Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

October 23, 2018

Q2FY19 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	**ACCUMULATE**		**HOLD**	
Target Price	**1,300**		**1,431**	
Sales (Rs. m)	1,87,509	2,15,371	1,96,623	2,26,828
% Chng.			*(4.6)*	*(5.1)*
EBITDA (Rs. m)	33,710	40,477	38,624	46,059
% Chng.			*(12.7)*	*(12.1)*
EPS (Rs.)	22.0	26.2	25.2	30.2
% Chng.			*(13.0)*	*(13.2)*

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	1,68,246	1,87,509	2,15,371	2,48,345
EBITDA (Rs. m)	31,976	33,710	40,477	48,464
Margin (%)	*19.0*	*18.0*	*18.8*	*19.5*
PAT (Rs. m)	19,743	21,060	25,148	30,266
EPS (Rs.)	20.6	22.0	26.2	31.6
Gr. (%)	*0.5*	*6.7*	*19.4*	*20.4*
DPS (Rs.)	10.3	8.9	11.3	13.5
Yield (%)	*0.9*	*0.8*	*1.0*	*1.2*
RoE (%)	*24.7*	*23.5*	*24.8*	*26.4*
RoCE (%)	*33.2*	*30.9*	*33.0*	*35.5*
EV/Sales (x)	6.4	5.8	5.0	4.3
EV/EBITDA (x)	33.9	32.0	26.5	22.0
PE (x)	55.3	51.9	43.4	36.1
P/BV (x)	13.0	11.5	10.2	8.9

Key Data	**ASPN.BO | APNT IN**
52-W High / Low	Rs.1,491 / Rs.1,082
Sensex / Nifty	33,847 / 10,147
Market Cap	Rs.1,092bn/ $ 14,838m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.3418.51m

Shareholding Pattern (%)

Promoter's	52.79
Foreign	14.87
Domestic Institution	11.24
Public & Others	21.10
Promoter Pledge (Rs bn)	72.20

Stock Performance (%)

	1M	6M	12M
Absolute	(12.7)	(3.4)	(3.0)
Relative	(5.0)	(1.7)	(6.9)

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Asian Paints (APNT IN)

Rating: ACCUMULATE | CMP: Rs1,138 | TP: Rs1,300

Temporary setbacks; Upgrade to Accumulate

We upgrade Asian Paints from Hold to Accumulate despite ~13% EPS cut as ~24% correction in stock price from the recent peak provides a good opportunity to play a secular growth story. APNT faces near term headwinds led by 1) dampening of customer sentiments 2) deterioration in sales mix with higher sales growth in Distemper and Putti and 3) input cost inflation led by rising crude prices and INR depreciation.

However, we believe this to be a near term challenge only and remain positive in the structural growth story due to 1) likely benefits of GST rate reduction given ability to straddle through price points and deep distribution 2) strong pricing power given 2.35% price increase from Oct,1 and indication of further price increase in 3Q and 3) lower share of Automotive/ Industrial paints (5% of Consol sales) which face more demand and margin pressure in near term.

Although FY19 PAT growth is estimated at only 6.7%, We estimate CAGR of 15.1% in revenue and 19.9% in Adj. PAT over FY19-21. We value the stock at 45xSept20 EPS of 28.9 and arrive at a target price of 1300 (Earlier Rs1431). Upgrade to "Accumulate".

- **Concall Takeaways: 1)** Challenging domestic economic environment and below normal monsoon has dampened consumer sentiment. Demand for coatings has remained stable, However, Auto and Industrial demand is seeing a slowdown. **2)** Volume and value growth gaps were led by a) higher sales of Distemper due to shift from unorganized sector post GST rate reduction b) impact of closure of Phthalic unit in FY18 and c) rebates given to distributers post GST rate reduction announcement to clear goods having labels with pre reduction rates to avoid trade/re-labeling hassles **3)** ANPT witnessed 5% YoY input cost inflation in 1Q19. 2.35% price increase has been taken from Oct'18 to pass on cost inflation up-to Aug'18. **4)** Increase in crude prices and INR depreciation since Spet'18 may warrant further price increases in 3Q19. APNT has USD cover for short term payables upto 2 months. **5)** East market has performed well. South is showing signs of recovery post two years of non-performance. Kerala floods has impacted Onam season sales in August. **6)** 2H will witness higher overheads due to commissioning of Mysore plant in Sept'18. Vizag plant is expected to commission in 4QFY19. **7)** IBD continues to report poor performance due to challenges in Egyptian pound, continuing forex scarcity in Ethiopia, rains in Sri Lanka and stiff competition in Dubai. Pressures on IBD performance is expected to continue in coming quarters as well. Impact of calamity in Indonesia was not significant, APNT is likely to increase investments behind brand building and distribution. **8)** Ad-spends would increase in 3Q. Increase in other operating expenses was led by increase in logistic costs. **9)** ANPT shall be receiving incentives in the form of Interest free loan from Karnataka for Mysore plant.

