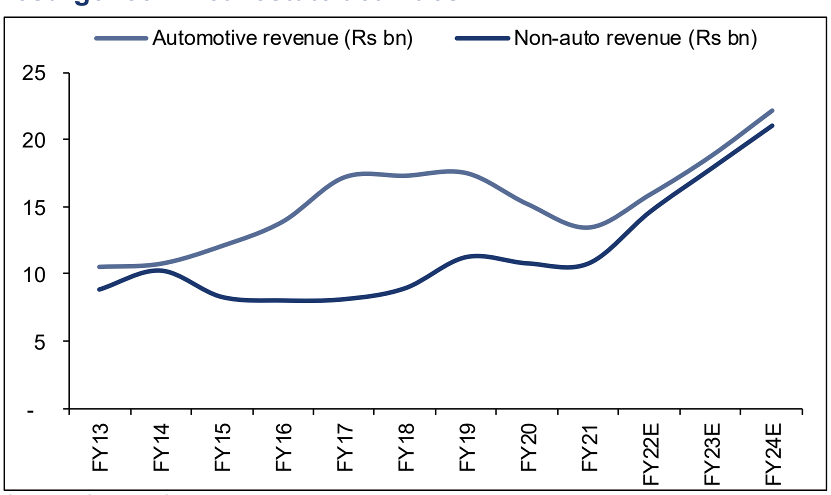
Source: Vahan data, Company data, I-Sec research

Chart 4: Float glass pricing index inching up due to limited global supply addition, container shortage, and increase in demand from solar panels



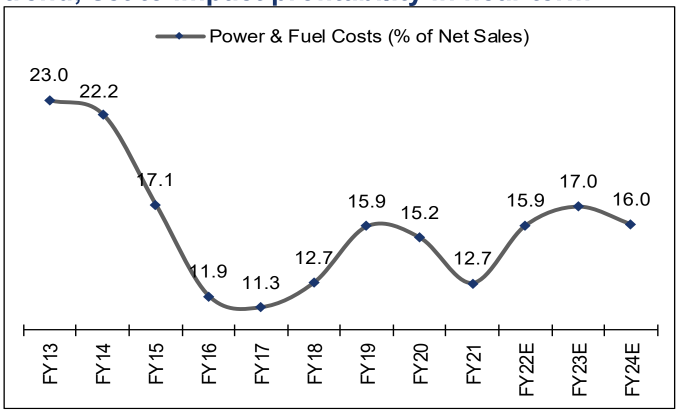
Source: FRED data, I-Sec research

Chart 5: AIG's non-auto revenues are picking up at a faster rate led by resurgence in real estate activities



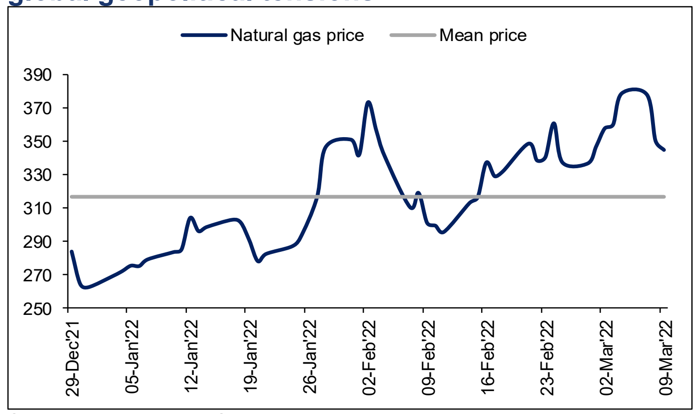
Source: SIAM, I-Sec research

Chart 6: Power and fuel cost to sales on a rising trend; set to impact profitability in near term



