

Asian Paints

Premium valuations to sustain, "Accumulate"

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Rating	Accumulate
Price	Rs1,221
Target Price	Rs1,239
Implied Upside	1.5%
Sensex	32,607
Nifty	10,208

(Prices as on October 24, 2017)

Trading data

Market Cap. (Rs bn)	1,170.7
Shares o/s (m)	959.2
3M Avg. Daily value (Rs m)	1019.4

Major shareholders

Promoters	52.79%
Foreign	17.38%
Domestic Inst.	9.50%
Public & Other	20.33%

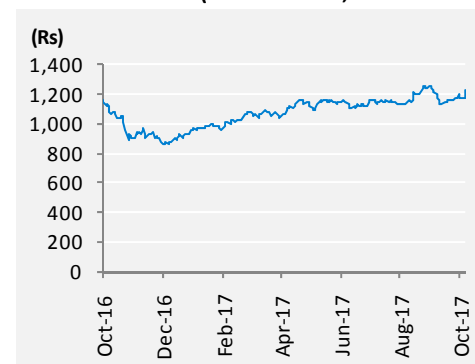
Stock Performance

(%)	1M	6M	12M
Absolute	0.4	14.4	8.4
Relative	(1.7)	4.5	(7.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	23.4	22.4	4.0
2019	28.2	26.7	5.8

Price Performance (RIC: ASPN.BO, BB: APNT IN)



Source: Bloomberg

APNT reported high single-digit volume growth in domestic decorative business in Q2FY18 as post GST recovery and festival demand was visible only from September 2017. Gross margins in Q2 declined by 310bps YoY due to carry-over input cost inventory till August end, despite some softening in Q2. We expect H2FY18 growth to accelerate, given low base due to demonetisation in Q3FY17 and expected pick-up in demand. We expect mid-teens volume growth in the decorative paints for the coming 5-10 years led by rising consumerism, reduced painting cycles and increased application in small towns and rural India. We expect premium valuations to sustain and retain "Accumulate" with target price of Rs1,239 (Rs1200 earlier). We expect returns to be back-ended, given all-time high valuations.

■ **Conference Call Highlights:** 1) First half of Q2FY18 was impacted due to GST, while recovery was seen from September 2017. October performance was below expectation due to extended monsoons which impacted demand for exterior paints 2) APNT has discontinued production of Phthalic Anhydride at Ankleshwar and will set up a pain unit at the same site 3) Manufacturing unit in Indonesia has started production in Q2FY18; products will be marketed under Asian Paints 4) APNT has guided for capex of Rs12bn in FY18, out of which, Rs10bn will be spent on Vizag and Mysuru plant; work is heading as per schedule and is expected to start from FY19 6) Raw material usage prices were up in July and August because margins were impacted in Q2 7) APNT has not taken any price increase in July despite high raw material prices as appreciating Rupee has provided some cushion 8) Other income was lower as there was a higher dividend received in Q2FY17 and also due to lower investible cash 9) Dealer addition of 4k-5k per year may be lower in FY18 due to GST implementation 10) Demand in Egypt and Ethiopia has been impacted due to currency issues.

Key financials (Y/e March)	2016	2017	2018E	2019E
Revenues (Rs m)	158,522	170,848	200,790	235,860
Growth (%)	11.8	7.8	17.5	17.5
EBITDA (Rs m)	27,685	30,214	34,407	41,554
PAT (Rs m)	17,962	19,178	22,404	27,068
EPS (Rs)	18.7	20.0	23.4	28.2
Growth (%)	26.3	6.8	16.8	20.8
Net DPS (Rs)	7.5	10.3	11.0	13.0

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	17.5	17.7	17.1	17.6
RoE (%)	34.7	32.0	32.6	34.0
RoCE (%)	32.3	29.9	30.7	32.1
EV / sales (x)	7.3	6.7	5.8	4.9
EV / EBITDA (x)	41.7	38.1	33.6	27.6
PE (x)	65.2	61.0	52.3	43.2
P / BV (x)	20.9	18.4	15.9	13.7
Net dividend yield (%)	0.6	0.8	0.9	1.1

Source: Company Data; PL Research

Exhibit 1: Q2FY18 Results - Consolidated (Rs m): Adj. PAT up 8.1% on 15% sales growth

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY17	H1FY18	H1FY17	YoY gr. (%)
Net Sales	42,652	37,095	15.0	38,152	80,805	73,469	10.0
Gross Profit	17,610	16,458	7.0	16,340	33,950	33,641	0.9
% of NS	41.3	44.4		42.8	42.0	45.8	
Other Expenses	9,599	9,404	2.1	9,686	19,285	18,384	4.9
% of NS	22.5	25.4		25.4	23.9	25.0	
EBITDA	8,011	7,054	13.6	6,654	14,665	15,257	-3.9
Margins (%)	18.8	19.0		17.4	18.1	20.8	
Depreciation	889	833	6.8	905	1,794	1,688	6.3
Interest	88	59	48.9	80	167	123	36.6
Other Income	534	793	(32.6)	783	1,317	1,512	(12.8)
PBT	7,569	6,955	8.8	6,452	14,021	14,958	(6.3)
Tax	2,459	2,200	11.8	2,160	4,619	4,803	(3.8)
Tax rate (%)	32.5	31.6		33.5	32.9	32.1	
Adjusted PAT	5,084	4,704	8.1	4,249	9,333	10,055	(7.2)