Exhibit 1: Q2FY19 Results- Consolidated (Rs m): Adj. PAT down 3.1% as margins declined 190bps

Y/e March	2QFY19	2QFY18	YoY gr. (%)	1QFY19	FY19E	FY18	YoY gr. (%)
Net Sales	**46,391**	**42,652**	**8.8**	**43,986**	**1,87,509**	**1,72,622**	**8.6**
Gross Profit	18,467	17,610	4.9	18,980	76,598	71,334	7.4
% of NS	*39.8*	*41.3*	*-1.5*	*43.1*	*40.9*	*41.3*	*-0.5*
Other Expenses	10,625	9,599	10.7	10,235	42,889	39,358	9.0
% of NS	*22.9*	*22.5*		*23.3*	*22.9*	*22.8*	
EBITDA	**7,842**	**8,011**	**-2.1**	**8,744**	**33,710**	**31,976**	**5.4**
Margins (%)	*16.9*	*18.8*	*-1.9*	*19.9*	*18.0*	*18.5*	
Depreciation	947	889	6.6	905	4,408	3,605	22.3
Interest	121	88	38.2	88	351	351	0.2
Other Income	633	534	18.6	617	2,424	2,206	9.9
PBT	**7,406**	**7,569**	**-2.1**	**8,368**	**31,373**	**30,227**	**3.8**
Tax	2,427	2,459	-1.3	2,770	10,353	10,410	-0.5
Tax rate %	*32.8*	*32.5*		*33.1*	*33.0*	*34.4*	
Adjusted PAT	**4,928**	**5,084**	**-3.1**	**5,580**	**21,020**	**20,275**	**3.7**

Source: Company Data, PL Research

Exhibit 2: Q2FY19 Results - Standalone (Rs m): Adj. PAT up 1.7% as EBITDA margins declined 140bps

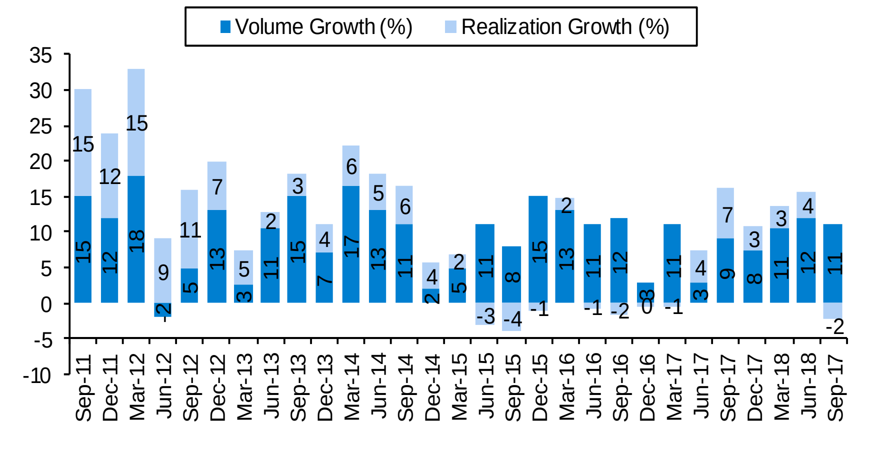
Y/e March	2QFY19	2QFY18	YoY gr. (%)	1QFY19	FY19E	FY18	YoY gr. (%)
Net Sales	**39,142**	**36,022**	**8.7**	**37,754**	**1,59,314**	**1,41,679**	**12.4**
Gross Profit	15,973	15,213	5.0	16,869	67,535	61,710	9.4
% of NS	*40.8*	*42.2*	*-1.4*	*44.7*	*42.4*	*43.6*	
Other Expenses	8,700	8,012	8.6	9,015	36,012	32,505	10.8
% of NS	*22.2*	*22.2*		*23.9*	*22.6*	*22.9*	
EBITDA	**7,273**	**7,201**	**1.0**	**7,854**	**31,522**	**29,205**	**7.9**
Margins (%)	*18.6*	*20.0*	*-1.4*	*20.8*	*19.8*	*20.6*	
Depreciation	828	772	7.3	801	3,696	3,111	18.8
Interest	66	50	33.4	66	227	211	8.0
Other Income	717	638	12.2	592	2,651	2,775	-4.5
PBT	**7,096**	**7,018**	**1.1**	**7,579**	**30,250**	**28,658**	**5.6**
Tax	2,281	2,284	-0.1	2,663	9,983	9,710	2.8
Tax rate %	*32.1*	*32.5*		*35.1*	*33.0*	*33.9*	
Adjusted PAT	**4,815**	**4,735**	**1.7**	**4,916**	**20,268**	**18,948**	**7.0**

