

01 August 23

India | Equity research | Q1FY24 result review

Asahi India Glass

Auto ancillaries

Auto margin mean reverts, finally; valuation stretched

Asahi India Glass' (AISG) Q1FY24 EBITDAM at 20.1%, was up ~330bps QoQ and higher than I-Sec estimate of 17%. The beat was driven by auto segment EBIT margin improvement of ~730bps QoQ to 13.5% (9-quarter high) vs architectural segment EBIT margin remaining flat QoQ at 21%. Increase in the auto margin was driven by price hikes taken by AISG to pass on input cost inflation, operating leverage and improved mix. We believe AISG can maintain its current margin levels in the auto segment in FY24E-FY25E, but non-auto margins are likely to be range-bound. We are factoring-in ~21% EBITDAM in FY24E/FY25E with a revenue CAGR of ~12%, resulting in earnings CAGR of ~22% in FY23-FY25E. Downgrade to **REDUCE** (from **Hold**) with a revised DCF-based target price of INR 503 (earlier: INR 468), implying 22x FY25E EPS.

Key takeaways from Q1FY24 result, and our views

- Growth in the non-auto segment was limited due to capacity running at full utilisation and less scope for further enhancement in value-added products such as coated glass. We expect non-auto segment revenue growth to pick up only from FY26E with fresh capacity coming in late FY25. Auto segment growth was driven by PV industry growth with SUV launches enabling revenue increase at a higher pace than industry volume increase. We are building-in industry volume CAGR of 8% in FY23-FY25E, thus driving auto glass industry value growth potentially by 12-15%. We are forecasting Asahi revenue CAGR at 12% for FY23-FY25E.
- Auto segment margin was expected to improve from Q4 lows of ~6% EBIT towards 10% levels as AISG increased prices to pass on input cost inflation with a lag from Q1. Added benefit of operating leverage and improved mix in the auto glass portfolio, helped the company deliver ~730bps EBIT margin improvement QoQ. Historically, AISG has delivered ~14-15% margin in the auto segment as against long-term mean of ~10%. We therefore believe AISG can maintain the current margin levels in auto segment in FY24E-FY25E. Non-auto segment EBIT margin largely remained flat QoQ, and we expect it to remain range-bound at 20-25% in FY24E-FY25E. As against 30-35% EBIT margin in this segment executed by AISG in FY22-FY23, with rising imports impacting the pricing power of domestic architectural glass suppliers, we believe it would be tough for AISG to go back to the 30%+ EBIT margin anytime soon,

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	31,053	39,098	44,459	49,263
EBITDA	7,704	8,086	9,251	10,753
EBITDA %	24.8	20.7	20.8	21.8
Net Profit	3,476	3,678	4,550	5,496
EPS (INR)	14.3	15.1	18.7	22.6
EPS % Chg YoY	150.6	5.8	23.7	20.8
P/E (x)	40.1	37.9	30.7	25.4
EV/EBITDA (x)	19.6	18.8	16.4	14.1
RoCE (%)	4.1	12.1	25.0	20.5
RoE (%)	0.5	17.5	32.3	26.0

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Market Data

Market Cap (INR)	139bn
Market Cap (USD)	1,697mn
Bloomberg Code	AISG IN
Reuters Code	AISG.BO
52-week Range (INR)	694 /420
Free Float (%)	45.0
ADTV-3M (mn) (USD)	1.1

Price Performance (%)	3m	6m	12m
Absolute	20.0	12.9	(3.1)
Relative to Sensex	9.6	12.7	17.0

ESG Disclosure	2021	2022	Change
ESG score	31.5	31.9	0.4
Environment	1.2	2.4	1.2
Social	14.4	14.4	-
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(1.2)	(0.8)
EBITDA	2.4	(0.1)
EPS	1.7	(1.4)

Previous Reports

15-05-2023: [Q4FY23 results review](#)

26-01-2023: [Q3FY23 results review](#)

- We expected capex to be limited in FY24E-FY25E as AISG is spending on new facility, which would likely take its overall capacity from the current ~1,250tpd to ~1,850tpd in H2FY25. Limited overall revenue growth (low growth in non-auto segment due to capacity constraints) and elevated capex under a stable EBITDAM environment, we believe, would result in AISG generating limited FCF in FY24E-FY25E, in turn keeping net D/E largely unchanged across FY23-FY25E.