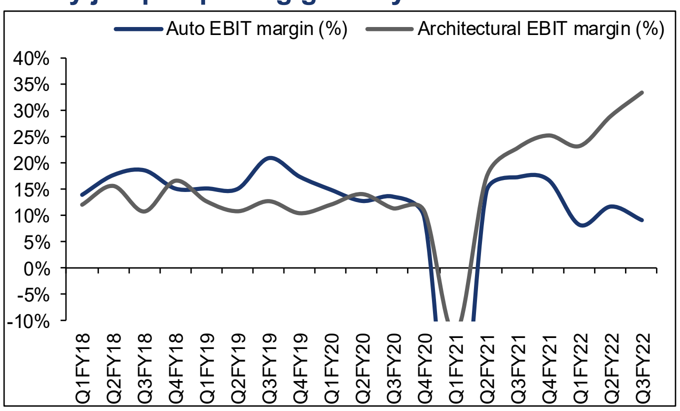
Source: Company data, I-Sec research

Chart 7: Domestic natural gas price surging amidst global geopolitical tensions



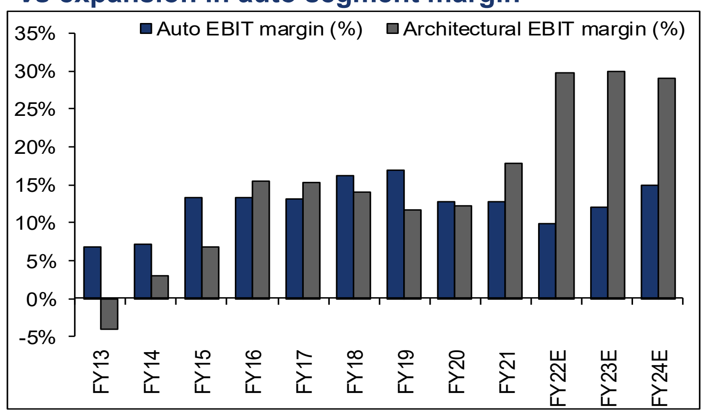
Source: Bloomberg, I-Sec research

Chart 8: Non-auto segment margin at record high led by jump in pricing globally



Source: Company data, I-Sec research

Chart 9: Expect architectural margin to normalise *vs* expansion in auto segment margin



Source: Company data, I-Sec research

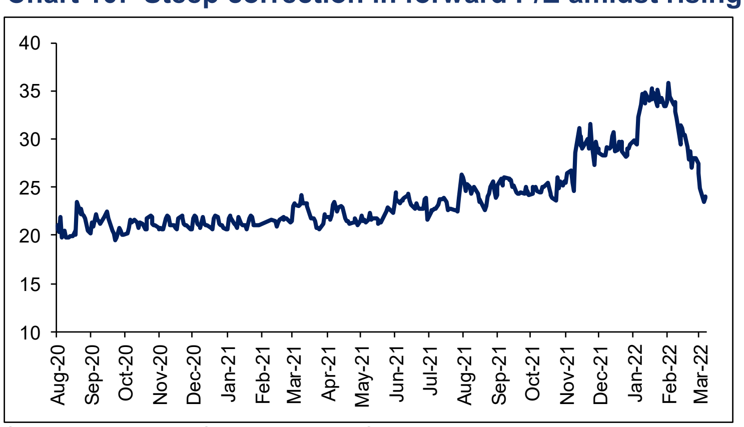
Table 1: Earnings revision

(Rs mn, year ending March 31)

	FY22E			FY23E			FY24E		
	Previous	**Revised**	**Chg (%)**	**Previous**	**Revised**	**Chg (%)**	**Previous**	**Revised**	**Chg (%)**
Revenue	30,940	30,761	(0.6)	38,052	37,137	(2.4)	43,497	43,871	0.9
EBITDA	7,804	7,083	(9.2)	10,556	8,997	(14.8)	12,339	11,115	(9.9)
EBITDA margin (%)	25%	23%		28%	24%		28%	25%	
Adj. PAT	3,556	3,054	(14.1)	5,459	4,466	(18.2)	6,761	6,023	(10.9)
EPS (Rs)	14.6	12.6	(14.1)	22.5	18.4	(18.2)	27.8	24.8	(10.9)

Source: Company data, I-Sec research

Chart 10: Steep correction in forward P/E amidst rising risk of earnings cut led by energy cost inflation



Source: Bloomberg, Company data, I-Sec research

Financial summary (standalone)

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Total Op. Income (Sales)	**23,935**	**30,761**	**37,137**	**43,871**
Operating Expenses	**19,365**	**23,678**	**28,140**	**32,756**
EBITDA	**4,569**	**7,083**	**8,997**	**11,115**
% margins	*19.1%*	*23.0%*	*24.2%*	*25.3%*
Depreciation & Amortisation	1,275	1,588	1,750	2,000
EBIT	**3,295**	**5,496**	**7,247**	**9,115**
Other Income	268	304	320	340
Gross Interest	1,385	1,173	1,000	850
PBT	**2,179**	**4,627**	**6,567**	**8,605**
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	**2,179**	**4,627**	**6,567**	**8,605**
Less: Taxes	791	1,573	2,102	2,581
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
Net Income (Reported)	**1,387**	**3,054**	**4,466**	**6,023**
Net Income (Adjusted)	**1,387**	**3,054**	**4,466**	**6,023**

