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Q3FY23 result review,
ratings change and TP
revision

Automobiles

Target price: Rs558

Earnings revision

(%)	FY23E	FY24E
Sales	↑ 2.1	↑ 1.4
EBITDA	↓ 10.1	↓ 8.6
EPS	↓ 16.5	↓ 14.7

Target price revision

Rs558 from Rs631

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	54.2	54.2	54.2
Institutional investors	3.5	3.3	5.4
MFs and others	1.7	1.6	1.6
FIs/Banks	0.0	0.0	0.0
FII	1.8	1.7	3.8
Others	42.3	42.5	40.4

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	31.5	31.9	0.4
Environment	1.2	2.4	1.2
Social	14.4	14.4	0.0
Governance	78.6	78.6	0.0

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

Source: Bloomberg, I-sec research

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INDIA

Asahi India Glass

ADD

Upgrade from Hold

Rs492

Profitability back to long-term mean levels

Asahi India Glass' (AIGS) Q3FY23 EBITDA margin came in at 19.6% (down ~250bps QoQ). The decline was due to 180bps contraction in gross margin (GM), post falling ~400bps QoQ in Q2FY23. 'Power & fuel (P&F) cost to sales' remained steady QoQ and 50bps increase in 'other expenses to sales' added to EBITDAM decline beyond GM. We believe GM compression is attributable to adverse currency moves and adverse input commodity costs, and will get partly recovered in the coming quarters with lagged price hikes. Though AIGS witnessed ~300bps QoQ hit in both auto and architectural segments' EBIT margins, auto margin was down to ~5%, a multi-year low barring the covid-impacted quarters. Architectural segment EBIT margin at 28%, though higher than long-term mean levels, was ~400bps lower than the past 6-quarter mean. We believe, the possibility of reviving imports with declining container costs poses a risk to architectural segment margin turnaround despite continued focus on increasing coated glass' share in the revenue mix. We cut our FY24E earnings by 15% due to ~250bps EBITDAM cut, keeping revenue estimate largely unchanged. We upgrade AIGS to **ADD** (from *Hold*) with a DCF-based target price of Rs558 (earlier: Rs631), implying 23x FY25E EPS.

Key takeaways from Q3FY23 results:

- We believe, with continued increase in sourcing cost of auto-grade glass from outside India, auto segment EBIT margin further contracted by ~300bps to a multi-year low of ~5%. Operating leverage also did not provide support as segmental revenue was 5% lower QoQ with large auto OEMs' production also being down. We believe, AIGS continued to focus on ramping up its coated glass production amidst limited scope for increasing production volume in the non-auto space – resulting in 2% QoQ rise in architectural segmental revenue.
- We expect demand from the automotive segment to remain strong across FY23E-FY24E led by acceptance of new launches from various OEMs along with strong consumer sentiment. Also, the continued premiumisation trend in PVs would help AIGS garner value growth much ahead of volume growth, with the average pricing of windshield glasses for a compact SUV being ~3x-4x that for a hatchback. Thus margin recovery in the auto segment is the key ahead for overall earnings. We are building-in auto segment EBIT margin at 10%/11% in FY24E/FY25E as against ~5% currently and long-term mean of ~12%.
- We are cutting our EBITDAM for FY24E by 250bps keeping revenue unchanged, resulting in ~15% cut in earnings. We reduce our DCF-based target price to Rs558 (from Rs631), implying 23x FY25E earnings. We upgrade AIGS to **ADD** (from *Hold*), post the ~20% correction over the past ~3 months.

