

Asian Paints

Demand improving, Crude a near term Drag, "Accumulate"

January 23, 2018

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Rating	Accumulate
Price	Rs1,177
Target Price	Rs1,278
Implied Upside	8.6%
Sensex	35,798
Nifty	10,966

(Prices as on January 22, 2018)

Trading data

Market Cap. (Rs bn)	1,128.7
Shares o/s (m)	959.2
3M Avg. Daily value (Rs m)	799.5

Major shareholders

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

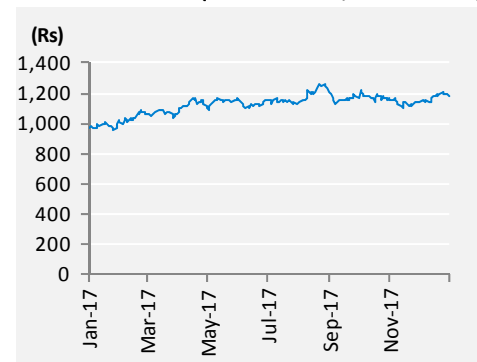
Stock Performance

(%)	1M	6M	12M
Absolute	3.5	1.8	22.1
Relative	(1.9)	(10.0)	(10.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	28.2	26.4	7.0
2020	32.0	30.9	3.6

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



Source: Bloomberg

APNT has given cautiously optimistic outlook on demand as economy post GST implementation has started stabilising. Demand scenario looks encouraging as low penetration in small towns/rural India and GOI focus on affordable housing boosts demand for decorative paints in coming years. Near term margin pressure looks likely as input costs linked to crude and Tio2 have firmed up. We expect APNT to outperform Kansai Nerolac (30% outperformance over APNT in 12 months) as it has just 5% contribution from Auto and Industrial paints (lower pricing power) than ~40% for Kansai. We expect premium valuations to sustain and retain "Accumulate" with target price of Rs1,278 (41xDec18 EPS).

■ **Conference Call Highlights:** 1) Demand is yet to come back to normal as economy is gradually recovering post GST implementation 2) Rural demand has been growing faster than Urban demand from past 3 years 3) Paint demand has been tepid in South India (delayed Monsoons), although it has started recovering from December, East and North has shown good demand 4) Input costs of Tio2, Rutile and other crude based inputs are moving up which has impacted gross margins in Q3 5) APNT does not intend to increase prices in the near term despite sharp spike in crude prices and other linked inputs to propel demand and competition in the B2B segment 6) Manufacturing unit in Indonesia which had started production in Q2FY18 has started contributing fairly to the revenue 7) APNT has maintained its capex guidance of Rs 12bn in FY18, out of which Rs 10bn will be spent on Vizag and Mysore units which are expected to commence production during FY19 8) Adverse currency rate fluctuations in Egypt and Ethiopia continues to impact the raw material availability and demand 9) ANPT and would focus on the current segments and does not intend to add new categories in the near future 10) APNT has acquired the balance 49% stake of the sleek business thereby making it a wholly owned subsidiary

Key financials (Y/e March)	2017	2018E	2019E	2020E
Revenues (Rs m)	170,848	200,790	235,860	276,647
Growth (%)	7.8	17.5	17.5	17.3
EBITDA (Rs m)	30,214	34,407	41,554	47,057
PAT (Rs m)	19,178	22,404	27,068	30,698
EPS (Rs)	20.0	23.4	28.2	32.0
Growth (%)	6.8	16.8	20.8	13.4
Net DPS (Rs)	10.3	11.0	13.0	15.0

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	17.7	17.1	17.6	17.0
RoE (%)	32.0	32.6	34.0	33.3
RoCE (%)	29.9	30.7	32.1	31.5
EV / sales (x)	6.5	5.5	4.7	4.0
EV / EBITDA (x)	36.7	32.4	26.6	23.2
PE (x)	58.9	50.4	41.7	36.8
P / BV (x)	17.7	15.4	13.2	11.4
Net dividend yield (%)	0.9	0.9	1.1	1.3

