

BSE Code: 515030 NSE Code: ASAHINDIA Reuters Code: AISG.NS Bloomberg Code: AISG:IN

Asahi India Glass Ltd is an integrated glass company manufacturing a wide range of international quality glass that finds application applications across multiple industries. The company is having a leadership position both in the car and building glass segment with 10 manufacturing facilities and three warehouses cum sub-assembly units. It is having a significant 77% share in the Indian car glass market. The company is broadly structured into four verticals viz; Auto, Architectural, Consumer Glass and Solar Glass. The company is having a rich clientele which includes market leaders like Maruti Suzuki, Hyundai Motors, Tata Motors, Mahindra & Mahindra, Toyota Kirloskar, Honda Cars India, Volkswagen India, Ford India, Skoda Auto and Fiat India.

Investment Rationale

Renewed product portfolio and capacity expansion to augment growth: Asahi India Glass Ltd remain focused on product diversification to expand its business scope with existing and new customers. With healthy product mix and specialization in niche product segment, the company is well positioned to leverage market opportunities and significantly grow the different businesses. Progressing ahead, the company's ability to scale-up its operations coupled with its cost reduction initiative (with the company managed to curtail its power & fuel cost in 9MFY15, which is lower by ~18% YoY) will further aid to its operating performance.

Further, the company is expanding capacity of its laminated glass line at Bawal (Haryana), from 1.5 mn tpa to 2.2 mn tpa, which is expected to be completed by 2016, which will further strengthen its market position.

Strong clientele with OEMs augurs well for the company: The OEM segment continues to be the prime driver of the business with the company is having a dominant position in Indian car glass market (market share of more than 75% in the domestic market). We believe that the company's strong relationships with majority of leading OEMs in the domestic market that have been built over the years through strong performance in terms of quality, cost, delivery, and development (QCDD) of product will continue to drive key business growth for the company.

Improving cash position to result in lower debt: The company remains committed towards achieving its long term strategy of value addition and integration to make profits and generate positive cash flows. The improved operating profit levels helped the company in maintaining better cash position with cash and cash equivalent at ₹289.8 mn at the end of 30th September 2014. The improving operating profitability will led to further reduction in overall gearing. With the company's continuous focus towards scaling up operations and streamlining working capital management, AIS will achieve an enhanced cash position that will help to further lower its debt burden.

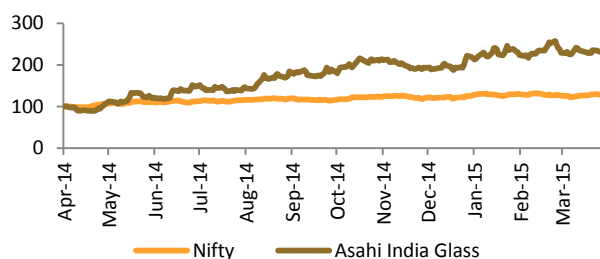
Market Data

Rating	BUY
CMP (₹)	125
Target (₹)	156
Potential Upside	~25%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	160/51.7
Adj. all time High (₹)	160
Decline from 52WH (%)	21.9
Rise from 52WL (%)	141.8
Beta	0.8
Mkt. Cap (₹bn)	30.4
Enterprise Value (₹bn)	41.1

Fiscal Year Ended

Y/E	FY14A	FY15E	FY16E	FY17E
Revenue (₹bn)	21.4	22.1	24.9	28.1
EBITDA (₹bn)	2.3	3.2	3.8	4.4
Net Profit (₹bn)	(0.5)	0.5	1.0	1.6
EPS (₹)	(1.9)	2.1	4.3	6.6
P/E (x)	-	59.9	29.2	19.1
P/BV (x)	12.6	10.4	7.7	5.5
EV/EBITDA (x)	17.9	12.6	10.6	8.9
ROCE (%)	13.7	26.8	31.7	34.6
ROE (%)	(19.4)	18.7	26.3	28.7

One year Price Chart



Shareholding Pattern	Dec'14	Sep'14	Diff.
Promoters	54.4	54.4	-
FII	0.6	0.4	0.2
DII	0.04	0.04	-
Others	45.0	45.2	(0.2)

Asahi India Glass is a dominant player both in the car and building glass segment. It commands a 77% share in the Indian car glass market.

