

17 Dec 2015

Initiating Coverage (BUY)

ASAHI SONGWON COLORS

CMP

INR 151

Target Price

INR 231

Stock Details

Industry	Specialty Chemicals
Bloomberg Code	ASAH:IN
BSE Code	532853
Face Value (Rs.)	10.00
Market Cap. (Rs. Mn)	1,853.1
52wk. High/Low (Adjusted) ((Rs.)	161.90 / 103.63

Shareholding Pattern Jun '15

Promoter (%)	62.28
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	37.72
No. of Share Outstanding (mn)	12.27

Valuation Summary

	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	06.90	10.47	10.47	11.00
EV/EBITDA (x)*	2.89	5.00	5.27	5.26
P/BV (x)*	0.77	1.57	1.86	1.89

*Based On CMP on Reco Date for FY 15 and
Market Price as on 1st Apr is taken for FY14

Key Financial

Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	3,020	2,395	2,755	3,168
EBITDA	370	372	463	524
Net Profit	146	177	236	257
EPS (Rs.)*	11.9	14.4	19.2	21.0

*Adjusted for stock split of 5:1 in FY16

Key Ratios

	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	12.3	15.5	16.8	16.5
EBIT Margin (%)	10.0	13.0	14.8	14.6
Net Pro. Margin (%)	4.8	7.4	8.6	8.1
Debt/Equity (x)	0.07	0.03	0.00	0.00
RoNW (%)	11.7	14.3	18.8	18.2
RoCE (%)	9.6	11.9	16.4	16.2

One Year Price / Volume



We recommend 'BUY' on Asahi Songwon Colors for a target of INR 231 - valuing the company at P/E of 11.0x FY17E Earning.

GROWTH TO BE DRIVEN BY:

- Market share of almost 5 per cent of the global industry and capability of growth in market share
- Known for its quality, it has zero product rejection which is very commendable
- Sustained relationship with clients and ample order book. Global clients like DIC and Clariant got so convinced with this vendour that they have bought strategic stake into the company. So DIC has about 7 percent and Clariant has 6 percent.
- India, an emerging hub for specialty chemicals and likely to emerge as a major player in the global specialty chemicals domain
- In the phase of capacity expansion
- Till now no Institutional and scope for PE expansion once it is recognized by Institutional Investors

VALUATIONS AND VIEW:

Going forward, the book value will see much more addition because of the reserves adding up and their FY15 EPS of Rs 14.4 which they could clock, means that we find a stock, which is a leader available at such simple discounting. The new change that we thought is going to make a big difference which is the product mix. They are getting into more environmentally friendly products which are slightly more expensive and all the clients have agreed to buy that. So they have an order book which is going to increase the topline as well as maintain margins or probably improve them also; we value the business at 11x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 231 per share.

RISK & CONCERNS:

Currency & Price Risk: The Company is exposed to the risk of foreign currency fluctuation as major chunk of the revenue comes from the foreign countries. The manufacturing inputs are also sourced from outside India. However, the Company has consistent policy to mitigate the currency variation risks.

The main raw materials used in the manufacture of the pigments are Phthalic Anhydride and Cuprous Chloride are petroleum derivatives and metal base and their prices fluctuate along with the global crude/metal prices. The Company has an in built system of monitoring the inventory and logistics. Further, production process of the Company is vertically integrated, where CPC Blue Crude is the primary raw material for the production of pigment blue's. This helps the Company to manage the raw material cost.

Client Concentration Risk: Nearly 70% of the Company's revenues were derived from sales to international giants in FY15. The Company's clientele comprises global giants like DIC (Japan), Sun Chemicals (USA), Clariant Chemicals (India) Limited and BASF (Korea). These four clients accounted for 71% of the Company's revenues in 2014-15.

This risk factor doesn't have a major threat as Clariant and DIC, prominent customers, made strategic equity investments in the Company and a large part of the Company's order book was derived from long-term contracts with global majors.

