

Asahi Songwon Colors ₹ 151

Focus on Blue!

Accumulate



Oct 10, 2014

Company Background

Asahi Songwon Colors Ltd. (Asahi) is a leading player in the Indian Pigment industry and intends to become a leading manufacturer of pigments around the world. The company is in the manufacturing of the Pigment Green-7 / CPC Beta Blue and Blue Crude, exporting substantial production to leading MNCs around the world on account of quality of its products. It aims to become a market leader in the pigment industry. With this view in the backdrop, Asahi has carried out various expansion plan to enhance the production capacity to 11400 MTPA of Blue Pigment and 1440 MTPA of Green Pigment. The company is in the process of adding new products in its basket in future.

Key Highlights

- ➔ Asahi is one of the leading manufacturers of Phthalocyanine pigments (Blue and Green) and derivatives in India and one of the fastest growing in the world within its sector. Asahi is engaged in the manufacture of Phthalo pigments (one of the largest categories of pigments manufactured in India) comprising CPC Green, CPC Blue Crude and a range of Beta Blue Pigments.
- ➔ The Company has established its mark in export market and already has secured top clientele. The Company's Blue pigment clientele comprises global giants like DIC (Japan), Sun Chemicals (USA), Clariant Chemical India Ltd. and BASF (Korea).
- ➔ At Asahi 76% of the Company's revenues are derived from customers who have been working with the Company for more than five years this has translated into a low and secured receivables cycle translating into favourable terms of trade.
- ➔ The recent environmental policy changes in China pertaining to the Chemical segment has initiated a comply or perish regime to a stricter set of environmental laws this will ensure that chemical companies in India are expected to dominate the segment hereon.
- ➔ Most of the chemical companies are showing their performances on the field and on bourses, Asahi is also in the band wagon and is expected to gain the same way as its peers.

Key Financials

Year Ended 31 st	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	1,842.0	2,341.2	2,326.3
Rev. growth (%)	44.72	27.10	(0.64)
EBITDA (INR mn)	311.0	449.4	263.4
Net profit (INR mn)	200.4	225.1	103.6
Shares outstanding (mn)	12.3	12.3	12.3
EPS (INR)	16.3	18.3	8.4
EPS growth (%)	110.06	12.33	(53.98)
P/E (x)	4.0	4.6	7.0
RONW (%)	23.1	21.6	8.9
ROCE (%)	15.5	14.8	5.9

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Info Codes

Reuters	: ASSC.BO
Bloomberg	: ASAH@IN
NSE	: ASAHISONG
BSE	: 532853

Market Data

52 Wk Range (₹)	: 63 / 192
Shares in Issue (mn)	: 12.3
Mkt. Cap (₹ bn)	: 1.83
2Wk Avg. Qty	: 11000

Shareholding

Promoters	: 62.28
FII's	: 0.00
DII's	: 0.00
Others	: 37.72

Investment Theme

Asahi has over the last few years shown some impressive figures and has planned to be one of largest Indian Phthalocyanine Blue manufacturer. Its performance can be seen by the fact that it reported a 30.1% growth in revenues and a 41% growth in bottomline in FY 2013-14. Global volume demand for pigments is expected to keep growing 4% annually till 2018. The current global market for pigments is expected to grow to \$11.7 bn by 2018 growing at a CAGR of 4.5%. CPC pigments account for 60% of the world's organic pigment market. The China phase off story has already generated a price whirl in speciality chemicals, so their prices have suddenly shot up upto 300% of their cost 1 year back. This spells out a lot of opportunity with the price rise & less competition. Further there is opening up of a new market "China" which would benefit.

Blue is the new Green!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	1845.0	2325.8	26.06	2322.4	(0.15)
Other Income	17.8	38.4	115.73	33.8	(11.98)
Change in Stocks	26.9	(20.0)	(174.35)	(8.8)	(56.00)
Raw Material Con.	1092.8	1338.9	22.52	1408.9	5.23
Employee Exp.	55.6	70.6	26.98	71.5	1.27
Indirect Taxes	21.5	23.1	7.44	30.0	29.87
Other Exp.	410.8	464.2	13.00	575.8	24.04
Operating Exp.	1553.8	1916.8	23.36	2095.0	9.30
Operating Profit	291.2	409.0	40.45	227.4	(44.40)
Total Interest	31.9	53.4	67.40	48.9	(8.43)
Gross Profit	277.1	394.0	42.19	212.3	(46.12)
Net Dep.	52.4	61.5	17.37	61.2	(0.49)
Total Taxation	24.3	107.4	341.98	47.5	(55.77)
Net Profit/Loss	200.4	225.1	12.33	103.6	(53.98)

4 Years Balance Sheet

(₹ mn)

