July 26, 2017

Rating matrix		
Rating	:	Hold
Target	:	₹ 1181
Target Period	:	12 months
Potential Upside	:	3%

What's Changed?	
Target	Changed from ₹ 1204 to ₹ 1181
EPS FY18E	Changed from ₹ 23.4 to ₹ 22.4
EPS FY19E	Changed from ₹ 27.4 to ₹ 26.8
Rating	Unchanged

Quarterly Performance

	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Revenue	4,228.3	4,031.7	4.9	4,372.2	-3.3
EBITDA	665.4	816.2	-18.5	707.8	-6.0
EBITDA (%)	15.7	20.2	-451bps	16.2	-45bps
PAT	440.7	552.6	-20.2	479.6	-8.1

Key Financials

₹ Crore	FY16	FY17E	FY18E	FY19E
Revenue	15,842	17,223	18,840	22,659
EBITDA	2,769.1	3,013.3	3,127.5	3,802.3
Net Profit	1,801.8	2,055.4	2,152.4	2,575.0
EPS (₹)	18.8	21.4	22.4	26.8

Valuation summary

	FY16	FY17E	FY18E	FY19E
P/E	61.3	53.8	51.3	42.9
Target P/E	62.9	55.1	52.6	44.0
EV / EBITDA	39.3	36.2	35.0	28.7
P/BV	19.7	14.5	12.8	11.1
RoNW (%)	34.2	30.3	25.8	27.0
RoCE (%)	48.0	42.5	34.4	36.1

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	110,499.8
Total Debt (FY17) (₹ Crore)	545.5
Cash and Investments (FY17) (₹ Crore)	1,972.6
EV (₹ Crore)	109,072.7
52 week H/L (₹)	1227/851
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Price performance (%)

	1M	3M	6M	12M
Asian Paints	1.6	7.8	18.3	7.8
Berger Paints	4.9	1.1	20.3	7.0
Kansai Nerolac	7.5	17.9	34.1	41.4
Akzo Noble	1.7	12.1	24.8	15.8

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Asian Paints (ASIPAI)

₹ 1152

Marred by de-stocking ahead of GST...

- Asian Paints (APL) recorded muted volume growth of ~2% YoY in Q1FY18 due to a sharp decline in primary sales in May 2017 and June 2017. This was on account of de-stocking of inventory at dealer level before implementation of GST. Additionally, the company has taken price hike of ~3% YoY to partly offset the higher raw material cost. Further, industrial paint demand (automotive, powder coating) stayed intact in the auto OEM and industrial liquid paint segment
- APL recorded ~450 bps decline in gross margin due to an increase in raw material prices in the last two quarters (TiO2 price was up 25% YoY in January-March 2017). A sharp decline in EBITDA margin translated into a decline in PAT by 20% YoY. We model revenue, earnings CAGR of 15%, 12%, respectively, for FY17-19E led by volume CAGR of 12% due to addition of new capacity by FY19

Leader in paint segment, economic recovery to drive volume growth

APL is the industry leader in the decorative paint segment with ~53% market share and a dealer network of over 40,000 across India. It derives ~89% of its topline from the decorative segment while the rest comes from the industrial segment. We believe paint companies will be key beneficiaries of the government's key reforms like implementation of GST and pay hike. While the Seventh Pay Commission has boosted the disposable income of 1.4 crore government employees, GST would reduce tax arbitrage for the unorganised segment (25-30% of total industry). This will provide additional benefit to organised players in the long run (shift in demand of branded product category). We have modelled revenue CAGR of 15% in FY17-19E led by volume growth owing to capacity addition, strong demand for decorative paints from tier II, tier III cities and shorter repainting cycle.

APL to maintain profitability in near term amid rising input prices

To avoid inflationary pressure, APL has successfully passed on the price hike (~6-7%) to its customers previously. However, the EBITDA margin tapered off in FY12-13 as raw material prices moved up sharply (~40% of raw material are imported) hit by an elevated dollar value against the rupee (up 19% in FY11, FY13) and bottoming out titanium dioxide (TiO2) prices. With stabilisation of crude oil prices in FY17-18, we believe there would be a slight consolidation in the EBITDA margin (still higher than historical level). Asian Paints, being the market leader, has the capability to retain benefits by taking a price hike. As a result, we believe the margin would remain at an elevated level for FY17-19E.

Fairly valued; recommend HOLD

We believe the company will record sales CAGR of 15% in FY17-19E led by estimated volume CAGR of 12%. We believe that being a market leader in the decorative paint segment, any price hike in raw material would be easily passed on to its customers. The company would maintain EBITDA margin at ~17% despite higher raw material prices. As a result, PAT is likely to record a CAGR of ~ 12% for FY17-19E. Also, high cash on the books could lead to an increase in dividend payout and improvement in RoEs. We believe, at the CMP, the stock is discounting all near term positives with earning multiple of 51x and 43x FY18E and FY19E, respectively. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 1181 per share (valuing 44xFY19E earnings).

