

CMP Rs.84

Recommendation BUY

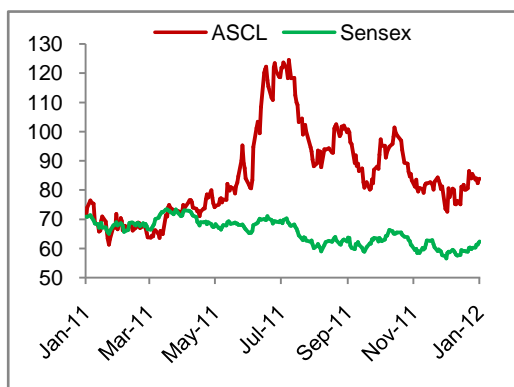
Target Price Rs.121

Sector: Materials

Key Data	
Market Cap (Rs. cr)	103
Market Cap (US\$ mn)	21
O/S Shares, cr	1.2
Face Value, Rs.	10
2 wk Avg Vol, NSE+BSE	23.39K
52 wk High	129.7
52 wk Low	61.0
Rs/US\$	50.24
Bloomberg	ASAH IN
Reuters	ASSC.BO
NSE	ASAHISONG
BSE	532853
Dividend Yield	3.6%

Shareholding Pattern %

	Q3 FY11	Q3 FY12
Promoters	61.5	61.5
DII	0.2	0.0
FII	0.0	0.0
Public	38.3	38.5



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Q3 FY12 Result Update

Strong sales growth, however high tax liability spoils the party

Asahi Songwon Colors Ltd. (ASCL) reported strong Q3 FY12 sales growth of 25.4% YoY and 8.7% QoQ backed by higher realisation in all three sales segments. The net sales and other operating income for the quarter stood at Rs.60.3 cr (marginally higher than our estimate of Rs.59.4 cr) vs. Rs.48.1 cr YoY and Rs.55.5 cr QoQ. The company reported EBITDA of Rs.11.1 cr (our estimate of Rs.10.9 cr) vs. Rs.7.5 cr YoY and Rs.10.5 cr QoQ. However the net profit for the quarter stood at Rs.5.2 cr lower than our estimate of Rs.5.7 cr due to higher tax liability. The net profit is up by 3.6% YoY but down by 6.4% QoQ. The net profit margin in the quarter stood at 8.7% vs. 10.5% YoY and 10.1% QoQ. The EPS for the quarter stood at Rs.4.26 (our estimate Rs.4.63).

Higher realisation due to change in sales mix, boost's sales growth

ASCL has shifted its sales mix towards high end products that resulted in higher realization. The company has taken price hikes (Exhibit 3) in all its three sales products CPC Blue Crude, Beta Blue pigment and pigment Green which has led to the strong sale growth of 25.4% YoY and higher operating margin. The EBITDA margin for the quarter stood at 18.4% vs.15.7% YoY and 19.0% QoQ. There is a strong demand for pigment Green where the company was able to fetch higher realization of Rs.498,469 per metric tonne (MT) up by 54% YoY and 30.6% QoQ. The realisation for CPC Blue Crude was up by 22.6% YoY and 6.9% QoQ. The sales volume for Beta Blue pigment was marginally down, however the realisation was up by 21.4% YoY and 7.4% QoQ.

Capex well on schedule

The high margin pigment Green capacity is now working at 100% capacity utilisation rate and to fuel the growth ahead, company has various capex plans. The planned capital expenditure is well on track and the company expects to commence additional 2000TPA of CPC Blue Crude and 1000TPA of Beta Blue production by Q1 FY13 and 1000TPA of Alpha Blue and pigment Green each by Q4 FY13. These new capacities will help the company to fuel its growth ahead and maintain its operating efficiency as these products are all high end products which will fetch higher realisation for the company.

No impact of 10% safeguard duty on import of Phthalic Anhydride

Phthalic Anhydride is a key raw material for the company and on 19th Jan 2012 government of India has imposed a 10% safeguard duty on imports of Phthalic Anhydride as the government says that increased imports of Phthalic Anhydride into India had caused and threatened to cause further serious injury to the domestic producers of Phthalic Anhydride. However, ASCL has an EOU status and will not be impacted by the safeguard duty.