Exhibit 1: Q1FY24 result review (standalone)

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Total operating income	10,526	9,040	16	10,334	2
Raw material costs	3,939	2,596	52	4,113	-4
as a % of Sales	37%	29%	870 bps	40%	-238 bps
Gross Profit	6,587	6,443	2	6,221	6
Gross margin (%)	63%	71%	-870 bps	60%	238 bps
Employee costs	779	696	12	786	-1
as a % of Sales	7%	8%	-30 bps	8%	-20 bps
Other expenditures	2,154	2,042	6	2,256	-5
as a % of Sales	20%	23%	-212 bps	22%	-137 bps
Power & Fuel	1,544	1,478	4	1,445	7
as a % of Sales	14.7%	16.3%	-168 bps	14.0%	68 bps
Total operating expenses	8,415	6,812	24	8,599	-2
EBITDA	2,111	2,228	-5	1,735	22
EBITDA margin (%)	20.1	24.6	-459 bps	16.8	327 bps
Depreciation & Amortisation	384	387	-1	386	-1
Other income	35	45	-23	58	-40
Interest costs	333	249	34	249	34
PBT	1,429	1,636	-13	1,158	23
Exceptional Items	-	-	-	-	-
Taxes	368	568	-35	463	-20
PAT	1,060	1,069	-1	695	52

Source: I-Sec research, Company data

Exhibit 2: Quarterly segmental revenue and EBIT trends

Particulars (INR mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Auto segment					
Revenue	6,199	5,172	20	5,797	6.9
EBIT*	835	520	61	360	132
EBIT margin(%)	13.5	10.0	342 bps	6.2	726 bps
Architectural segment					
Revenue	4,302	3,911	10	4,582	(6)
EBIT*	916	1,352	(32)	1,006	(9)
EBIT margin(%)	21.3	34.6	-1329 bps	21.9	-66 bps

Source: I-Sec research, Company data

Exhibit 3: Earnings revision

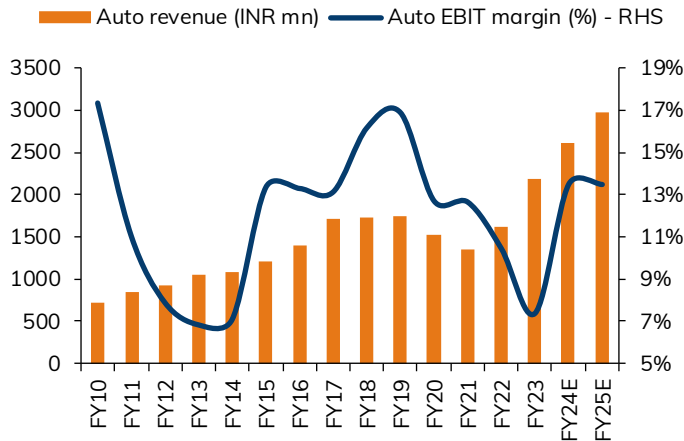
	FY24E			FY25E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales*	45,272	44,749	(1.2)	49,972	49,563	(0.8)
EBITDA	9,037	9,251	2.4	10,766	10,753	(0.1)
EBITDA (%)	20.0%	20.7%	71 bps	21.5%	21.7%	15 bps
PAT	4,474	4,550	1.7	5,572	5,496	(1.4)
EPS (INR)	18.4	18.7	1.7	22.9	22.6	(1.4)