Variance analysis

	Q1FY18	Q1FY18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Revenue	4,228.3	3,920.7	4,031.7	4.9	4,372.2	-3.3	Sales growth of 5% came on the back of an increase in realisation by ~3% YoY. Overseas business recorded a muted performance led by Egypt and Ethiopia wherein sales were hurt by devaluation of currency and raw material constraint
Other Income	78.3	78.4	71.9	9.0	70.1	11.8	
Raw Material Exp	2,181.2	1,896.5	1,896.1	15.0	2,200.1	-0.9	As raw material prices have moved up over the last two quarters, gross margin of the company declined ~460 bps YoY. However, to offset rising raw material cost, the company took a price hike of ~3%
Employee Exp	286.2	269.6	263.6	8.6	253.4	12.9	
Manufacturing & Other exp	682.5	603.1	611.2	11.7	747.1	-8.7	
EBITDA	665.4	720.3	816.2	-18.5	707.8	-6.0	
EBITDA Margin (%)	15.7	18.4	20.2	-451 bps	16.2	-45 bps	Higher raw material prices took a toll on EBITDA margin
Depreciation	90.5	86.8	84.4	7.2	82.6	9.6	
Interest	8.0	6.7	6.3	27.4	8.8	-9.6	
Exceptional items	2.5	0.0	1.9	31.8	3.5	-28.5	
PBT	647.8	705.2	799.3	-19.0	690.0	-6.1	
Total Tax	216.0	229.2	259.3	-16.7	221.0	-2.2	
PAT	440.7	488.6	552.6	-20.2	479.6	-8.1	Sharp decline EBITDA margin coupled with higher tax incidence resulted in lower PAT during Q1FY18
Key Metrics							
Volume growth (%)	2.0	-5.0	12.0		11.0		Though the volume growth was better than our estimate, the muted performance was led by lower primary sales owing to inventory clearance at dealers level before the implementation of GST
Realisation growth (%)	3.0	1.0	-2.0		-1.9		Company has taken price hike of ~3% YoY to partly offset increase in raw material cost

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			Comment
	Old	New	% Change	Old	New	% Change	
Revenue	19,435.3	18,840.1	-3.1	22,983.1	22,659.2	-1.4	We have tweaked our revenue estimate downwards for FY18E and FY19E considering the performance of Q1FY18. We have modelled volume CAGR of 12% in FY17-19E supported addition of new capacity. We have modelled a moderate price hike (~3% YoY) during the same period considering increase input prices
EBITDA	3,254.5	3,127.5	-3.9	3,878.4	3,802.3	-2.0	
EBITDA Margin %	16.7	16.6	-10bps	16.9	16.8	-12bps	With the stabilisation of crude oil prices, we believe there would be a slight consolidation in the EBITDA margin (still higher than historical level). However, we believe Asian Paints being the market leader has the capability to retain some beneifts by taking a price hike. As a result, we believe the margin would remain at an elevated level for FY16-19E
PAT	2244.5	2152.4	-4.1	2630.2	2575.0	-2.1	
EPS (₹)	23.4	22.4	-4.1	27.4	26.8	-2.0	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier		Comments
	FY16E	FY17E	FY18E	FY19E	FY18E	FY19E	
Volume Growth (%)	10.5	13.1	8.3	15.8	11.0	12.8	Volume growth (at 12% CAGR in FY17-19E) was largely driven by sustained demand from tier II and tier III cities coupled with addition of new capacity. In additon, volumes would also get a boost from higher disposable income and expectation of better monsoons. This coupled with implementation of GST would aid volume growth due to a shift in demand from the unorganised to the organised segment
Realisation Growth (%)	(2.3)	(2.6)	3.5	3.0	5.0	6.0	

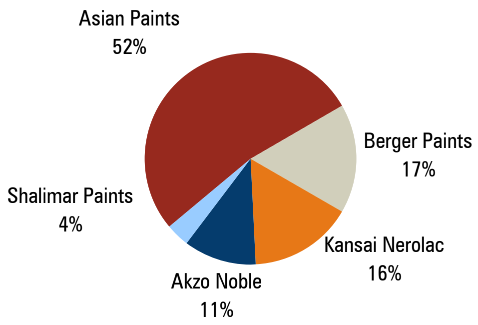
Source: Company, ICICIdirect.com Research

Company Analysis

Consistent performance, strong correlation with GDP growth

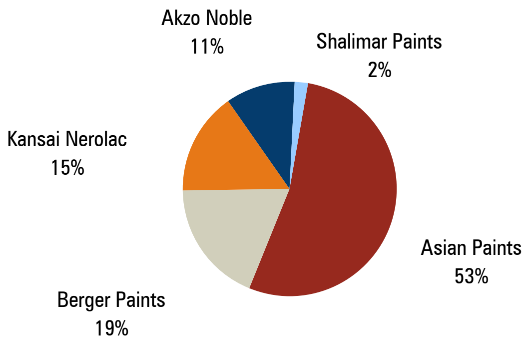
Asian Paints (APL) has maintained its industry leadership position in FY16 among top five players (i.e. Berger Paints, Kansai Nerolac, Akzo Nobel and Shalimar Paints) with a market share of 53%. The company is followed by Berger Paints with ~17% and Kansai Nerolac with ~16%. Historically, there exists a strong correlation between volume growth of paints companies and GDP growth, which is at ~1.5-2x. However, in the last two years, the correlation has remained on the lower side (~1.7x, 1.1x of GDP for FY15, FY16, respectively) largely attributable to the price cut taken by paint companies on account of lower raw material prices. Despite competition gaining momentum, APL's market share has improved 100 bps (in terms of value) supported by a strong dealer network, strong supply chain, brand building exercise and launch of premium products in domestic markets. The company has a strong dealer network of over 45,000 across India (~27,000 dealers with tinting machines), nearly double India's No. 2 player Berger Paints in the decorative segment.