Valuation & Outlook

In the quarter the company had a strong realisation growth in all its key sales products backed by strong global demand. With the shift towards sales of high margin products the company was able to maintain its higher operating margins. The management has guided that the company will see stable growth in quarters ahead backed by higher sales volume and stable realisations.

At CMP ASCL is trading at P/E multiple of 4.45x its FY12E EPS of Rs.18.9 and 3.46x its FY13E EPS of Rs.24.3. We value the stock at 4.97x its FY13E EPS of Rs.24.3 and maintain our target price of Rs.121. We reiterate **BUY** on ASCL with an investment horizon of 12 months and an upside potential of 44%.



Quarterly Performance

Exhibit 1: Standalone quarterly income statement

Particulars, Rs. cr	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
Net Sales & Othr. Op. Inc.	48.1	47.5	55.6	55.5	60.3	25.4%	8.7%
Total Expenditure	40.6	38.4	44.5	44.9	49.2	21.4%	9.6%
Cost of Raw Materials	27.9	23.4	31.7	30.4	33.2	18.9%	9.2%
Op. & Manuf. Exp	6.5	6.9	6.3	6.4	7.6	17.1%	18.7%
Power & Fuel Cost	5.1	5.5	5.1	6.7	6.5	27.8%	-3.2%
Employee Cost	1.1	2.5	1.4	1.4	2.0	79.7%	38.9%
EBITDA	7.5	9.1	11.1	10.5	11.1	47.0%	5.0%
Depreciation	1.1	1.1	1.3	1.3	1.3	19.0%	0.2%
EBIT	6.4	8.0	9.8	9.2	9.7	51.9%	5.7%
Other Income	0.0	0.0	0.0	0.0	0.0	-	-
Interest	0.8	0.8	1.3	1.3	1.4	80.9%	11.4%
PBT	5.6	7.2	8.5	8.0	8.3	48.0%	4.8%
Tax	0.6	0.7	2.4	2.4	3.1	428%	31.5%
PAT	5.1	6.5	6.2	5.6	5.2	3.6%	-6.4%
EPS, Rs.	4.12	5.31	5.02	4.56	4.26	3.6%	-6.4%

Source: Company, SIHL Research

Exhibit 2: Margin trend

Particulars,	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
EBITDA	15.7%	19.2%	20.0%	19.0%	18.4%	2.7%	-0.6%
EBIT	13.3%	16.9%	17.7%	16.6%	16.1%	2.8%	-0.5%
PBT	11.7%	15.2%	15.3%	14.4%	13.8%	2.1%	-0.5%
Tax	10.5%	9.6%	27.6%	29.8%	37.3%	26.9%	7.6%
PAT	10.5%	13.7%	11.1%	10.1%	8.7%	-1.8%	-1.4%

Source: Company, SIHL Research

Exhibit 3: Sales volume & realization

Particulars	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
CPC Green Sales (MT)	351.7	325.6	321.5	402.2	395.2	12.4%	-1.7%
Sales (Rs. cr)	11.4	10.9	10.9	15.4	19.7	73.1%	28.3%
Realizations (Rs/MT)	323,544	333,845	340,248	381,660	498,469	54.1%	30.6%
CPC Blue Crude Sales (MT)	1,180.7	958.2	1,337.1	1,079.5	1,090.2	-7.7%	1.0%
Sales (Rs. cr)	25.5	23.1	32.9	26.8	28.9	13.2%	7.9%
Realizations (Rs/MT)	216,237	240,973	246,279	247,992	265,000	22.6%	6.9%
Beta Blue Sales (MT)	332.4	387.7	301.8	327.2	323.5	-2.7%	-1.1%
Sales (Rs. cr)	10.0	12.1	10.1	11.1	11.8	18.2%	6.2%
Realizations (Rs/MT)	301,172	312,395	335,973	340,496	365,688	21.4%	7.4%

Source: Company, SIHL Research

Peer Comparison

Exhibit 4: Peer comparison (arranged alphabetically)