Market Cap	Rs120bn/US\$1.5bn	Year to Mar (Std)	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	AISG.BO/AISG IN	Revenue (Rs mn)	31,124	39,555	45,632	51,074
Shares Outstanding (mn)	243.1	Adj. Net Income (Rs mn)	3,476	4,029	5,256	5,864
52-week Range (Rs)	687/388	Adj. EPS (Rs)	14.3	16.6	21.6	24.1
Free Float (%)	45.8	% Chg YoY	150.6	15.9	30.5	11.6
FII (%)	1.7	P/E (x)	34.3	29.6	22.7	20.3
Daily Volume (US\$/000)	2,438	CEPS (Rs)	20.7	23.2	29.8	33.4
Absolute Return 3m (%)	(19.0)	EV/E (x)	16.9	15.3	12.4	11.0
Absolute Return 12m (%)	(15.2)	Dividend Yield (%)	0.4	0.6	0.8	1.0
Sensex Return 3m (%)	1.3	RoCE (%)	20.3	20.8	22.9	23.5
Sensex Return 12m (%)	5.4	RoE (%)	19.2	18.8	20.4	19.3

Please refer to important disclosures at the end of this report

Table 1: Q3FY23 result review (standalone)

(Rs mn, year ending March 31)

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Total operating income	9,870	8,118	22	9,942	-1
Raw material costs	3,419	2,077	65	3,266	5
As a % of Sales	35%	26%	906 bps	33%	178 bps
Gross Profit	6,451	6,041	7	6,675	-3
Gross margin (%)	65%	74%	-906 bps	67%	-178 bps
Employee costs	733	694	6	727	1
As a % of Sales	7%	9%	-112 bps	7%	12 bps
Other expenditures	2,214	1,791	24	2,181	2
As a % of Sales	22%	22%	36 bps	22%	49 bps
Power & Fuel	1,571	1,390	13	1,577	-0
As a % of Sales	15.9%	17.1%	-121 bps	15.9%	6 bps
Total operating expenses	7,937	5,952	33	7,751	2
EBITDA	1,933	2,166	-11	2,191	-12
EBITDA margin (%)	19.6	26.7	-709 bps	22.0	-245 bps
Depreciation & Amortisation	380	420	-9	383	-1
Other income	45	49	-7	64	-29
Interest costs	260	277	-6	252	3
PBT	1,338	1,518	-12	1,619	-17
Exceptional Items	-	-	-	-	-
Taxes	481	517	-7	562	-14
PAT	857	1,001	-14	1,058	-19

Source: Company data, I-Sec research

Table 2: Quarterly segmental revenue and EBIT trends

(Rs mn, year ending March 31)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
<i>Auto segment</i>					
Revenue	5,373	4,058	32	5,631	(4.6)
EBIT	285	424	(33)	455	(37)
EBIT margin(%)	5.3	10.4	-514 bps	8.1	-277 bps
<i>Architectural segment</i>					
Revenue	4,540	4,066	12	4,461	2
EBIT	1,277	1,363	(6)	1,398	(9)
EBIT margin(%)	28.1	33.5	-539 bps	31.3	-321 bps

Source: Company data, I-Sec research

Table 3: Earnings revision

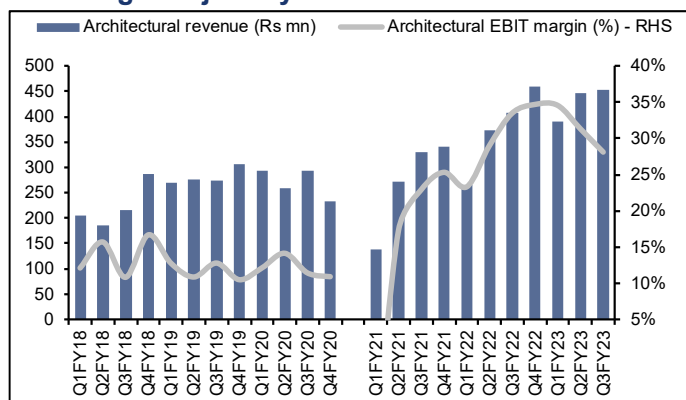
(Rs mn, year ending March 31)

	FY23E			FY24E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	38,748	39,555	2.1	45,017	45,632	1.4
EBITDA	9,456	8,498	(10.1)	11,310	10,339	(8.6)
EBITDA Margin (%)	24.4%	21.5%	-292 bps	25.1%	22.7%	-247 bps
PAT	4,826	4,029	(16.5)	6,160	5,256	(14.7)
EPS (Rs)	19.9	16.6	(16.5)	25.4	21.6	(14.7)