Exhibit 1: Market share of leading paint companies (2008)



Source: Company, ICICIdirect.com Research

Exhibit 2: Market share of leading paint companies (2016)



Source: Company, ICICIdirect.com Research

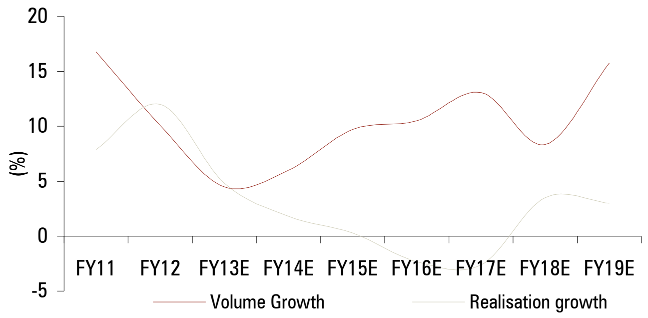
During FY17, expansion work at the Rohtak plant in Haryana is set to double the capacity from the existing 2,00,000 KL per annum to 4,00,000 KL per annum. It was successfully completed. For the future expansion plan, the company will be setting up a paint manufacturing plant with a capacity of 5,00,000 KL in phases at Vishakhapatnam in Andhra Pradesh at an investment of ~₹ 1,785 crore. Additionally, the company would also invest ~₹ 2,300 crore to set up a paint manufacturing facility with a capacity of 6,00,000 KL in phases at Mysuru in Karnataka. The capacity at both these manufacturing facilities will be built in a phased manner to service the future paint demand. The first phase of both capacities (at 300000 KL each) would be completed by FY19E.

The leader in the decorative paints segment continues to grow at a healthy pace with strong double digit volume growth mainly contributed by decorative paints demand

Implementation of GST, Seventh pay panel to benefit, going forward

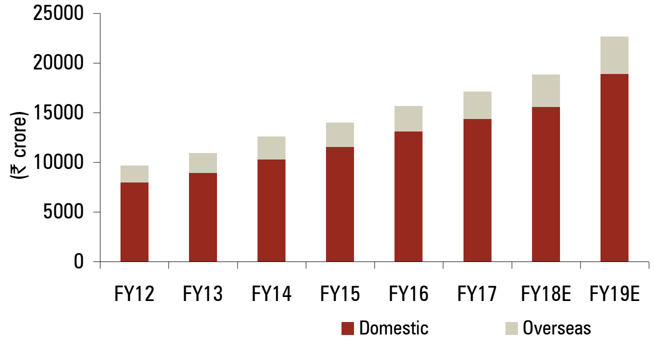
We believe paint companies will be key beneficiaries of the government's key reforms like implementation of GST and pay hike. While the Seventh Pay Commission will boost the disposable income of 1.4 crore government employees, GST would reduce tax arbitrage for the unorganised segment (25-30% of total industry). This will provide additional benefit to organised players in the long run (shift in demand of branded product category). We have modelled revenue CAGR of 15% in FY17-19E led by volume growth owing to capacity addition and demand for decorative paints remaining intact from tier II and tier III cities (due to shorter repainting cycle).

Exhibit 3: Expect volume CAGR of 12% in FY17-19E



Source: Company, ICICIdirect.com Research

Exhibit 4: Sales growth at 15% CAGR in FY17-19E



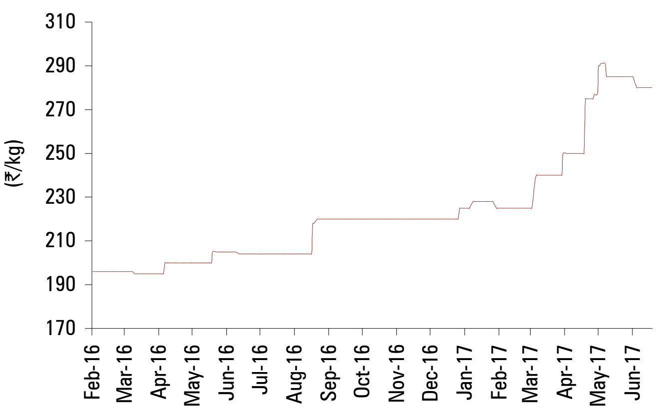
Source: Company, ICICIdirect.com Research

Sharp volume growth with timely price hike offset inflationary pressure

APL's margin movement has been in the range of 15-16% during the bull run of FY05-08 and in FY10, supported by volume CAGR of ~16% and benefit of lower raw material prices [mainly titanium dioxide (TiO2)]. However, APL has not been immune to the economic slowdown. The EBITDA margin in FY09 declined ~400 bps YoY (followed by a sharp gross margin correction of 440 bps) due to a sharp movement in crude oil prices. As majority of the raw material of paint companies is imported (~40% of raw material), an elevated dollar value against the rupee and higher TiO2 prices (increased at CAGR of 11%) in FY11-14 restricted the average EBITDA margin to 15-16% with volume CAGR of ~8% in the same period.