COMPANY BACKGROUND:

The Company is the leading manufacturer of phthalocyanine pigments (blue) and derivatives in India and one of the fastest growing in the world. Asahi Songwon is engaged in the manufacture of phthalo pigments (one of the largest categories of pigments manufactured in India) comprising CPC blue crude and a range of beta blue pigments.

About 40% of all phthalocyanine pigments are used in the manufacture of printing inks while the rest find application in paints and plastics.

The Company's principal manufacturing facilities are at Padra (Vadodara), manufacturing CPC blue crude and a range of beta blue pigments with an installed capacity of 11400 tonnes per annum.

The Company's clientele comprises global giants like DIC (Japan), Sun Chemicals (USA), Clariant Chemicals (India) Limited and BASF (Korea). These four clients accounted for 71% of the Company's revenues in 2014-15. The Company's relationships have evolved from traditional transactional engagements to longstanding collaborative partnerships. The result: 97% of the Company's 2014-15 revenues were derived from the clients with whom it has been associated for more than five years.

The Company enjoys the reputation of being a trusted vendor addressing evolving customer needs. Exports accounted for 87% of the revenues, marked by incremental order sizes.

Extensive scale: The Company is a leading manufacturer of phthalocyanine pigments and derivatives in India, accounting for 5% of the world's organic pigment production.

Wide portfolio: The Company is engaged in the manufacture of phthalo pigment varieties like CPC blue crude and the gamut of beta blue pigments. Nearly 99% of the Company's FY15 turnover was accounted for by CPC blue crude and beta blue pigments.

Diverse applications: About 40% of the phthalocyanine pigments are used in the manufacture of printing inks, while the rest finds applications in paints, plastics, textiles and paper industries. The beta blue pigments account for 70% of the pigments used for manufacturing printing inks balance 30% in plastics and paints.

INDUSTRY OVERVIEW:

Pigment industry can be classified into organic pigments and inorganic pigments, whereas organic pigments consists of high performance pigments, AZO pigments and Phthalocyanines pigments and inorganic pigments consists of iron oxide, titanium dioxide and carbon black. The global market of pigments has witnessed a steady growth in the last couple of years, due to increase in growth in the end- user industry like paints, printing inks and packaging.

The global market of pigment is estimated to grow at a compounded annual growth rate of 4.5% from 2013 to 2018 and by 2018 the market is expected to reach 4.4 million tone (Transparency Market Research). Some of the main features that are constituting to the growth are increase in demand for pigments, growth in end-user industries and increase in preference for environmentally - friendly products. Asia - Pacific is dominant market for pigments followed by Europe and US. With rapidly growing manufacturing base, Asia - Pacific region continue to remain one of the fast growing market in future.

The global market for pigment is expected to grow to \$14.7 billion by 2018, growing at an estimated CAGR of 4.5% between 2013 and 2020. Moreover, the preference for organised players is increasing with the tightening of qualitative and environmental standards. The Company is the leader in the phthalocyanine segment, which accounts for 5% of the world's organic pigment market and enjoys conspicuous demand in a range of sectors (printing, paints, plastics, automobile coatings and textiles).