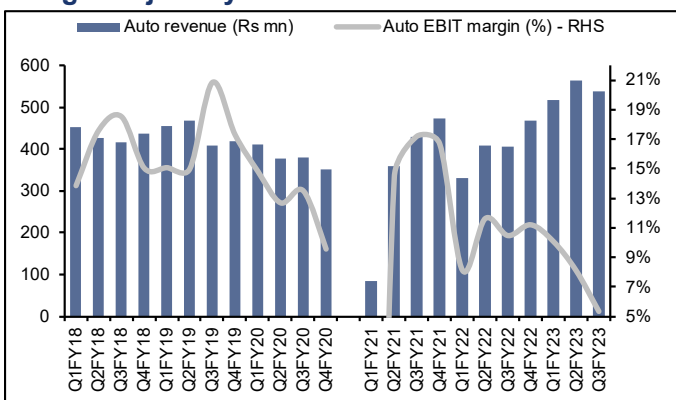
Source: I-Sec research

Upside risk: Stronger recovery in demand across segments, limited risk from imports increasing in India and subsequently helping pricing power of local players.

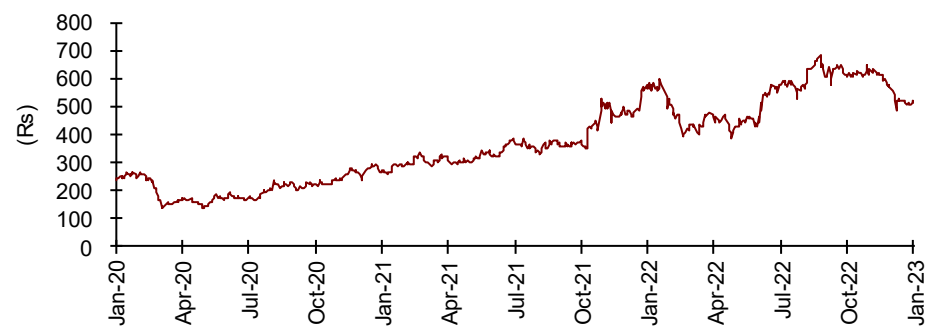
Downside risks: Imports start coming back aggressively at lower prices, domestic oversupply with all peers expanding their capacities beyond demand, and low pricing power in domestic markets as a result of oversupply.

Chart 1: Architectural segment quarterly revenue and margin trajectory

Source: Company data, I-Sec research

Chart 2: Auto segment quarterly revenue and margin trajectory

Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 4: Profit and Loss statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Total Op. Income (Sales)	31,124	39,555	45,632	51,074
Operating Expenses	23,420	31,057	35,293	39,651
EBITDA	7,704	8,498	10,339	11,423
% margins	24.8%	21.5%	22.7%	22.4%
Depreciation & Amortisation	1,552	1,600	2,000	2,250
EBIT	6,152	6,898	8,339	9,173
Other Income	213	320	340	350
Gross Interest	1,176	1,020	950	900
PBT	5,190	6,198	7,729	8,623
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	5,190	6,198	7,729	8,623
Less: Taxes	1,714	2,169	2,473	2,759
Less: Minority Interest	-	-	-	-
Add: Profit from Associates	-	-	-	-
Net Income (Reported)	3,476	4,029	5,256	5,864
Net Income (Adjusted)	3,476	4,029	5,256	5,864

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
ASSETS				
Current Assets	13,654	16,783	19,548	21,795
Cash & cash eqv.	787	874	1,369	1,756
Current Liabilities & Provisions	7,177	10,064	11,660	13,113
Net Current Assets	6,477	6,719	7,887	8,682
Investments	515	515	515	515
Goodwill	13	13	13	13
Net Fixed Assets	23,503	25,903	27,903	29,653
Capital Work-in-Progress	890	890	890	890
Long term loans & advances	592	749	865	968
Deferred Tax Assets	0	0	0	0
Other non-current asset	0	0	0	0
Total Assets	31,101	33,900	37,183	39,831
LIABILITIES				
Borrowings	12,259	11,759	10,759	8,759
long-term borrowings	9,043	8,543	7,543	5,543
short-term borrowings	3,215	3,215	3,215	3,215
Long-term provisions	51	51	51	51
Deferred Tax Liability	671	671	671	671
Other Non-current Liabilities	0	0	0	0
Minority Interest	0	0	0	0
Equity Share Capital	243	243	243	243
Reserves & Surplus	17,877	21,177	25,460	30,108
Net Worth	18,120	21,420	25,703	30,351
Total Liabilities	31,101	33,900	37,183	39,831