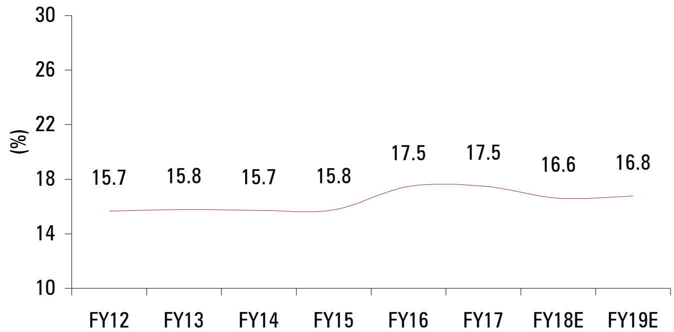
Raw material prices have remained benign in the last few years, helping an expansion in gross margin by ~338 bps in FY15-16. However, spike in raw material prices coupled with one-time event such as demonetisation, implementation of GST had impacted volume growth of the company. With stabilisation of crude oil prices in FY17-18, we believe there would be a slight consolidation in the EBITDA margin (still higher than historical level). Asian Paints being the market leader has the capability to retain benefits by taking a price hike. As a result, we believe the margin would remain at an elevated level for FY17-19E.

Exhibit 5: Stabilising raw material cost (Tio2 Prices)



Source: Company, ICICIdirect.com Research

Exhibit 6: Regular price hike to help in margin expansion

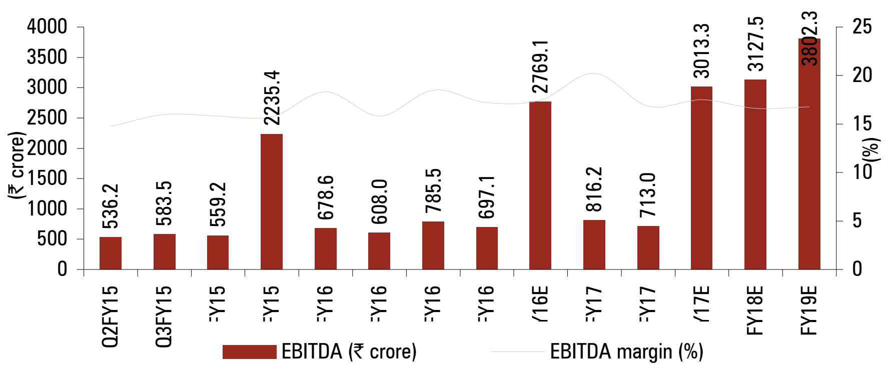


Source: Company, ICICIdirect.com Research

Urbanisation, early repainting demand for sustainable growth

Increasing urbanisation, higher rural income levels and a brief repainting cycle have been the main reasons for sustainable decorative paints demand. With the substantial increase in urban income from 2004 to 2011 and rural income in 2007-12, decorative paints demand has witnessed double digit growth over the last four or five years. With more than 65% of decorative paints demand contributed by repainting demand, a reduction in duration of repainting activity from eight or nine years to four or five years has also been a reason for strong decorative paints demand. In the medium-term, we believe higher disposable income (due to implementation of Seventh Pay Commission) coupled with expectations of better monsoons (would help improve rural income) would be a strong trigger for the paint industry. This is evident from the history that the paint industry recorded strong volume growth of ~15% post implementation of the Sixth Pay Commission. Simultaneously, premiumisation, specifically from distemper to external emulsion, is the new trend. This has led to higher realisations for the decorative paints. As the phenomenon continues, this would also help the industry to command higher margins, going forward.

Exhibit 7: Price hike at regular interval to support EBITDA margin (FY17-19E)

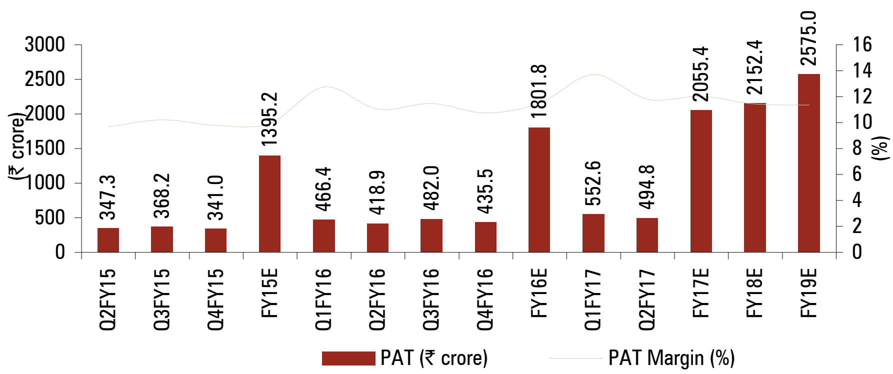


Source: Company, ICICIdirect.com Research

PAT to record CAGR of 12% in FY17-19E

We believe PAT is likely to record a CAGR of 12% in FY17-19E, supported by sales CAGR of 15% with higher EBITDA margin of ~17%. In the long term, the company plans to double its manufacturing capacity with an investment of ₹ 4000 crore. This includes setting up of 500000 KL plant at Andhra Pradesh and 600000 KL plant in Karnataka.