Source: I-Sec research, Company data *Includes Other operating income

Upside risks

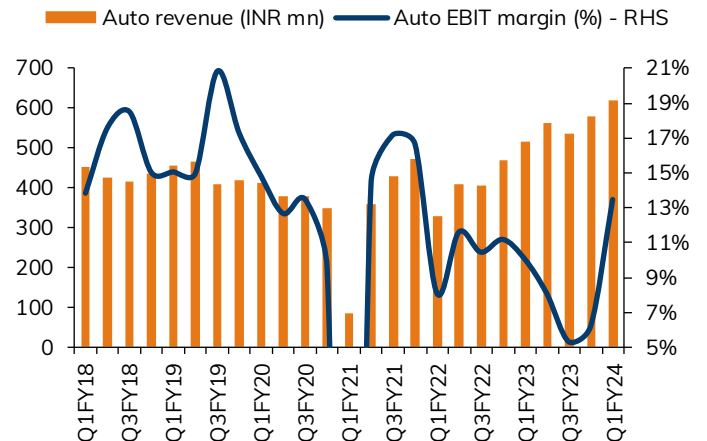
- Faster than expected decline in commodity prices, helping GM to revive.
- Brisk pick-up in imports with container supplies normalising, resulting in the share of imports increasing at the cost of domestic manufacturers like AISG. This would also potentially result in weaker pricing power in architectural glass segment, which helped AISG report robust profitability in FY22 and H1FY23

Exhibit 4: We are building-in recovery in automotive margin trajectory from FY23 lows



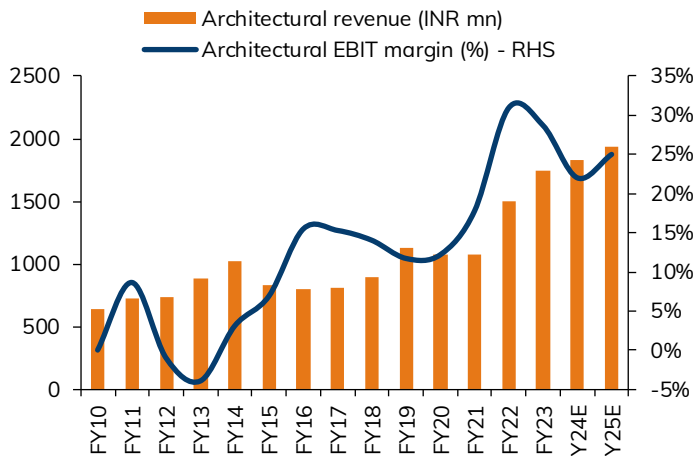
Source: I-Sec research, Company data

Exhibit 5: Quarterly auto segment performance remained subdued for past 3 quarters; margin turned around in Q1FY24



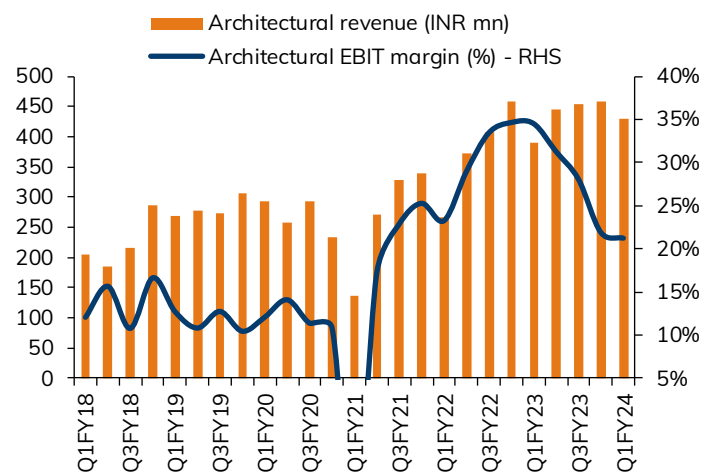
Source: I-Sec research, Company data

Exhibit 6: We are building-in architectural segment margin to normalise at ~25% levels ahead