Source: Company Data; PL Research

Exhibit 1: Q3FY18 Results - Consolidated (Rs m): Adj. PAT up 19.6% as Currency headwinds in Egypt and Ethiopia drag growth

Y/e March	3QFY18	3QFY17	YoY gr. (%)	2QFY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	42,605	38,571	10.5	42,652	123,410	112,040	10.1
Gross Profit	17,995	16,880	6.6	17,610	51,945	50,521	2.8
% of NS	42.2	43.8		41.3	42.1	45.1	
Other Expenses	9,083	9,310	(2.4)	9,599	28,368	27,694	2.4
% of NS	21.3	24.1		22.5	23.0	24.7	
EBITDA	8,912	7,570	17.7	8,011	23,577	22,827	3.3
Margins (%)	20.9	19.6		18.8	19.1	20.4	
Depreciation	896	845	6.0	889	2,690	2,533	6.2
Interest	92	90	1.9	88	259	213	21.8
Other Income	497	413	20.4	534	1,814	1,924	(5.7)
PBT	8,420	7,048	19.5	7,569	22,441	22,006	2.0
Tax	2,913	2,430	19.9	2,459	7,533	7,234	4.1
Adjusted PAT	5,672	4,744	19.6	5,084	15,005	14,799	1.4

Source: Company Data, PL Research

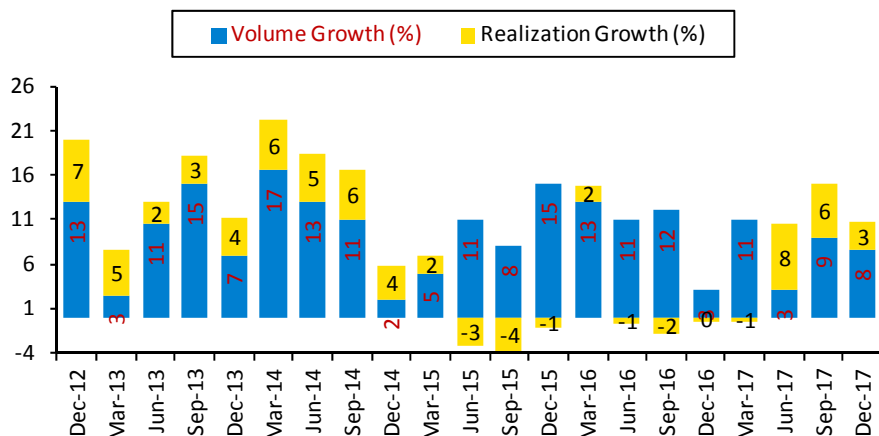
Exhibit 2: Q3FY18 Results - Standalone (Rsm); Adj. PAT up 24.2%, GM declines 90bps, cost cutting and lower adspends enable higher margins

Y/e March	3QFY18	3QFY17	YoY gr. (%)	2QFY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	35,874	32,411	10.7	36,022	103,925	93,268	11.4
Gross Profit	15,613	14,396	8.5	15,213	44,841	43,019	4.2
% of NS	43.5	44.4		42.2	43.1	46.1	
Other Expenses	7,432	7,686	-3.3	8,012	23,488	22,696	3.5
% of NS	20.7	23.7		22.2	22.6	24.3	
EBITDA	8,181	6,709	21.9	7,201	21,353	20,323	5.1
Margins (%)	22.8	20.7		20.0	20.5	21.8	
Depreciation	781	746	4.8	772	2,310	2,217	4.2
Interest	52	46	13.3	50	145	132	9.8
Other Income	684	524	30.5	638	2,183	2,159	1.1
PBT	8,031	6,442	24.7	7,018	21,081	20,134	4.7
Tax	2,742	2,183	25.6	2,284	7,047	6,511	8.2
Adjusted PAT	5,290	4,258	24.2	4,735	14,034	13,623	3.0