Exhibit 8: PAT likely to grow at 12% CAGR in FY17-19E



Source: Company, ICICIdirect.com Research

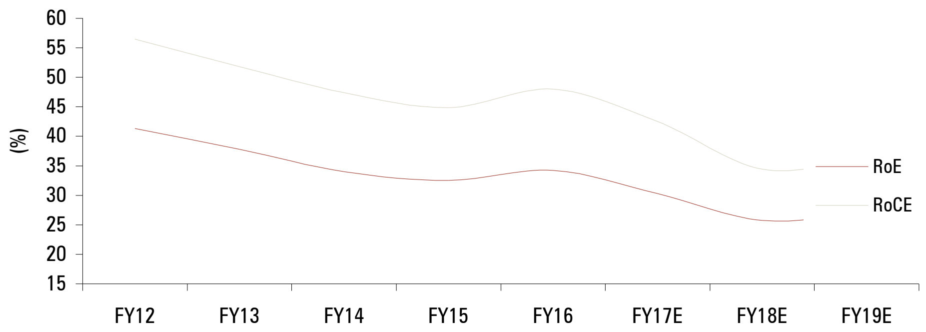
Key conference call takeaways…

- Asian Paint is operating with capacity of ~11.3 lakh KL per annum with utilisation rate of 75%-80% (annual).
- Paint demand remained strong in April 2017 but demand for decorative paints was hurt significantly owing to de-stocking of inventory at the dealer's level in May-June 2017. Demand remaining intact in the auto OEM and general industrial business helped drive the performance of the industrial paint segment
- Business of Sleek and ESS ESS were also impacted by lower primary sales during Q1FY18
- On a sequential basis, material prices continued to witness an upward trend in the quarter thereby squeezing margins. However, the company has taken a price hike of 3% and 2.7% during March 2017 and May 2017, respectively
- Prices of raw material such as monomers and TiO2 have shown a significant increase in the first half of 2017, mainly due to lower supply from Europe and China, respectively. According to the management, with the stabilisation of capacity supply of key raw material will resume, going forward. This coupled with a stronger rupee would aid gross margin. However, the company may take a price hike in case of adverse movement of raw material prices
- The international business was impacted by significant currency devaluation in Egypt. Also, the Ethiopia business was impacted by shortage of raw materials due to unavailability of foreign exchange
- Growth was specifically aided by contribution from Nepal, Jamaica, Fiji, Oman and Bahrain
- Also, ~90% dealers of Asian Paints are now GST compliant. The company had restricted supply to dealers who were non-compliant with GST. It has a dealer network of ~50000 across India while the total paint dealers in India is over 1.5 lakh
- Continued focus on network expansion and opening new 'Colour Ideas' store. 37,500+ 'Colour World' machines and 350+ 'Colour Ideas' stores across the country

Annual report key takeaways (FY17)…

- The business portfolio of Asian Paints mainly includes two segments i.e. paints and home improvements. Paint contributes ~98% to the topline while being a newer segment home improvement contributes ~2% at present
- Under paints segment, Asian Paints remained a market leader in the decorative paint segment with over 50% market share in the organised category. Decorative paint contributes ~89% in total paint revenue while 11% of revenue comes from industrial paints
- International business contributed ~13% to consolidated sales. With revenue contribution of 52%, Middle East & Africa is the largest contributor in the international sales followed by Asia, Caribbean and South pacific countries respectively.
- APL recorded paint volume growth of ~9% YoY (I-direct estimate) in FY17 led by decorative paint business in India. Volume growth was impacted by demonetisation impact in Q3FY17
- There was a cumulative price decline of ~1.4% in FY17 vs. increase of 2% in FY16
- The Khandala plant had subsidy income of ₹ 136.5 crore during FY17 (₹ 134.2 crore in FY16)
- Rohtak (Haryana) plant capacity expansion from 200,000 KL per annum to 400,000 KL per annum successfully completed in FY17
- Working on two greenfield paint manufacturing facilities at Mysuru and Vishakhapatnam is on schedule
    - Proposed to set up 4,00,000 KL plant at Vishakhapatnam in Andhra Pradesh at an investment of ~₹ 1750 crore
    - Proposed to set up 6,00,000 KL plant at Mysuru in Karnataka at an investment of ~₹ 2300 crore
- Both projects are on track to achieve the capacity of 3,00,000 KL per annum each in the first phase
- The company is also in the process of seeking statutory approvals for expanding the paint production capacity at Ankaleshwar from 1,30,000 KL per annum to 3,00,000 KL per annum and augment the resin and emulsion capacity from 32,000 MT per annum to 85,000 MT per annum
- The company has over 45000 dealers across India. During FY16, APL has opened a multi-category décor store called "AP Homes" in Coimbatore. The company further plans to scale up the count by opening new stores in South and North India
- Under the home improvement category (contributes ~2% to the topline), the company operates in the kitchen business (through Sleek) and Bath fitting business (through ESS ESS). Sleek operates in two segments namely 'Kitchen Components' and 'Full Kitchen Solutions'. It operates the same through a network of distributors, dealers and retail stores. Under the Kitchen component category, APL has added 1000 sub dealers during FY17. This takes the total count of sub dealers at 3200. On the full kitchen category, the company has added 40 new dealers during FY17. The total count is now at 117
- Sleek recorded sales growth of 15% YoY to ₹ 156 crore with PBIT loss of ₹ 18.5 crore during FY17. On the other hand, ESS ESS recorded strong revenue growth of ~42% YoY to ₹ 150.3 crore during FY17, led by addition of dealer network across India. Improved operational efficiency led substantial reduction in PBIT losses to ₹ 18.5 from ₹ 30.2 crore recorded during FY16