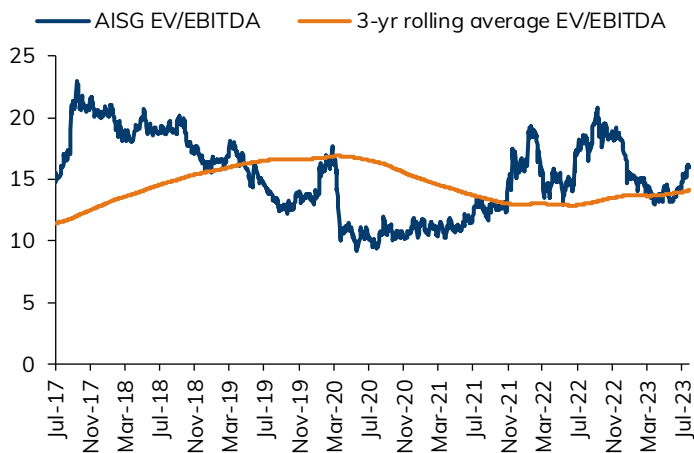
Source: I-Sec research, Company data

Exhibit 7: Quarterly architectural segment performance remained subdued



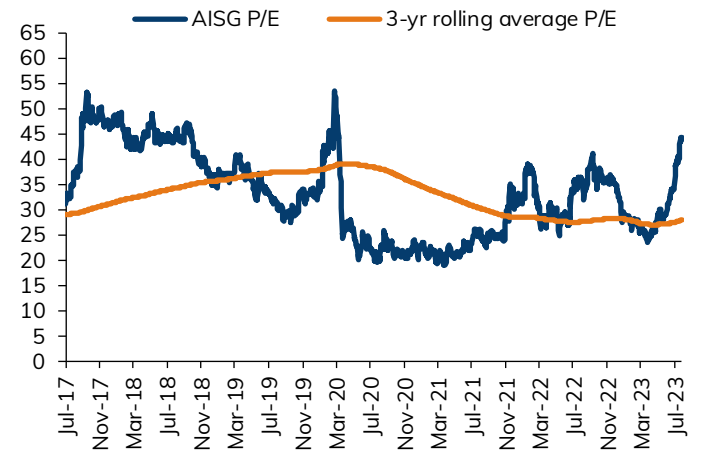
Source: I-Sec research, Company data

Exhibit 8: 3-year moving EV/EBITDA



Source: I-Sec research, Company data

Exhibit 9: 3-year moving P/E



Source: I-Sec research, Company data

Exhibit 10: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	54.2	54.2	54.2
Institutional investors	5.4	5.5	5.4
MFs and other	1.6	1.7	1.7
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIIIs	3.8	3.8	3.7
Others	40.4	40.3	40.4

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	31,053	39,098	44,459	49,263
Operating Expenses	14,459	17,705	19,363	21,211
EBITDA	7,704	8,086	9,251	10,753
EBITDA Margin (%)	24.8	20.7	20.8	21.8
Depreciation & Amortisation	1,552	1,537	1,800	2,000
EBIT	6,152	6,549	7,451	8,753
Interest expenditure	1,176	1,011	1,000	900
Other Non-operating Income	213	213	340	350
Recurring PBT	5,190	5,751	6,791	8,203
Profit / Loss from Associates	-	-	-	-
Less: Taxes	1,714	2,073	2,241	2,707
PAT	3,476	3,678	4,550	5,496
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,476	3,678	4,550	5,496
Net Income (Adjusted)	3,476	3,678	4,550	5,496

