

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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| Disclosure of Interest Statement | Asahi Songwon |
| 1.Analyst ownership of the stocks mentioned above | No |
| 2.Served as an officer, director or employee | No |

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