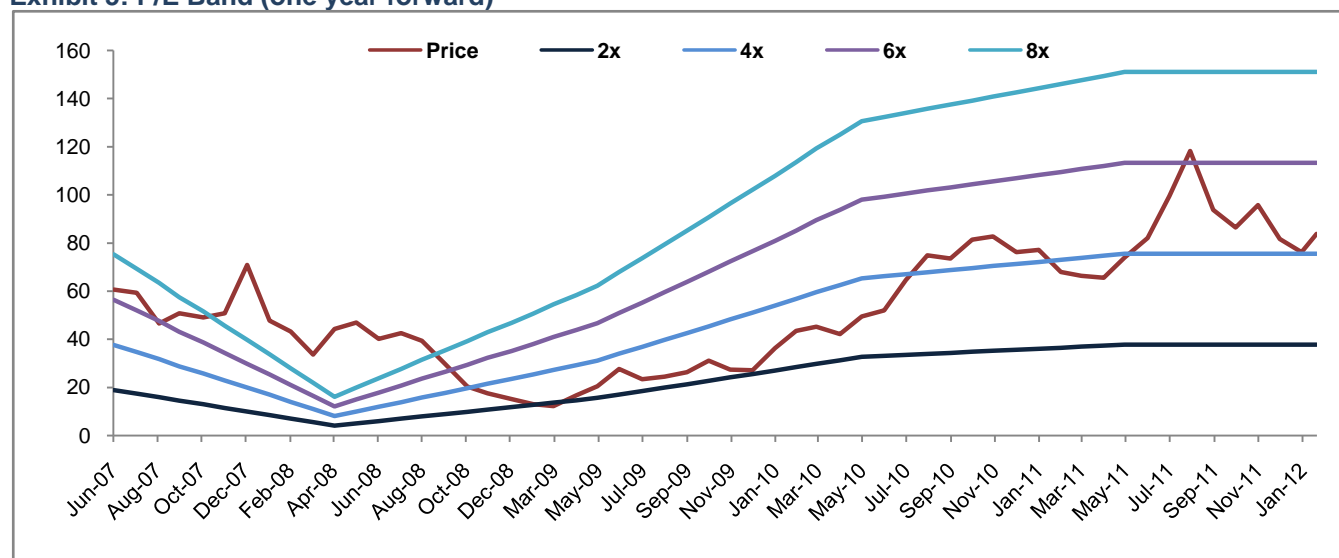
Company*	CMP, Rs.	MCap, Rs. cr	P/E, x	EV/EBITDA, x	MCap/Sales, x	EBITDA Mgn	RoE	RoCE
Asahi Songwon	84	103	5.1	5.0	0.6	16.4%	20.6%	17.6%
Bodal Chem.	15	158	9.0	9.3	0.3	8.3%	22.1%	9.1%
Clariant Chem.	616	1,641	14.6	9.1	1.7	16.0%	30.7%	37.9%
Meghmani Org.	9	224	5.9	6.9	0.2	12.5%	7.7%	4.9%
Sudarshan Chem.	570	395	8.2	7.0	0.5	11.6%	21.7%	16.2%

Source: Company, SIHL Research

* Based on FY11 financials

Valuation & Outlook

Exhibit 5: P/E Band (one year forward)



In the quarter the company had a strong realisation growth in all its key sales products backed by strong global demand. With the shift towards sales of high margin products the company was able to maintain its higher operating margins. The management has guided that the company will see stable growth in quarters ahead backed by higher sales volume and stable realisations. We have slightly revised our FY12E EBITDA to Rs.44.5 cr from Rs.44.3 cr and PAT to Rs.23.2 cr from Rs.23.7 cr earlier. There is no revision in our FY13E financials.

At CMP ASCL is trading at P/E multiple of 4.45x its FY12E EPS of Rs.18.9 and 3.46x its FY13E EPS of Rs.24.3. We value the stock at 4.97x its FY13E EPS of Rs.24.3 and maintain our target price of Rs.121. We reiterate **BUY** on ASCL with an investment horizon of 12 months and an upside potential of 44%.

Key Concerns

- Concentration of customer base.
- The main raw materials for the company are Phthalic Anhydride a crude derivative and Cuprous Chloride a metal derivative, and the prices of these materials largely fluctuate along with the global crude & copper prices.
- The company derives its 80% revenue through exports to various regions, hence face currency risk. However, the company follows a plain vanilla hedging strategy and hedges close to 80% of its forex exposure.