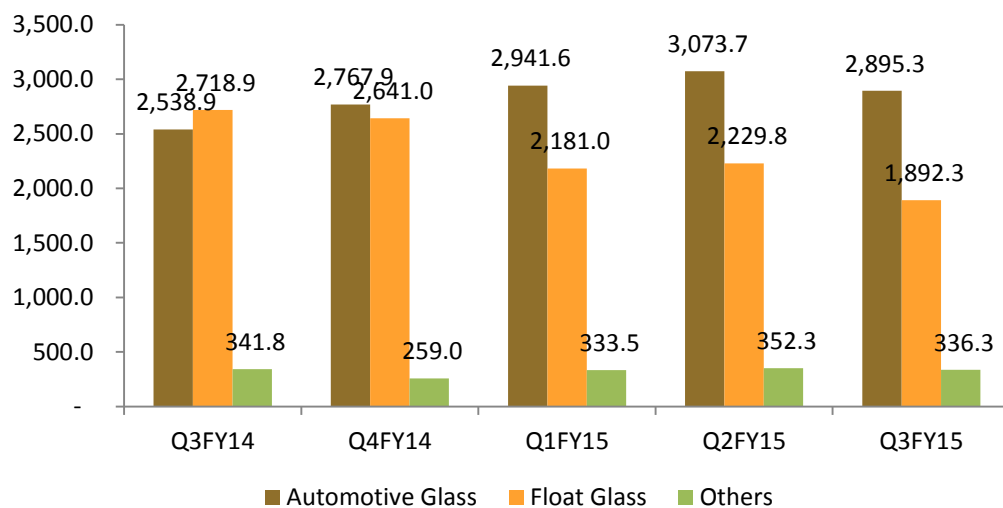
Asahi India Glass Ltd. –Pioneering glass manufacturing in the country

Incorporated in the year 1984, Asahi India Glass’ origin can be traced to the JV agreement between the Labroo family, Asahi Glass Co. Ltd. (AGC), Japan and Maruti Suzuki India Ltd. As promoter group, the three entities jointly hold about 55% of paid-up equity capital of AIS with the balance 45% being held by the public. Initially the company has presence in the auto glass market with a sole manufacturing facility in Haryana. Later in 2001, Asahi India Glass has forayed into float glass segment post the acquisition of Float glass India Ltd in 2001. Over the years, the company has entered into diverse segments like consumer glass segment - comprising businesses like GlasXperts, Windshield Experts and glass processing. Further, the company has also entered into manufacturing solar glass to cater to the rising significance of glass in the solar energy market.

The company continues to focus towards expansion and has undergone significant expansion in the past that will allow the company to further fortify its strength in terms of its capabilities, internal processes and competitive positioning.

The strong performance of the automotive business lies in the fact that the company is having strong relationships with majority of leading OEMs in the domestic market. While in float glass segment, the company manufactures products catering to diverse needs like reflective glass, tinted glass, among others and the same are sold through the dealer-network.

Segment wise revenue contribution trend (₹ in mn)



EBITDA margin improved in Q3FY15 on lower operational costs offset weak topline performance

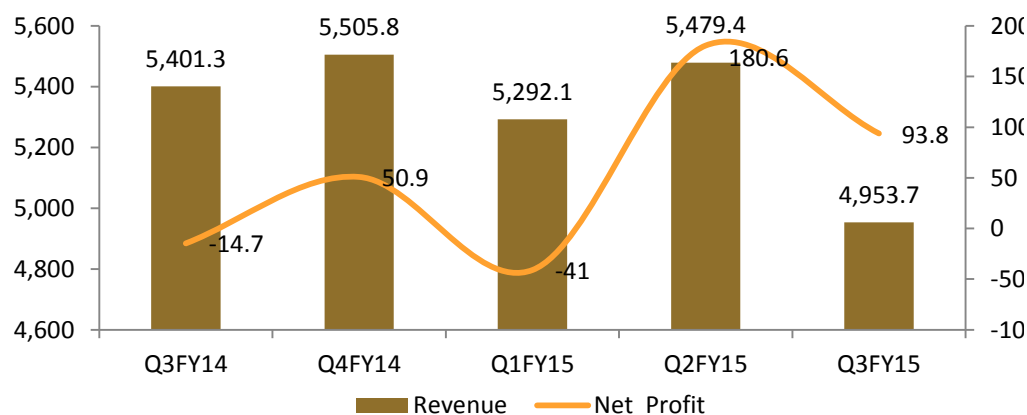
Asahi India Glass has reported a muted performance in Q3FY15 on consolidated basis, with the revenue from operations seen a modest decline of ~8% YoY to ₹4,953.7 mn. The lower growth in total income from operations was due to 30.4% YoY plunge in sales revenue from the company’s float glass business to ₹1,892.3 mn, which overshadowed 14% YoY growth in revenue from the company’s automotive glass business, which stood at ₹2,895.3 mn during the quarter under consideration.