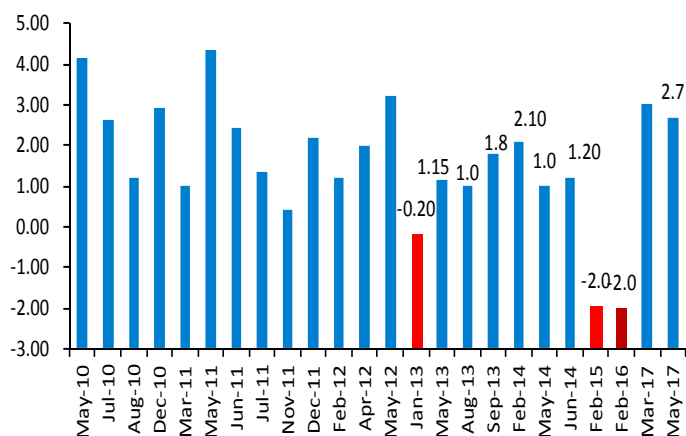
Source: Company Data, PL Research

Consolidated Net sales increased 10.5% to Rs 42.6bn. Gross margin declined 150bps YoY (310bps QoQ); EBITDA increased 17.7% as margins up by 130bps to 20.9% due to operating leverage. Adj. PAT increased by 19.6% to Rs 5.67bn.

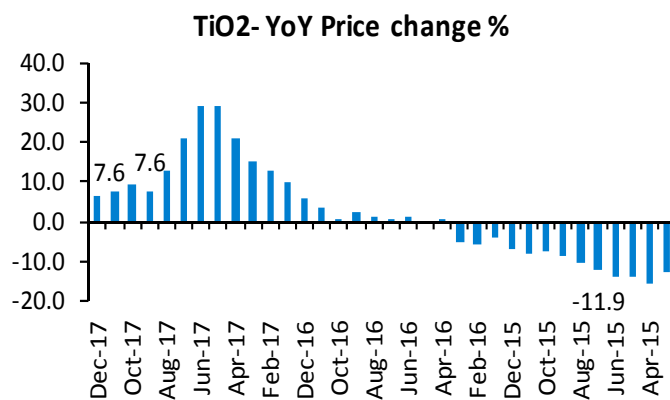
Standalone sales increased by 10.7% to Rs 35.87bn due to high single digit volume growth in decorative business. Gross margin declined 90bps YoY (up 60bps QoQ), EBITDA margins up 210bps YoY to 21.9%. Lower other expenses due to cost cutting, benefits of investment in renewable energy and lower adspend due to early Diwali enabled margin expansion. Adj. PAT increased by 24.2% to Rs 5.29bn. Home Improvement business of Sleek and ESS reported 22% increase in sales and 58% reduction in losses.

Exhibit 3: Volumes up by 7.5% in Q3FY18


Source: Company Data, PL Research

Exhibit 4: 2 price increases aggregating 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	2017	2018E	2019E	2020E
Net Revenue	170,848	200,790	235,860	276,647
Raw Material Expenses	102,252	121,922	144,114	171,905
Gross Profit	68,596	78,869	91,746	104,742
Employee Cost	10,863	12,739	14,520	16,589
Other Expenses	27,518	31,724	35,672	41,096
EBITDA	30,214	34,407	41,554	47,057
Depr. & Amortization	3,388	3,442	3,788	4,859
Net Interest	306	350	350	350
Other Income	2,626	2,508	2,684	3,612
Profit before Tax	29,146	33,123	40,100	45,460
Total Tax	9,480	10,434	12,631	14,320
Profit after Tax	19,666	22,689	27,468	31,140
Ex-Od items / Min. Int.	642	932	1,047	1,089
Adj. PAT	19,178	22,404	27,068	30,698
Avg. Shares O/S (m)	959.2	959.2	959.2	959.2
EPS (Rs.)	20.0	23.4	28.2	32.0