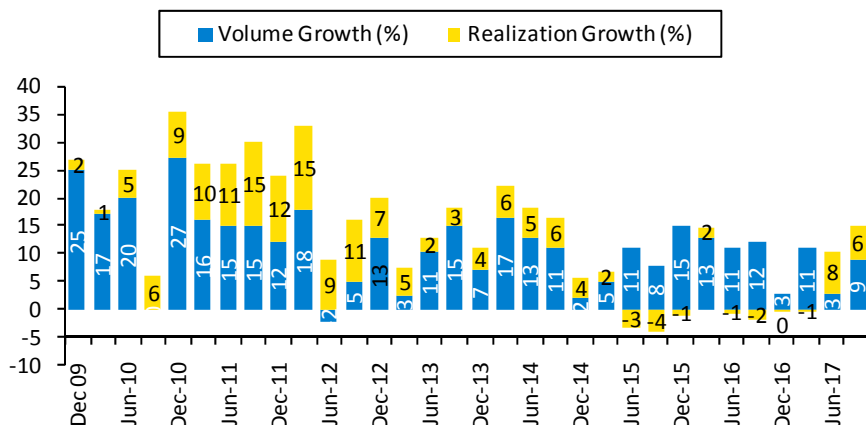
Source: Company Data, PL Research

Exhibit 2: Q2FY18 Results - Standalone (Rs m); Adj. PAT up 8.8% even as GM declines 350bps, volumes up ~9%

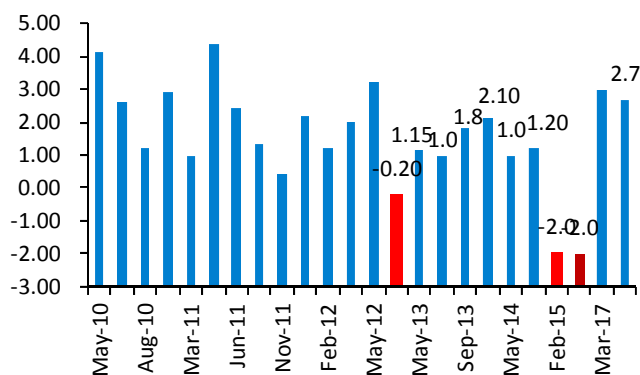
Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Sales	36,022	31,020	16.1	32,029	68,051	60,858	11.8
Gross Profit	15,213	14,161	7.4	14,016	29,229	28,623	2.1
% of NS	42.2	45.7		43.8	43.0	47.0	
Other Expenses	8,012	7,849	2.1	8,045	16,057	15,009	7.0
% of NS	22.2	25.3		25.1	23.6	24.7	
EBITDA	7,201	6,312	14.1	5,971	13,172	13,614	(3.2)
Margins (%)	20.0	20.3		18.6	19.4	22.4	
Depreciation	772	731	5.6	758	1,529	1,471	3.9
Interest	50	44	13.0	43	93	86	7.9
Other Income	638	848	(24.7)	861	1,500	1,635	(8.3)
PBT	7,018	6,385	9.9	6,032	13,050	13,693	(4.7)
Tax	2,284	2,033	12.3	2,022	4,306	4,328	(0.5)
Tax rate (%)	32.5	31.8		33.5	33.0	31.6	
Adjusted PAT	4,735	4,353	8.8	4,010	8,744	9,365	(6.6)

Source: Company Data, PL Research

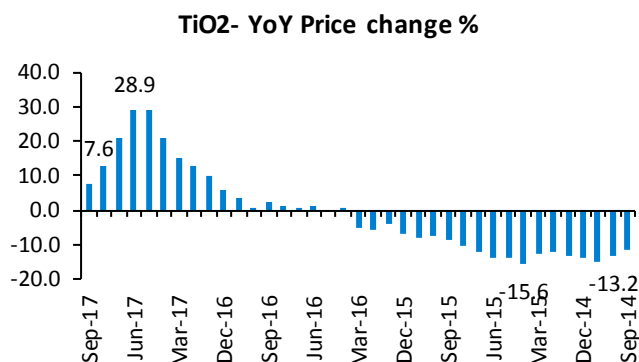
- **Consolidated** Net sales increased 15% to Rs42.65bn. Gross margin declined 310bps YoY (150bps QoQ); EBITDA increased 13.6% as margins declined 20bps to 18.8%. Adj. PAT increased by 8.1% at Rs5.08bn as tax rate increased by 90bps.
- **Standalone** sales increased by 16.1% to Rs36.02bn due to high single-digit volume growth in decorative business. Gross margin declined 350bps YoY (down 160bps QoQ); EBITDA margins declined 30bps YoY to 20%. Adj. PAT increased by 8.8% to Rs4.73bn due to 70bps higher tax rate. Home improvement business of *Sleek* and *ESS* reported 25% increase in sales and 26.1% increase in losses.