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	13,654	19,196	20,561	21,722
of which cash & cash eqv.	787	1,159	1,283	606
Total Current Liabilities & Provisions	7,177	9,712	11,080	12,330
Net Current Assets	6,477	9,484	9,481	9,392
Investments	515	1,145	1,145	1,145
Net Fixed Assets	22,614	22,548	26,248	29,749
ROU Assets	-	-	-	-
Capital Work-in-Progress	890	2,268	2,268	2,268
Total Intangible Assets	13	13	13	13
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	31,101	36,370	40,191	43,716
Liabilities				
Borrowings	12,259	13,712	13,712	12,712
Deferred Tax Liability	671	1,336	1,337	1,338
Provisions	51	52	52	52
Other Liabilities	-	-	-	-
Equity Share Capital	243	243	243	243
Reserves & Surplus	17,877	21,027	24,848	29,371
Total Net Worth	18,120	21,270	25,091	29,614
Minority Interest	-	-	-	-
Total Liabilities	31,101	36,370	40,191	43,716

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	FY22	FY23	FY24E	FY25E
Tax Burden (Adjusted PAT/PBT)	67.0	64.0	67.0	67.0
Interest Burden (PBT/EBIT)	84.4	87.8	91.1	93.7
EBIT Margin (EBIT/Sales)	19.8	16.7	16.7	17.7
Asset Turnover (Sales/Total Assets)	100.1	107.7	111.3	113.4
Financial Leverage (Total Assets/Equity)	171.6	171.0	160.2	147.6
ROE	19.2	17.3	18.1	18.6

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,419	3,591	7,478	7,808
Working Capital Changes	(3,785)	(2,635)	128	(588)
Capital Commitments	(839)	(2,850)	(5,500)	(5,500)
Free Cashflow	1,580	741	1,978	2,308
Other investing cashflow	622	(284)	(125)	(112)
Cashflow from Investing Activities	(217)	(3,134)	(5,625)	(5,612)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(417)	1,454	-	(1,000)
Dividend paid	(486)	(486)	(729)	(972)
Others	(911)	(1,053)	(999)	(900)
Cash flow from Financing Activities	(1,814)	(85)	(1,728)	(2,872)
Chg. in Cash & Bank balance	387	372	124	(677)
Closing cash & balance	787	1,158	1,283	606

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	14.3	15.1	18.7	22.6
Adjusted EPS (Diluted)	14.3	15.1	18.7	22.6
Cash EPS	20.7	21.5	26.1	30.8
Dividend per share (DPS)	2.0	2.0	3.0	4.0
Book Value per share (BV)	74.5	87.5	103.2	121.8
Dividend Payout (%)	14.0	13.2	16.0	17.7
Growth (%)				
Net Sales	30.6	25.9	13.7	10.8
EBITDA	68.6	5.0	14.4	16.2
EPS (INR)	150.6	5.8	23.7	20.8
Valuation Ratios (x)				
P/E	40.1	37.9	30.7	25.4
P/CEPS	27.7	26.7	22.0	18.6
P/BV	7.7	6.6	5.6	4.7
EV / EBITDA	19.6	18.8	16.4	14.1
EV / Sales	4.9	3.9	3.4	3.1
Profitability Ratios				
Gross Profit Margins (%)	71.4	66.0	64.4	64.9
EBITDA Margins (%)	24.8	20.7	20.8	21.8
EBIT Margins (%)	19.8	16.7	16.8	17.8
Net Profit Margins (%)	11.2	9.4	10.2	11.2
RoCE (%)	4.1	12.1	25.0	20.5
RoE (%)	0.5	17.5	32.3	26.0
Dividend Yield (%)	0.3	0.3	0.5	0.7
Operating Ratios				
Fixed Asset Turnover (x)	1.3	1.6	1.6	1.5
Inventory Turnover Days	80	92	85	85
Receivables Days	45	47	47	47
Payables Days	71	77	77	77
Effective Tax Rate (%)	33.0	36.0	33.0	33.0
Net Debt / Equity (x)	0.6	0.6	0.5	0.4
Net Debt / EBITDA (x)	1.5	1.6	1.3	1.1

Source Company data, I-Sec research

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