Financials

Exhibit 6: Standalone annual income statement

Particulars, Rs. cr	FY10	FY11	FY12E	FY13E
Net Sales & Othr. Op. Inc.	128.3	184.2	235.3	294.2
Total Expenditure	108.5	154.1	190.8	238.0
Cost of Raw Materials	76.4	106.5	131.2	163.6
Op & Manuf. Exp	15.6	23.3	27.6	32.9
Power & Fuel Cost	13.2	18.7	25.2	31.8
Employee Cost	3.4	5.6	6.8	9.7
EBITDA	19.7	30.1	44.5	56.2
Depreciation	4.3	4.5	5.3	6.5
EBIT	15.4	25.7	39.2	49.7
Other Income	-	-	-	-
Interest	3.9	3.2	5.3	6.2
PBT	11.5	22.5	33.9	43.4
Tax	2.0	2.4	10.7	13.7
PAT	9.5	20.0	23.2	29.8
EPS, Rs.	7.8	16.3	18.9	24.3

Source: Company, SIHL Research

Exhibit 7: Standalone balance sheet statement

Particulars, Rs. cr	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS:				
Share Capital	12.3	12.3	12.3	12.3
Total Reserves	69.4	85.2	103.3	126.6
Shareholder's Funds	81.7	97.4	115.6	138.9
Secured Loans	37.8	48.5	59.0	67.0
Unsecured Loans	-	-	-	-
Total Debts	37.8	48.5	59.0	67.0
Total Liabilities	119.5	145.9	174.6	205.9
APPLICATION OF FUNDS :				
Net Block	64.7	75.4	92.1	105.6
Investments	0.2	0.6	0.6	0.6
Net Current Assets	53.9	68.9	87.9	105.7
Miscellaneous Expenses not written off	3.0	2.4	2.4	2.4
Deferred Tax Assets / Liabilities	(5.9)	(8.4)	(8.4)	(8.4)
Total Assets	119.5	145.9	174.6	205.9

Source: Company, SIHL Research

Exhibit 8: Standalone cash flow statement

Particulars, Rs. cr	FY10	FY11	FY12E	FY13E
Net Income +Depreciation	16.8	27.9	28.5	36.3
Non-Cash Adjustments	(1.3)	(3.1)	-	-
Change in Working Capital	(10.3)	(11.8)	(19.4)	(17.6)
Cash Flow from Operation	5.2	13.0	9.0	18.7
Capital Expenditure	4.7	18.5	15.0	20.0
Change in Investment (Dec)/Inc	(0.0)	0.4	-	-
Other Items	0.2	1.9	-	-
Cash Flow used in Investing	4.8	20.8	15.0	20.0
Issue of Equity	-	-	-	-
Issue/(Repay Debt)	3.0	10.7	10.5	8.0
Dividend Paid	2.4	2.9	5.0	6.5
Other Financing Cash Flows	-	(0.4)	-	-
Cash Flow from Financing	0.5	7.5	5.5	1.5
Net Cash	0.9	(0.3)	(0.5)	0.2

Source: Company, SIHL Research

Exhibit 9: DuPont analysis

Particulars	FY10	FY11	FY12E	FY13E
Profit Margin	7.4%	10.9%	9.8%	10.1%
Asset Turnover, x	2.0	2.4	2.6	2.8
Equity Multiplier, x	0.8	0.8	0.8	0.8
ROE	11.7%	20.6%	20.0%	21.4%

Source: Company, SIHL Research

Exhibit 10: Key ratio

Particulars	FY10	FY11	FY12E	FY13E
ROCE	12.9%	17.6%	22.5%	24.1%
ROE	11.7%	20.6%	20.0%	21.4%
D/E, x	0.5	0.5	0.5	0.5
P/E, x	10.8	5.1	4.4	3.5
P/B, x	1.3	1.1	0.9	0.7
EV/EBITDA, x	7.0	5.0	3.6	3.0
MCap/Sales, x	0.8	0.6	0.4	0.3
Net Profit Margin	7.4%	10.9%	9.8%	10.1%
EBITDA Margin	15.4%	16.4%	18.9%	19.1%
Sales Growth	4.8%	43.6%	27.8%	25.0%
EPS Growth	288.3%	110.3%	15.6%	28.5%

Source: Company, SIHL Research



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