Consolidated revenue fell ~8% in Q3FY15 on account of 30.4% YoY slide in sales revenue from the company’s float glass business.

Lower operational expenses triggered sharp improvement in EBITDA margin to 14.6% in Q3FY15 as compared to 13.5% in Q3FY14.

The performance on operational front also remained muted, with the EBITDA of the company witnessed a marginal 1% YoY decline to ₹722.8 mn, supported by 9.4% YoY decrease in operating expenses to ₹4,230.9 mn as compared to ₹4,671.3 mn in the corresponding period of the previous year. The company managed to contain its major operational costs during the quarter primarily due to sharp cut in power & fuel costs that stood at ₹836.7 mn, down by ~33% YoY, followed by lower raw material costs and other expenses down by ~4% YoY and ~6% YoY respectively. Driven by lower expenses, the EBITDA margin improved to 14.6% in Q3FY15 as compared to 13.5% in Q3FY14. Further, considering the significant decline in depreciation charges by 27.5% YoY to ₹263 mn coupled with a triple digit growth in other income to ₹56.6 mn in Q3FY15 compared to ₹6.6 mn in Q3FY14, Asahi India Glass has recorded a net profit of ₹93.8 mn for the quarter against a loss of ₹14.7 mn in Q3FY14.

Performance trend

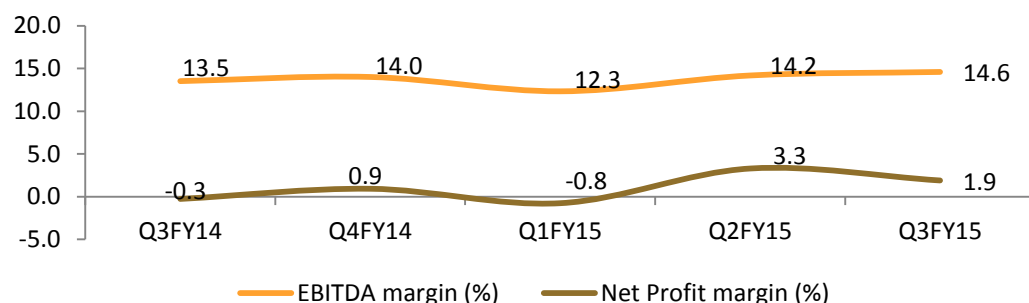


Consolidated EBITDA stays robust in 9MFY15, surged by ~41% YoY to ₹2,151.9 mn assisted by 5.6% YoY decline in operating expenses during the quarter under consideration.

Nine monthly performance showcased robust growth in EBITDA

Asahi India has reported a mere 1.1% de-growth in its consolidated total income to ₹15,725.2 mn in 9MFY15 as compared to ₹15,902.6 mn in the corresponding period last year mainly impacted by lower revenue from float glass business down by 17% YoY to ₹6,303.1 mn. However, a modest 11.3% YoY rise in revenue from Automotive glass business and 11.7% YoY increase in revenue from others business has constrained the decline in revenue. Meanwhile, the EBITDA performance stays robust with the consolidated EBITDA surged by ~41% YoY to ₹2,151.9 mn, assisted by 5.6% YoY decline in operating expenses to ₹13,573.3 mn during the quarter under consideration. In line with strong EBITDA performance, the company reported a healthy net profit during the period at ₹233.4 mn as compared to a net loss of ₹518.7 mn in the corresponding period last year.

Margins trend



Asahi India Glass commenced the expansion work of the complete laminated glass line at Bawal (Haryana), which will add capacity of 0.7 mn windshields per annum that will take the capacity of laminated glass from 1.5 mn tpa to 2.2 mn tpa.

