

SINCE 1986

DALAL STREET
INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION



The Trick Is To **Spot Them** At The **Larval Stage**

TINY
TREASURE 

July 2017

BSE Code	: 532853
Time Duration	: 1 year
CMP	: ₹308 (as on 27 July, 2017)
Target Price	: ₹412

Asahi Songwon Colors **INKING A COLOURFUL GROWTH**

Our Tiny Treasure for the month of July is Asahi Songwon Colors Ltd (ASCL). The company is engaged in the manufacture of phthalocyanine pigment used mainly in producing printing ink. This pigment also has applications in paints, plastics, textiles and paper industries.

ASCL has over the time also changed its revenue mix from being a pure exporter to exploring opportunities in the domestic market. From FY14, the exposure to exports has reduced from 86% to ~70% currently. This also makes its earnings less volatile due to foreign currency fluctuations.

Growing demand for pigments

Pigment industry is classified into organic and inorganic segments. The organic pigment market is replacing the inorganic market due to growing environmental awareness. Growth in paints, paper, printing inks and packaging industries have boosted the growth for pigments since last few years. The global market of pigment industry is expected to grow at a CAGR of 6.8% for the period 2016-22. Industrialisation and growing infrastructure development in Asia are key drivers for pigment industry's growth. About 40% of all phthalocyanine pigments are used in the manufacture of printing inks, while the rest find applications in the paints and plastics.

The increasing demand for pigments is also emanating from shutdown of large pigment suppliers in China due to environmental issues. Due to this, shift towards organic chemicals is driving the companies to look at India for the possibility of sourcing pigments.

ASCL enjoys the benefit of clearing the process for exports and this creates high entry barriers for other players. Also, the change in demand for digital printing requires consistency in viscosity and stability which comes from value added inks.

Capacity expansion and new products

The company introduced a new pigment Alpha Blue in its offering, which is expected to add a new revenue line from the mid of FY18. The new pigment is expected to generate better margins than Beta Blue.

ASCL has undertaken brownfield capacity expansion worth Rs 25cr to be completed by Aug17. This expansion will help de-bot-

tleneck operating capacity of CPC Blue Crude from 750 metric tonnes per month (MTPM) to 850 MTPM. Also, it plans to replace lignite-based Thermic Fuel Heater (TFH) to coal-based for better efficiency. ASCL also has plans to increase milling capacity of Beta Blue plant from 200 MTPM to 250 MTPM, along with setting up a solar power plant of 0.4 MW as well as certain auxiliary changes to support the expansion.

As per the management, this is expected to add to Rs 60 cr in top-line, which roughly gives an upside of Rs 60 cr by FY19, which implies upside of 23%.

Affordable raw material prices

Phthalic Anhydride and Cuprous Chloride are the basic raw materials required for manufacturing pigments. These are petroleum derivatives dependent on global crude oil prices. Recent dip in crude oil prices proved beneficial for the company as it could manage its raw material costs. The industry is predicting the prices to go down to a level of USD 30 per barrel till 2020. This might help the company to procure its raw materials at even lower cost.

Financial Performance

The company's topline grew 15.1% YoY in FY17 to Rs 257.83 cr. This was largely driven by growth in volumes of 23% YoY in FY17. Its EBITDA increased by 19% to Rs 47.08 cr from Rs 38.96 cr, while EBITDA margin improved from 17.4% to 18.4% YoY. The net profit jumped 19% to Rs 25.02 cr with margin of 9.7%. It has been maintaining healthy dividend payout ratio of 20.74%. The company paid interim dividend of Rs 3 per share for FY17.

The debt-equity ratio in FY16 improved to 0.33x from 0.66x in FY14. Its interest coverage ratio was 7.98x in FY16.

Valuation

The company is trading at TTM P/E of 15.06 with TTM EPS of Rs 20.39. The ROE and ROCE for FY17 stood at 15.98% and 25.17%, respectively. Building in the net profit growth of 28% due to capacity expansion and improvement in operational efficiency, we arrive at FY18 P/E of 9.6x. This provides us with an upside of 33% from the current levels with target price of Rs 412.

We urge investors to invest in four tranches so as to average the entry price in the stock.

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Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	257.84	223.92	239.53	302.01	232.17
Total Income	258.18	227.55	240.85	302.65	232.63
Total Expenditure	210.76	184.96	203.66	263.33	207.29
PBIDT	47.42	42.59	37.20	39.31	25.34
PAT	25.02	20.98	17.70	14.59	10.36
Dividend %	30.00	20.00	35.00	35.00	35.00
Adj. EPS(Rs)	20.39	17.10	14.42	11.89	8.44

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201703	201612	Q on Q Var%	201603	Y on Y Var%
Net Sales	70.47	56.58	24.56	61.43	14.73
Total Expenditure	59.73	44.31	34.81	48.86	22.24
PBIDT (Excl OI)	10.74	12.39	-13.29	12.56	-14.47
PAT	8.76	6.49	34.88	6.38	37.34
PBIDTM% (Excl OI)	15.24	21.85	-30.25	20.45	-25.48
PBIDTM%	19.10	22.08	-13.50	21.19	-9.86
PATM%	12.43	11.45	8.56	10.38	19.75
Adj. EPS(Rs)	7.14	5.29	34.97	5.20	37.31