Exhibit 9: Lighter balance sheet to help drive return ratios



Source: Company, ICICIdirect.com Research

Outlook and valuation

As APL is the market leader in the decorative segment with over 53% market share, the company has commanded rich valuations compared to peers in spite of volume pressure and the declining trend of margin and return ratios. The company recorded revenue, PAT CAGR of 19.6%, 33%, respectively, supported by ~16% volume CAGR in FY05-08. Better operating leverage led to EBITDA margin expansion of 200 bps during the same period. The company has commanded an average one year forward earnings multiple of 22x in FY05-08 with average RoE of 39%. For FY11-13, revenue, PAT CAGR was 12%, 10%, respectively, supported by ~7-8% volume growth.

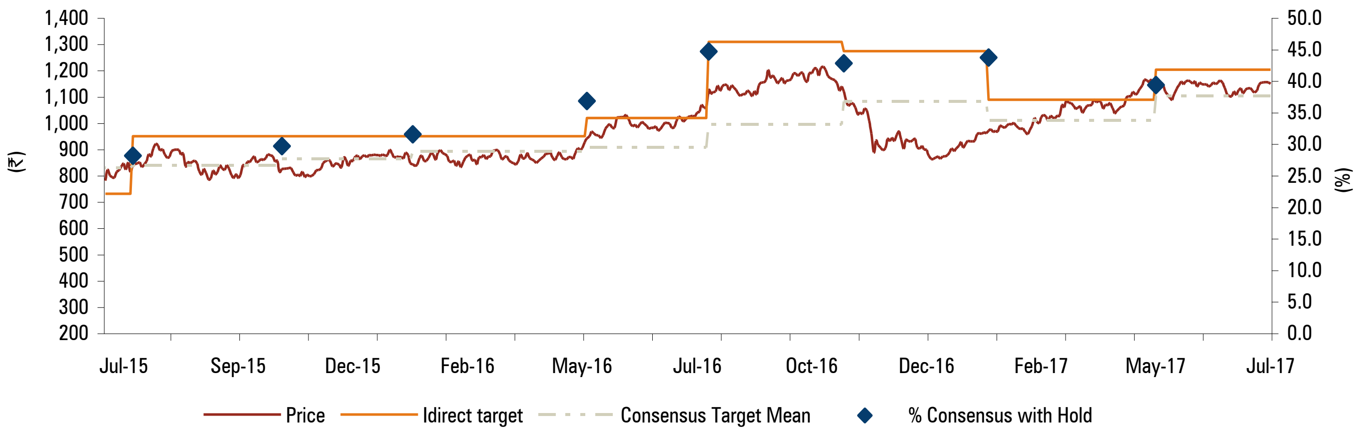
Despite an EBITDA margin erosion by ~142 bps due to lower operating leverage (higher fixed cost) and RoE on a declining trend, the stock commanded average one year forward earnings multiple of 30x. We model revenue, earning CAGR ~15%, ~12%, respectively. We estimate volume CAGR of 12% and limited realisation growth (CAGR 3%) in FY17-19E largely on the back of a change in the product mix. Historically, in FY10, the company witnessed a sharp increase in gross margin on account of lower crude prices. We believe crude oil prices will remain at lower levels in the near term, benefiting the market leader as it is unlikely to pass on the entire benefit of lower raw material prices. Also, Asian Paints being the market leader has the capability to retain some benefits by taking price hike in case of rising raw material prices. In addition to this, high cash on the books could lead to an increase in dividend payout and improvement in RoEs. We believe that at CMP the stock is discounting all near term positive with earning multiple of 51x and 43x FY18E and FY19E, respectively. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 1181 (valuing 44xFY19E earnings).

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	15841.7		18.8		61.3	39.3	34.2	48.0
FY17	17223.1	8.7	21.4	14.1	53.8	36.2	30.3	42.5
FY18E	18840.1	9.4	22.4	4.7	51.3	35.0	25.8	34.4
FY19E	22659.2	20.3	26.8	19.6	42.9	28.7	27.0	36.1

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Mar-10	Robust volume growth along with substantial improvement in operating margins ~18% (best in last six seven years) results in a rally in the stock
May-10	Commences operations in its new manufacturing facility at Rohtak, Haryana with a capacity of 1,50,000 kl at an investment of ₹ 275 crore
Jan-11	Margin decline due to slow & steady inch up of key crude based raw material prices
Oct-11	Aggressive price hike to mitigate raw material pressure a respite to the stock price
May-12	Starts building a decorative paints plant in Khandala (Maharashtra) with a capacity of ~3,00,000 kl (scalable capacity of 4,00,000 kl)
Jan-13	Sustained volumes along with ~20% decline in Titanium dioxide lead to positive movement in the stock
Jul-13	Stock witnesses a steep decline in anticipation of adverse impact on results due to a volatile currency movement
Nov-13	With sustained volumes and strong margins in Q2FY14 contrary to expectation, the stock recovers and makes new high in November
Nov-13	Company closes down operation of its powder coating plant at Baddi (HP) for two years due to a significant decline in the processing volume
Feb-14	Unconditional cash offer for shares of Berger International (BIL), Singapore by Asian Paints (International) Ltd (APIL), Mauritius, to make BIL a wholly-owned subsidiary and delist from Singapore Exchange Securities Trading (SGX-ST)
Apr-14	Asian Paints (International) Ltd, Mauritius, subsidiary of Asian Paints acquires 51% stake in Kadisco Chemical Industry PLC, Ethiopia
May-14	Asian Paints acquires entire stake of Ess Ess Bathroom Products Pvt Ltd, a prominent player in the bath and wash business segment in India