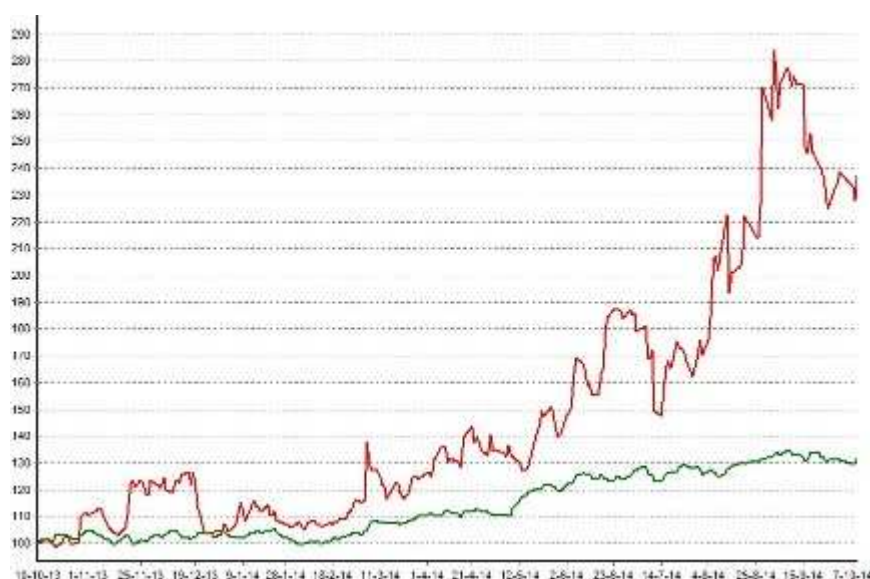
Balance Sheet as on 31 st	Mar 10	Mar 11	Mar 12	Mar 13
SOURCES OF FUNDS	1,195.0	1,459.5	1,624.4	1,910.9
Equity Share capital	122.7	122.7	122.7	122.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	694.5	851.8	1,027.0	1,080.3
Long Term Loans	23.5	85.6	135.9	205.1
Short Term Loans	354.3	399.4	338.8	502.8
USES OF FUNDS	1,195.0	1,459.5	1,624.4	1,910.9
Gross Block	788.4	939.9	1,005.5	1,291.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	141.4	185.4	220.7	272.8
Net Block	647.0	754.5	784.8	1,018.2
Capital Work in Progress	36.8	50.8	167.2	176.0
Investments	2.0	6.3	92.6	142.5
Current Assets	809.4	971.8	968.9	1,055.9
Less : Current Liabilities	329.9	347.6	402.5	485.1
Total Net Current Assets	479.5	624.2	566.4	570.8
Misc. Expenses not written	29.7	23.7	13.4	3.4
NOTE				
Bk Val Unquoted Investments	0.0	0.0	79.8	124.0
Mkt Val. Quoted Investments	2.3	6.8	12.5	18.6
Contingent Liabilities	30.9	96.2	115.8	124.0
Dividend (%)	33	23	35	35

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 13	Dec 13	Mar 14	Jun 14
Net Sales	725.0	798.9	823.0	812.0
Cost Of Sales	620.0	699.9	712.5	708.8
Operating Profit	105.0	99.0	110.5	103.2
Recurring Income	0.0	0.0	0.0	0.0
Adjusted PBDIT	105.0	99.0	110.5	103.2
Financial Expenses	15.6	14.6	15.5	16.9
Depreciation	15.9	18.3	17.4	20.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	73.5	66.1	77.6	66.0
Tax Charges	25.9	23.6	30.7	23.8
Adjusted PAT	47.6	42.5	46.9	42.2
Non Recurring Items	0.0	0.0	(22.7)	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	47.6	42.5	24.2	42.2

52 Week Index Relative Percentage Appreciation



Asahi vs SENSEX

Risks Associated

➔ Risk of Environmental Laws

Since the company operates in the chemical sector the most important risk is of the Environmental Laws, Any change in the environmental laws of the state or country of the country of export would damage the current business position.

➔ Increase in Raw Material Prices

Major raw materials to the company are always under inflationary pressure this is usually due to supply and demand of the raw materials coupled with the fact that 90% of the competition is locally confined to 2 states Gujarat & Maharashtra.

➔ The Fluctuating Rupee

Considering the fact that some of its raw materials are imported and products exported the risk return of purchase / sale is tied up to the fluctuating Rupee any depreciation in the Currency would bring in pressures on margins.

➔ Competition

Being a global player, the company is also exposed to competition not only from domestic players but also large international players. Cheap imports especially from countries like China could pose problems, which would have to be faced appropriately.

In a Nutshell

Asahi has been into business for more than 2 decades, the company has the advantage of manufacturing speciality dyes commonly called as CPC Pigments. The Company is one of the leading manufacturers of Phthalocyanine pigments (Blue) in India and one of the fastest growing in the world within its sector. Asahi is engaged in the manufacture of Phthalocyanine pigments (one of the largest categories of pigments manufactured in India) comprising CPC Blue Crude and a range of Beta Blue Pigments. About 60 percent of all CPC pigments are used in the manufacture of printing inks while the rest find application in paints, plastics, textiles and paper. Global volume demand for pigments is expected to keep growing 4% annually till 2018. The current global market for pigments is expected to grow to \$11.7 bn by 2018 growing at a CAGR of 4.5%. CPC pigments account for 60% of the world's organic pigment market. The Company has established its mark in export market and already has secured top clientele. The Company's Blue pigment clientele comprises global giants like DIC (Japan), Sun Chemicals (USA), Clariant Chemical India Ltd. and BASF (Korea). Further Asahi's revenues are derived from customers who have been working with the Company for more than five years this has translated into a low and secured receivables cycle translating into favourable terms of trade. The company is also unlocking the value of its CPC Green unit at Mehsana by selling it to Aksharchem India which would be beneficial for Asahi.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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