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
ASSETS				
Current Assets	12,471	15,344	16,726	19,721
Cash & cash eqv.	*399*	*2,118*	*1,340*	*1,749*
Current Liabilities & Provisions	10,166	11,516	13,530	15,601
Net Current Assets	**2,305**	**3,829**	**3,197**	**4,120**
Investments	**466**	**466**	**466**	**466**
Goodwill	13	13	13	13
Net Fixed Assets	**24,216**	**24,129**	**26,379**	**28,379**
Capital Work-in-Progress	*2,619*	*2,619*	*2,619*	*2,619*
Long term loans & advances	453	584	703	831
Deferred Tax Assets	1,056	1,056	1,056	1,056
Other non-current asset	0	0	0	0
Total Assets	**28,509**	**30,076**	**31,813**	**34,864**
LIABILITIES				
Borrowings	**12,676**	**11,676**	**9,676**	**7,676**
long-term borrowings	*10,419*	*9,419*	*7,419*	*5,419*
short-term borrowings	*2,256*	*2,256*	*2,256*	*2,256*
Long-term provisions	56	56	56	56
Deferred Tax Liability	912	912	912	912
Other Non-current Liabilities	0	0	0	0
Minority Interest	0	0	0	0
Equity Share Capital	243	243	243	243
Reserves & Surplus	14,622	17,190	20,926	25,977
Net Worth	**14,865**	**17,433**	**21,169**	**26,220**
Total Liabilities	**28,509**	**30,076**	**31,813**	**34,864**

Source: Company data, I-Sec research

Table 4: 5-stage DuPont analysis

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Tax Burden (Adjusted PAT/PBT)	63.7	66.0	68.0	70.0
Interest Burden (PBT/EBIT)	66.1	84.2	90.6	94.4
EBIT Margin (EBIT/Sales)	13.8	17.9	19.5	20.8
Asset Turnover (Sales/Total Assets)	84.0	102.3	116.7	125.8
Financial Leverage (Total Assets/Equity)	191.8	172.5	150.3	133.0
ROE	9.3	17.5	21.1	23.0

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Cashflow before working capital changes	**4,046**	**5,815**	**7,216**	**8,873**
Working Capital Changes	(411)	195	(146)	(514)
Operating Cashflow	**3,635**	**6,009**	**7,070**	**8,360**
Capital Commitments	(906)	(1,500)	(4,000)	(4,000)
Free Cashflow	**2,728**	**4,509**	**3,070**	**4,360**
Cashflow from Investing Activities	**(496)**	**(1,631)**	**(4,119)**	**(4,128)**
Issue of Share Capital	-	-	-	-
Inc/(Dec) in securities premium	-	-	-	-
Buyback of shares	-	-	-	-
Inc/(Dec) in Borrowings	(1,516)	(1,000)	(2,000)	(2,000)
Dividend paid	(243)	(486)	(729)	(972)
Others	(1,096)	(1,173)	(1,000)	(850)
Cashflow from Financing Activities	**(2,854)**	**(2,660)**	**(3,729)**	**(3,822)**
Net Cashflow	**285**	**1,718**	**(778)**	**409**
Closing Cash & Bank balance	**399**	**2,118**	**1,340**	**1,749**

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (in Rs.)				
EPS (Basic)	5.7	12.6	18.4	24.8
EPS (Adjusted)	5.7	12.6	18.4	24.8
Cash EPS	10.9	19.1	25.6	33.0
Dividend per share (DPS)	1.0	2.0	3.0	4.0
BVPS (Adjusted)	61.1	71.7	87.1	107.9
Growth Ratios (%)				
Total Op. Income (Sales)	-8.4	28.9	20.3	18.2
EBITDA	1.6	55.0	27.0	23.5
Net Income (Adjusted)	-14.8	120.1	46.2	34.9
EPS (Adjusted)	-14.8	120.1	46.2	34.9
Cash EPS	-8.8	74.4	33.9	29.1
BVPS (Adjusted)	10.7	17.3	21.4	23.9
Valuation Ratios (x)				
P/E (Adjusted)	73.7	33.5	22.9	17.0
P/BV (Adjusted)	6.9	5.9	4.8	3.9
EV/EBITDA	25.1	15.8	12.3	9.7
EV/Sales	4.8	3.6	3.0	2.5
Return/Profitability Ratios (%)				
EBITDA Margin	19.1	23.0	24.2	25.3
Net Income Margin (Adjusted)	5.8	9.9	12.0	13.7
RoCE	12.0	18.9	23.5	26.9
RoNW	9.3	17.5	21.1	23.0
Dividend Payout Ratio	17.5	15.9	16.3	16.1
Dividend Yield	0.2	0.5	0.7	1.0
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.8	0.5	0.4	0.2
Debt/EBITDA	2.8	1.6	1.1	0.7
EBIT/Interest	2.4	4.7	7.2	10.7
Current Ratio	1.2	1.3	1.2	1.3
Quick Ratio	0.6	0.7	0.6	0.7
Inventory (days)	97	82	80	80
Receivables (days)	59	51	50	50
Payables (days)	97	85	85	85

Source: Company data, I-Sec research

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