Exhibit 3: Volumes up by 9% as recovery began in September 2017


Source: Company Data, PL Research

Exhibit 4: APNT increased decorative prices by 5.7% in CY17


Source: Company Data, PL Research

Exhibit 5: TiO2 prices up by 14.2% YoY and down 7.7% QoQ


Source: Company Data, PL Research



Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	158,522	170,848	200,790	235,860
Raw Material Expenses	96,208	102,252	121,922	144,114
Gross Profit	62,314	68,596	78,869	91,746
Employee Cost	9,902	10,863	12,739	14,520
Other Expenses	24,728	27,518	31,724	35,672
EBITDA	27,685	30,214	34,407	41,554
Depr. & Amortization	2,756	3,388	3,442	3,788
Net Interest	407	306	350	350
Other Income	2,134	2,626	2,508	2,684
Profit before Tax	26,656	29,146	33,123	40,100
Total Tax	8,444	9,480	10,434	12,631
Profit after Tax	18,213	19,666	22,689	27,468
Ex-Od items / Min. Int.	(642)	642	932	1,047
Adj. PAT	17,962	19,178	22,404	27,068
Avg. Shares O/S (m)	959.2	959.2	959.2	959.2
EPS (Rs.)	18.7	20.0	23.4	28.2

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	26,827	25,719	25,734	32,438
C/F from Investing	(15,417)	(14,235)	(12,382)	(17,234)
C/F from Financing	(9,571)	(11,661)	(12,714)	(15,026)
Inc. / Dec. in Cash	1,839	(177)	637	178
Opening Cash	2,027	3,416	3,524	4,485
Closing Cash	3,865	3,239	4,162	4,663
FCFF	15,787	19,467	21,433	17,458
FCFE	14,861	19,711	21,433	17,458

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	11.8	7.8	17.5	17.5
EBITDA (%)	23.8	9.1	13.9	20.8
PAT (%)	26.3	6.8	16.8	20.8
EPS (%)	26.3	6.8	16.8	20.8
Profitability				
EBITDA Margin (%)	17.5	17.7	17.1	17.6
PAT Margin (%)	11.3	11.2	11.2	11.5
RoCE (%)	32.3	29.9	30.7	32.1
RoE (%)	34.7	32.0	32.6	34.0
Balance Sheet				
Net Debt : Equity	(0.3)	(0.3)	(0.2)	(0.3)
Net Wrkng Cap. (days)	—	—	(2)	(3)
Valuation				
PER (x)	65.2	61.0	52.3	43.2
P / B (x)	20.9	18.4	15.9	13.7
EV / EBITDA (x)	41.7	38.1	33.6	27.6
EV / Sales (x)	7.3	6.7	5.8	4.9
Earnings Quality				
Eff. Tax Rate	31.7	32.5	31.5	31.5
Other Inc / PBT	8.0	9.0	7.6	6.7
Eff. Depr. Rate (%)	5.6	6.4	6.1	5.4
FCFE / PAT	82.7	102.8	95.7	64.5

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	55,983	63,785	73,475	85,517
Total Debt	3,256	3,500	3,500	3,500
Other Liabilities	5,113	5,974	7,079	8,404
Total Liabilities	64,352	73,258	84,054	97,421
Net Fixed Assets	33,162	37,577	48,636	54,348
Goodwill	1,977	1,977	1,977	1,977
Investments	5,393	7,817	9,817	11,817
Net Current Assets	23,821	25,887	23,624	29,279
Cash & Equivalents	19,794	22,760	19,084	25,341
Other Current Assets	41,034	50,736	59,255	68,920
Current Liabilities	37,007	47,610	54,715	64,982
Other Assets	—	—	—	—
Total Assets	64,352	73,258	84,054	97,421

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	39,370	39,525	38,152	42,652
EBITDA	7,763	7,119	6,654	8,011
% of revenue	19.7	18.0	17.4	18.8
Depr. & Amortization	855	835	905	889
Net Interest	92	90	80	88
Other Income	415	701	783	534
Profit before Tax	7,231	6,895	6,452	7,569
Total Tax	2,465	2,205	2,160	2,459
Profit after Tax	4,662	4,796	4,249	4,410
Adj. PAT	4,662	4,796	4,249	5,084

Key Operating Metrics

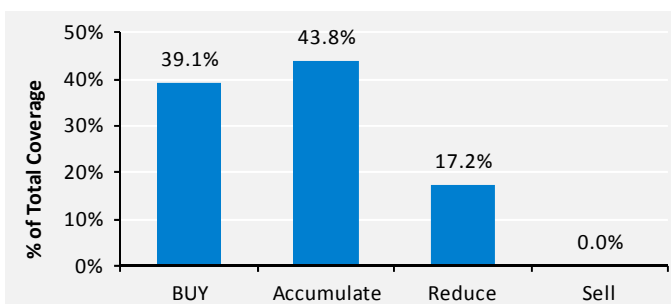
Y/e March	2016	2017	2018E	2019E
Decorative Volume Growth %	11.5	8.0	13.0	15.0
Gross Margins %	39.3	40.3	39.3	38.9

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
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