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Last filing date	%O/S	Position (m)	Change (m)
1	Smiti Holding & Trading Company Pvt. Ltd.	31-Mar-17	5.6	54.1	0.0
2	Isis Holding & Trading Company Pvt. Ltd.	31-Mar-17	5.5	52.9	0.0
3	Geetanjali Trading & Investments Pvt. Ltd.	31-Mar-17	5.1	49.3	0.0
4	Ojasvi Trading Pvt. Ltd.	31-Mar-17	4.9	47.0	0.0
5	Life Insurance Corporation of India	31-Mar-17	4.7	45.0	0.1
6	Elcid Investments, Ltd.	31-Mar-17	3.0	28.3	0.0
7	Vakil (Abhay Arvind)	31-Mar-17	2.4	23.3	0.0
8	Gujarat Organics Ltd	31-Mar-17	2.4	22.8	0.0
9	Sudhanava Investments & Trading Company Pvt. Ltd.	31-Mar-17	2.0	19.0	0.0
10	Rupen Investment & Industries Pvt. Ltd.	31-Mar-17	2.0	18.8	0.0

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	52.8	52.8	52.8	52.8	52.8
Institutions	26.3	26.3	25.6	25.7	25.9
Others	21.0	20.9	21.6	21.5	21.3

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Unigestion	7.7	0.4	Goldman Sachs Asset Management International	-21.2	-1.2
William Blair & Company, L.L.C.	5.1	0.3	Lyxor Asset Management	-18.2	-1.0
Första AP-Fonden	2.6	0.2	Robeco Institutional Asset Management B.V.	-10.2	-0.7
Franklin Advisers, Inc.	3.3	0.2	Norges Bank Investment Management (NBIM)	-6.2	-0.5
Life Insurance Corporation of India	2.4	0.1	Baillie Gifford & Co.	-7.4	-0.4

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Total Operating Revenue	15,841.7	17,223.1	18,840.1	22,659.2
Growth (%)		8.7	9.4	20.3
Raw Material Expenses	8,049.7	8,430.6	10,022.9	13,146.8
Employee Expenses	989.5	1,086.3	1,318.8	1,586.1
Marketing Expenses	1,523.2	1,195.9	1,318.8	1,359.6
Administrative Expenses	476.7	341.7	602.9	634.5
Other expenses	2,765.9	2,990.5	2,449.2	2,130.0
Total Operating Expenditure	13,072.6	15,601.0	15,712.6	18,856.9
EBITDA	2,769.1	3,013.3	3,127.5	3,802.3
Growth (%)	23.9	8.8	3.8	21.6
Depreciation	275.6	338.8	376.1	441.1
Interest	40.7	30.6	54.7	45.8
Other Income	213.4	262.6	197.0	153.6
PBT	2,666.3	2,906.5	2,893.6	3,469.0
Total Tax	844.4	948.0	795.7	954.0
PAT	1,801.8	2,055.4	2,152.4	2,575.0
Growth (%)	29.1	14.1	4.7	19.6
EPS (₹)	18.8	21.4	22.4	26.8

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit before Tax	2,628.4	2,953.7	2,893.6	3,469.0
Add: Depreciation	288.0	338.8	376.1	441.1
(Inc)/dec in Current Assets	251.7	-943.3	-758.7	-1,024.8
Inc/(dec) in CL and Provisions	0.0	68.4	617.2	725.3
Others	-19.4	227.8	143.1	125.8
Tax Paid	-815.4	-948.0	-795.7	-954.0
CF from operating activities	2,333.3	1,358.7	2,099.4	2,341.4
(Inc)/dec in Investments	-147.9	-1,104.1	-185.0	-90.0
(Inc)/dec in Fixed Assets	-805.9	-51.7	-1,073.9	-808.9
Others	84.7	0.0	0.0	0.0
CF from investing activities	-869.1	-1,155.8	-1,258.9	-898.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-113.9	-64.1	-29.7	-20.8
Dividend paid & dividend tax	-764.2	-987.7	-1,151.0	-1,247.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
CF from financing activities	-918.2	-1,051.8	-1,180.8	-1,267.8
Net Cash flow	546.0	-849.0	-340.2	174.7
Opening Cash	204.4	420.4	621.3	281.0
Closing Cash	420.4	621.3	281.0	455.8