FINANCIAL OVERVIEW

Q1 FY16 Performance Highlight (Standalone Basis)							
(in Million)	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	YoY (%)	QoQ (%)
Revenue	58.59	66.50	51.74	58.02	60.55	3.35%	4.36%
Other Income	--	--	--	--	1.23		
Total Income	58.59	66.50	51.74	58.02	61.78	5.44%	6.48%
Expenditure	-50.00	-56.02	-42.77	-47.42	-50.86		
As a % of Sales	85.34%	84.24%	82.66%	81.73%	84.00%		
Interest	-1.16	-1.12	-1.25	-1.3	-1.36	17.24%	4.62%
PBDT	7.43	9.36	7.72	9.3	9.55		
As a % of Sales	12.68%	14.08%	14.92%	16.03%	15.77%		
Depreciation	-1.51	-1.52	-1.59	-1.65	-1.66		
PBT	5.92	7.84	6.13	7.64	7.89	33.28%	3.27%
As a % of Sales	10.10%	11.79%	11.85%	13.17%	13.03%		
Tax	-1.84	-2.69	-1.86	-2.6	-2.48	34.78%	-4.62%
Net Profit	4.08	5.15	4.27	5.05	5.41	32.60%	7.13%
As a % of Sales	6.96%	7.74%	8.25%	8.70%	8.93%		
Equity	12.27	12.27	12.27	12.27	12.27	0.00%	0.00%
EPS (Rs)	3.33	4.19	3.48	4.11	4.41	32.43%	7.30%
CEPS (Rs)	4.56	5.43	4.78	5.46	5.76		
OPM %	14.67	15.76	17.34	18.27	18.02		
NPM %	6.97	7.74	8.26	8.69	8.93		

Income Statement

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	2,337	2,322	3,020	2,395	2,755	3,168	3,801
Other Operating Income	-	-	-	-	-	-	-
Expenditure	1,902	2,073	2,633	2,037	2,299	2,654	3,122
EBITDA	435	249	387	359	456	514	680
Depreciation	53	53	67	61	56	61	66
EBIT	382	195	319	298	399	453	614
Interest Expenses	53	49	63	48	56	64	77
PBT	328	146	257	250	343	389	537
Tax	107	47	95	87	115	141	192
Other Income	4	5	6	9	8	10	11
Extraordinary Items	-	-	(23)	4	-	-	-
Net Income Before Adjustment	225	104	146	177	236	257	355
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	225	104	146	177	236	257	355

Balance Sheet

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	123	123	123	123	123	123	123
Reserves & surplus	1,027	1,080	1,176	1,057	1,210	1,376	1,606
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	1,150	1,203	1,299	1,180	1,332	1,499	1,729
Minority Interest	-	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	67	109	89	34	-	-	-
Net deferred tax liability	99	128	190	162	162	162	162
Other Long-term Liabilities	-	-	-	-	-	-	38
Long-term Provisions	7	8	8	7	8	9	11
Total Liabilities	1,322	1,448	1,585	1,383	1,502	1,670	1,939
Net block	952	1,194	1,297	953	1,341	1,441	1,564
Investment, Loan & Adv.	124	177	176	191	227	252	327
Total Current Assets	933	1,016	1,308	979	1,056	1,247	1,563
Current Liabilities & Provisions	699	942	1,197	740	1,123	1,272	1,517
Net Current Assets	233	74	111	239	(66)	(25)	47
Total Assets	1,309	1,446	1,584	1,385	1,502	1,670	1,940

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	250	237	259	328
Cash Flow from Investments	(88)	(152)	(141)	(193)
Cash Flow from Financing	(159)	(83)	(80)	(64)
Net Changes in Cash	3	2	38	72
Opening Cash	6	8	10	49
Closing Cash Balance	9	10	49	120

Peer Comparison (Top 7 companies in the same business)

Company	CMP (Rs)	P/E	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Pidilite Inds.	532	43.8	27,250	0.55	192	38.01	1,313	5.20	10.1
Solar Inds.	3,182	36.9	5,759	0.53	35	3.69	333	13.14	6.8
Vinati Organics	388	16.0	2,000	0.90	31	9.29	144	(25.30)	4.0
NOCIL	61	14.3	978	1.64	18	39.79	180	3.25	2.2
Anil	270	5.0	264	0.74	14	9.83	258	18.05	0.8
Sudarshan Chem.	104	14.1	721	1.68	18	11.56	321	6.53	2.3
Camlin Fine	93	17.9	891	0.48	5	(39.33)	114	(19.59)	5.8
Asahi Songwon	151	10.5	185	2.32	5	32.60	60	3.69	1.4

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Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:
91 +11-43444-666
91 +11-43444-623

Email:
info@wealthdiscovery.in

Website:
<http://www.wealthdiscovery.in>