The company's ability to scale-up its operations coupled with its cost reduction initiative will further aid to its operating performance.

The company is continuously working on increasing value addition to its products, including all ranges of high performance reflective glass. Currently, around 65% of the production is in the value added segment.

Capacity expansion to boost growth

In order to meet the growing demand, the company is lined-up with massive capacity expansion. The company has already commenced the expansion work of the complete laminated glass line at Bawal (Haryana), which will add capacity of 0.7 mn windshields per annum that will take the capacity of laminated glass from 1.5 mn tpa to 2.2 mn tpa. The company is going to incur a capex of around ₹1.5 bn towards meeting the capacity expansion of this facility, which is expected to be completed by 2016, as per report. With equally focused towards capacity expansion, AIS has also established a wide spectrum of capacities and capabilities, which has led the company to have a healthy flexibility in the product mix and specialisation in niche product segments.

The company remains committed towards improving overall efficiencies of its existing lines to stay ahead among its peers.

Recovery in domestic economy will augur well for Asahi India's automotive segment

Asahi India Glass enjoys a dominant position in Indian car glass market, having a praiseworthy market share of more than 75% in the domestic market. Notwithstanding a difficult period witnessed in India's overall automotive segment in FY14, where the production of passenger cars and MUVs actually reduced by 2.9%, meanwhile, the company's auto glass business has grown steadily, registering growth in both revenues and profits in FY14. The company's revenues from the automotive glass segment grew merely by 2.2% to ₹10.8 bn and the operating profit rose 6.1% to ₹0.8 bn in FY14. The improved performance continued in FY15 also as the company's automotive glass business has registered ~11% YoY rise in its consolidated revenue in 9MFY15, reflecting a steady growth in demand. While, the operating profit grew more than double by ~167% YoY in 9MFY15.

Further, the company remains focus towards product diversification to cater to diverse segments of the automotive business. Progressing ahead, the company's ability to scale-up its operations coupled with its cost reduction initiative (with the company managed to contain its power & fuel cost in 9MFY15, which is lower by ~18% YoY) will further aid to its operating performance.

Betting big on value additive products for Architectural glass business

Asahi India Glass is also having a significant presence in India's flat glass market, with the company is having over 25% market share in float glass segment. The company remained steadfast in introducing new products in order to stay competitive in the market. The company is continuously working on increasing value addition to its products, including all ranges of high performance reflective glass. Currently, around 65% of the production is in the value added segment.

The company's float glass business continues to generate profit at the operational level, as is clearly reflected in its 9MFY15 performance, with the company's operating profit from the float glass business surged ~109% YoY, despite the revenue from this business declined by ~17% YoY during the period under consideration.

The government's aim to make India the world's third largest market for automobiles by 2016 and also focus towards creating smart cities across India will augur well for the company as this bolsters the demand outlook of glass.

The sharp rise in profit is driven by various cost management initiatives undertaken by the company at its facilities viz; reducing energy costs at its manufacturing facilities. It is working on further reducing energy costs at its manufacturing facilities that will allow the company to contain its operational costs and stay competitive in the market apart from further strengthening its market position.

Rapid industrial growth augurs well for the company

Indian Glass market has grown remarkably in the past few years on the back of increased thrust in the real estate developments in the country as well as the demand for automotive glass in India is increasing drastically. Glass is a highly energy intensive industry, and movements in fuel and energy prices play a critical role in driving cost of operations and profitability of glass manufacturers. Soda ash is a key input required in manufacturing glass. The industry imports more than a third of its raw material requirements. Any adverse movements in foreign exchange can aggravated the industry's raw material expenses. The float glass segment accounts for the majority of the sales in terms of value in India. The float glass industry in India has been badly affected in the last couple of years because of the slowdown in the real estate and construction sectors – the principal customers. However, the flat glass market has benefited from volume growth in the automotive industry. Industry estimates suggest a very gradual improvement in demand in the automobile sector in FY15. According to the industry body Assocham, the demand of glass is expected to remain robust in the years ahead fuelled by growth in sectors like real estate, infrastructure, retail, automotive and food & beverages. The firm also stated that Indian glass market is estimated to grow at a CAGR of 15% over the next three years. Meanwhile, the rising significance of glass in the solar energy market for renewable energy, and other such as electronics, telecommunications, optical, healthcare and aerospace, will continue to produce opportunities for glass consumption.