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	5,509.3	7,545.5	8,546.9	9,875.0
Total Shareholders funds	5,605.3	7,641.4	8,642.8	9,970.9
Long term loans	74.9	41.1	41.1	41.1
Long Term Provisons	124.4	146.0	166.0	186.0
Minority Interest/Other LT liab	522.4	745.5	770.5	795.5
Current Liabilities				
Creditors	1,590.1	1,922.8	2,355.0	2,895.3
Other CL	2,226.3	1,962.0	2,147.0	2,332.0
Total Liabilities	10,143.3	12,458.9	14,122.5	16,220.9
Assets				
Gross Block	4,754.4	5,236.2	6,336.2	7,236.2
Less: Acc Depreciation	1,787.0	2,125.9	2,502.0	2,943.1
Net Block	2,967.4	3,110.3	3,834.2	4,293.1
Capital WIP	348.9	257.5	607.5	957.5
Non- Current Investments	539.3	1,300.7	1,450.7	1,505.7
LT loans & advances	179.3	72.6	97.6	122.6
Deffered Tax Assets	0.5	16.16	2.4	2.4
Other Non-current Assets	247.4	696.9	706.9	716.9
Current Assets				
Inventory	2,064.0	2,626.9	2,878.4	3,461.8
Debtors	1,248.3	1,446.6	1,570.0	1,888.3
Cash & Bank	420.4	621.3	281.0	455.8
Loans & Advances	289.0	17.8	261.7	314.7
Other Current Assets	1,839.0	2,292.2	2,432.2	2,502.2
Total Assets	10,143.2	12,458.9	14,122.4	16,220.9

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17E	FY18E	FY19E
Per share data (₹)				
EPS	18.8	21.4	22.4	26.8
Cash EPS	21.3	24.4	25.8	30.8
BV	58.4	79.7	90.1	104.0
DPS	7.5	10.3	12.0	13.0
Cash Per Share	43.8	64.8	29.3	47.5
Operating Ratios (%)				
EBITDA Margin	17.5	17.5	16.6	16.8
PBT / Total Operating income	16.7	17.3	15.4	15.3
PAT Margin	11.5	12.0	11.4	11.4
Inventory days	47.4	55.4	55.0	55.0
Debtor days	28.7	30.5	30.0	30.0
Creditor days	36.5	40.5	45.0	46.0
Return Ratios (%)				
RoE	34.2	30.3	25.8	27.0
RoCE	48.0	42.5	34.4	36.1
RoIC	30.4	28.6	27.1	28.9
Valuation Ratios (x)				
P/E	61.3	53.8	51.3	42.9
EV / EBITDA	39.3	36.2	35.0	28.7
EV / Net Sales	6.9	6.3	5.8	4.8
Market Cap / Sales	7.0	6.4	5.9	4.9
Price to Book Value	19.7	14.5	12.8	11.1
Solvency Ratios				
Debt/EBITDA	0.1	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.1	1.5	1.5	1.5
Quick Ratio	0.5	0.7	0.7	0.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Consumable)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY17E	FY18E	FY19E	P/E (x) FY17E	FY18E	FY19E	EV/EBITDA (x) FY17E	FY18E	FY19E	RoCE (%) FY17E	FY18E	FY19E	RoE (%) FY17E	FY18E	FY19E
Asian Paints (ASIPAI)	1,152	1,181	Hold	110,500	21.4	22.4	26.8	53.8	51.3	42.9	36.2	35.0	28.7	32.9	29.5	30.8	26.9	24.9	25.8
Bajaj Electricals (BAJELE)	333	380	Buy	3,322	10.8	15.2	19.3	30.9	21.9	17.3	15.4	12.4	10.3	16.7	20.3	22.8	12.4	16.0	17.3
Havells India (HAVIND)	457	540	Buy	28,512	8.6	11.5	15.0	52.9	39.6	30.5	32.5	26.5	20.1	23.0	26.2	28.7	17.4	20.4	21.9
Kansai Nerolac (KANNER)	448	495	Buy	24,144	9.4	10.8	12.3	47.7	41.5	36.5	33.0	28.8	24.9	26.2	28.1	28.1	18.0	19.6	19.5
Pidilite Industries (PIDIND)	827	827	Buy	42,395	16.8	18.2	21.2	49.1	45.4	39.0	32.6	30.2	26.0	33.0	32.5	33.0	24.9	24.6	24.9
Essel Propack (ESSPRO)	240	270	Hold	3,770	12.5	14.1	16.8	19.3	17.0	14.3	10.3	8.8	7.6	17.6	17.7	19.2	17.4	15.3	16.0
Supreme Indus (SUPIND)	1,105	1,285	Buy	14,036	33.7	36.6	43.7	32.8	30.2	25.3	18.6	16.5	14.0	30.0	32.6	35.1	25.3	26.5	27.7
Symphony (SYMLIM)	1,472	1,623	Buy	10,298	23.7	33.4	42.1	62.2	44.1	34.9	51.0	34.6	27.1	48.4	50.6	56.2	36.1	38.3	42.3
V-Guard Ind (VGUARD)	181	165	Hold	7,686	3.6	4.0	4.8	50.6	45.3	37.4	35.3	32.0	26.1	32.3	31.2	31.1	23.8	23.8	23.7
Voltas Ltd (VOLTAS)	504	525	Buy	16,669	15.5	18.6	21.9	32.6	27.0	23.0	28.2	22.6	19.1	21.5	26.2	26.5	15.5	19.0	19.2

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Sanjay Manyal*, MBA (Finance) and *Hitesh Taunk*, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Sanjay Manyal, MBA (Finance) and Hitesh Taunk, MBA (Finance) Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
It is confirmed that Sanjay Manyal, MBA (Finance) and Hitesh Taunk, MBA (Finance) Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.