Cash Flow Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	25,719	25,734	32,438	36,561
C/F from Investing	(14,235)	(12,382)	(17,234)	(19,689)
C/F from Financing	(11,661)	(12,714)	(15,026)	(17,338)
Inc. / Dec. in Cash	(177)	637	178	(466)
Opening Cash	3,416	3,524	4,485	4,987
Closing Cash	3,239	4,162	4,663	4,521
FCFF	19,467	21,433	17,458	22,187
FCFE	19,711	21,433	17,458	22,187

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	7.8	17.5	17.5	17.3
EBITDA (%)	9.1	13.9	20.8	13.2
PAT (%)	6.8	16.8	20.8	13.4
EPS (%)	6.8	16.8	20.8	13.4
Profitability				
EBITDA Margin (%)	17.7	17.1	17.6	17.0
PAT Margin (%)	11.2	11.2	11.5	11.1
RoCE (%)	29.9	30.7	32.1	31.5
RoE (%)	32.0	32.6	34.0	33.3
Balance Sheet				
Net Debt : Equity	(0.3)	(0.2)	(0.3)	(0.4)
Net Wrkg Cap. (days)	—	(2)	(3)	(3)
Valuation				
PER (x)	58.9	50.4	41.7	36.8
P / B (x)	17.7	15.4	13.2	11.4
EV / EBITDA (x)	36.7	32.4	26.6	23.2
EV / Sales (x)	6.5	5.5	4.7	4.0
Earnings Quality				
Eff. Tax Rate	32.5	31.5	31.5	31.5
Other Inc / PBT	9.0	7.6	6.7	7.9
Eff. Depr. Rate (%)	6.4	6.1	5.4	5.8
FCFE / PAT	102.8	95.7	64.5	72.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	63,785	73,475	85,517	98,878
Total Debt	3,500	3,500	3,500	3,500
Other Liabilities	5,974	7,079	8,404	9,851
Total Liabilities	73,258	84,054	97,421	112,229
Net Fixed Assets	37,577	48,636	54,348	54,489
Goodwill	1,977	1,977	1,977	1,977
Investments	7,817	9,817	11,817	13,817
Net Current Assets	25,887	23,624	29,279	41,946
Cash & Equivalents	22,760	19,084	25,341	38,638
Other Current Assets	50,736	59,255	68,920	79,402
Current Liabilities	47,610	54,715	64,982	76,094
Other Assets	—	—	—	—
Total Assets	73,258	84,054	97,421	112,229

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	39,525	38,152	42,652	42,675
EBITDA	7,119	6,654	8,011	8,982
% of revenue	18.0	17.4	18.8	21.0
Depr. & Amortization	835	905	889	896
Net Interest	90	80	88	92
Other Income	701	783	534	497
Profit before Tax	6,895	6,452	7,569	8,490
Total Tax	2,205	2,160	2,459	2,913
Profit after Tax	4,796	4,249	4,410	5,742
Adj. PAT	4,796	4,249	5,084	5,742

Key Operating Metrics

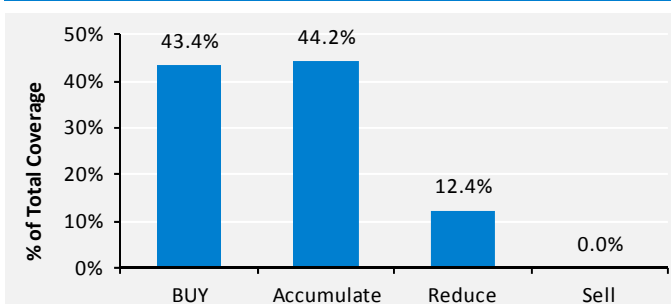
Y/e March	2017	2018E	2019E	2020E
Decoratives Volume Growth %	8.0	13.0	15.0	15.0
Gross Margins %	40.3	39.3	38.9	37.9

Source: Company Data, PL Research.

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Reduce	: Underperformance to Sensex over 12-months
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