The government's aim to make India the world's fourth largest market for automobiles by 2015 and third largest by 2016 bodes well for Asahi India Glass as the company generates major pie of the revenue from the automobile sector. The recent government's focus towards creating smart cities across India will augur well for the company as this bolsters the demand outlook of glass.

Key Risks

- **Market risks:** The risk of demand slowdown is a major concern for the company, which has affected the float glass industry in India in the last couple of years because of the slowdown in the real estate and construction sectors – the principal customers. Asahi India Glass is continuously mitigating this risk by focusing on greater value additions to products in this space.
- **Interest rate risks:** The quantum of debt on the books of the company, especially short term debt, is a cause of concern and debt servicing has been challenging, given the capital intensive nature of the business. Any adverse movement in interest rates would increase cost of refinance and also affect working capital costs.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Share Capital	243.1	243.1	243.1	243.1
Reserve and surplus	2,170.6	2,677.7	3,719.8	5,314.2
Minority Interest	(36.2)	43.0	43.0	43.0
Loans	11,072.6	10,838.0	9,754.2	8,778.8
Other long term liabilities	156.6	156.6	156.6	156.6
Provisions	107.1	133.5	153.7	177.0
Current Liabilities	9,420.0	9,253.1	9,813.7	10,430.4
Capital Employed	23,133.8	23,345.0	23,884.1	25,143.1
Fixed assets	12,205.6	11,839.4	11,484.2	11,776.5
Loans & advances	1,137.2	1,254.3	1,420.8	1,611.3
Non-current Investments	143.0	160.6	160.6	160.6
Deferred tax Assets	1143.8	1111.3	1111.3	1111.3
Current Assets	8,504.2	8,979.3	9,707.2	10,483.3
Capital Deployed	23,133.8	23,345.0	23,884.1	25,143.1

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY14A	FY15E	FY16E	FY17E
Total Income	21,400.7	22,112.1	24,914.5	28,086.0
Operating Expenses	19,106.6	18,868.2	21,158.9	23,737.0
EBITDA	2,294.1	3,243.9	3,755.6	4,348.9
Other Income	44.7	190.5	190.5	190.5
Depreciation	1,428.9	1,185.0	1,125.8	1,069.5
EBIT	909.9	2,249.4	2,820.3	3,469.9
Interest	1,629.8	1,548.3	1,393.5	1,254.1
PBT	(719.9)	701.10	1,426.8	2,215.8
Tax	(223.5)	198.8	428.1	664.7
PAT	(496.4)	463.8	998.8	1,551.1
MI/Share of asso.	28.9	12.3	12.3	12.3
Net Profit	(467.5)	507.1	1,042.1	1,594.4

Key Ratios (Consolidated)

Y/E	FY14A	FY15E	FY16E	FY17E
EBITDA Margin (%)	10.7	14.7	15.1	15.5
EBIT Margin (%)	4.3	10.2	11.3	12.4
NPM (%)	(2.2)	2.3	4.2	5.7
ROCE (%)	13.7	26.8	31.7	34.6
ROE (%)	(19.4)	18.7	26.3	28.7
EPS (₹)	(1.9)	2.1	4.3	6.6
P/E (x)	(65.0)	59.9	29.2	19.1
BVPS(₹)	9.9	12.0	16.3	22.9
P/BVPS (x)	12.6	10.4	7.7	5.5
EV/Net Sales (x)	1.9	1.9	1.6	1.4
EV/EBITDA (x)	17.9	12.6	10.6	8.9

Valuation and view

Asahi India Glass is present across the entire value chain of architectural and automotive glass. The company remained steadfast in introducing new products in order to stay competitive in the market. Despite the adverse business environment, the company has shown resilience and focused on generating incremental benefits in 9MFY15, on the back of product diversification and cost reduction initiative. Further, the company is on an expansion spree and is expanding the laminated glass line at Bawal (Haryana) from 1.5 million TPA to 2.2 million TPA, which will aid to the revenue growth.

At a CMP of ₹125, Asahi India is currently trading at EV/EBITDA of 10.6x FY16E and 8.9x FY16E. Considering the company's strong fundamentals, we recommend 'BUY' with a target price of ₹156, which implies potential upside of ~25% to the CMP from 1 year perspective.

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