Source: Company data, I-Sec research

Table 6: 5-stage DuPont analysis
(year ending March 31)

All figures in %	FY22	FY23E	FY24E	FY25E
Tax Burden	67.0	65.0	68.0	68.0
Interest Burden	84.4	89.9	92.7	94.0
EBIT Margin	19.8	17.4	18.3	18.0
Asset Turnover	100.1	116.7	122.7	128.2
Financial Leverage	171.6	158.3	144.7	131.2
ROE	19.2	18.8	20.4	19.3

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Cashflow before working capital changes	6,204	6,649	8,206	9,014
Working Capital Changes	(3,785)	(155)	(672)	(408)
Operating Cashflow	2,419	6,494	7,533	8,606
Capital Commitments	(839)	(4,000)	(4,000)	(4,000)
Free Cashflow	1,580	2,494	3,533	4,606
Cashflow from Investing Activities	(217)	(4,157)	(4,115)	(4,104)
Issue of Share Capital	-	-	-	-
Inc/(Dec) in securities premium	-	-	-	-
Buyback of shares	-	-	-	-
Inc/(Dec) in Borrowings	(417)	(500)	(1,000)	(2,000)
Dividend paid	(486)	(729)	(972)	(1,216)
Others	(911)	(1,020)	(950)	(900)
Cashflow from Financing Activities	(1,814)	(2,249)	(2,922)	(4,116)
Net Cashflow	387	87	496	387
Closing Cash & Bank balance	787	874	1,369	1,756

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs)				
EPS (Basic)	14.3	16.6	21.6	24.1
EPS (Adjusted)	14.3	16.6	21.6	24.1
Cash EPS	20.7	23.2	29.8	33.4
Dividend per share (DPS)	2.0	3.0	4.0	5.0
BVPS (Adjusted)	74.5	88.1	105.7	124.8
Growth Ratios (%)				
Total Op. Income (Sales)	30.6	26.6	15.4	12.0
EBITDA	68.6	10.3	21.7	10.5
Net Income (Adjusted)	150.6	15.9	30.5	11.6
EPS (Adjusted)	150.6	15.9	30.5	11.6
Cash EPS	88.9	11.9	28.9	11.8
BVPS (Adjusted)	21.9	18.2	20.0	18.1
Valuation Ratios (x)				
P/E (Adjusted)	34.3	29.6	22.7	20.3
P/BV (Adjusted)	6.6	5.6	4.6	3.9
EV/EBITDA	16.9	15.3	12.4	11.0
EV/Sales	4.2	3.3	2.8	2.5
Return/Profitability Ratios (%)				
EBITDA Margin	24.8	21.5	22.7	22.4
Net Income Margin (Adjusted)	11.2	10.2	11.5	11.5
RoCE	20.3	20.8	22.9	23.5
RoNW	19.2	18.8	20.4	19.3
Dividend Payout Ratio	14.0	18.1	18.5	20.7
Dividend Yield	0.4	0.6	0.8	1.0

Solvency/Wkg. Cap. Ratios (x)

Net D/E	0.6	0.5	0.4	0.2
Debt/EBITDA	1.6	1.4	1.0	0.8
EBIT/Interest	5.2	6.8	8.8	10.2
Current Ratio	1.9	1.7	1.7	1.7
Quick Ratio	0.9	0.8	0.8	0.8
Inventory (days)	80	80	80	80
Receivables (days)	45	45	45	45
Payables (days)	71	80	80	80

Source: Company data, I-Sec research

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