Source: Company Data, PL Research

Consolidated: Domestic Decorative Volumes came at low double digits. Industrial Paints demand was good in Automotive coatings, General industrial, protective and powder coatings segment. Adj. Consol sales increased by 8.8% to Rs 46.4bn. Gross margins declined 150bps despite a total of 3.3% price increase taken since March'18. Further price increase has been taken from Oct'18 to pass on raw material price inflation. EBIDTA declined 2.1% to Rs7.8bn on 190bps margins decline. Adj. PAT declined 3.1% to Rs 4.9bn as Interest costs increased by 38.6% and tax rate increased by 30bps despite 18.6% higher other income. Currency scarcity, high inflation and difficult economic conditions impacted IBD performance. Imputed sub sales increased 9.3% and EBIDTA declined 29.8%. Mysore unit for decorative paints started operations from 20th Sept'18.

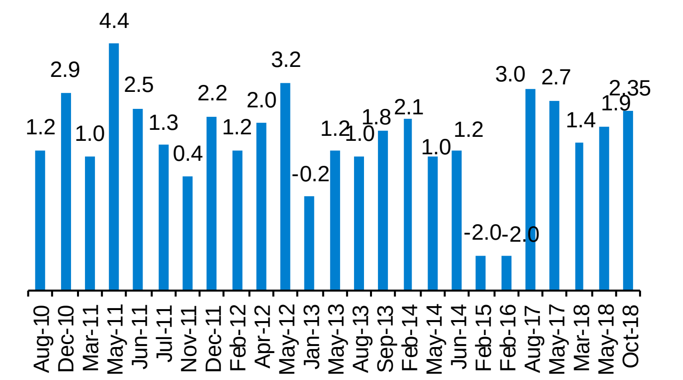
Standalone sales increased 8.7% to Rs39.1bn. Gross margins and EBITDA margins both declined 140bps respectively. Adj. PAT increased 1.7% to Rs. 4.8bn

Exhibit 3: Volumes up by ~11% in Q2FY19



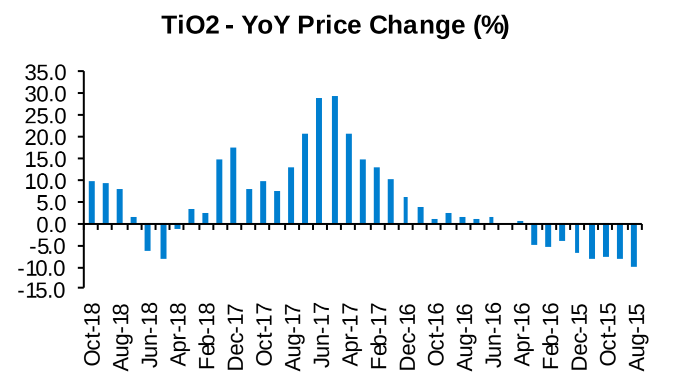
Source: Company, PL

Exhibit 4: Decorative price increased 2.35% from Oct'18



Source: Company, PL

Exhibit 5: Tio2 prices down 5.1%YoY and up 5.3% QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	**1,68,246**	**1,87,509**	**2,15,371**	**2,48,345**
YoY gr. (%)	*11.7*	*11.4*	*14.9*	*15.3*
Cost of Goods Sold	96,912	1,10,911	1,25,379	1,42,840
Gross Profit	71,334	76,598	89,992	1,05,505
Margin (%)	*42.4*	*40.9*	*41.8*	*42.5*
Employee Cost	11,155	12,145	13,826	15,815
Other Expenses	28,203	30,744	35,689	41,226
EBITDA	**31,976**	**33,710**	**40,477**	**48,464**
YoY gr. (%)	*7.1*	*5.4*	*20.1*	*19.7*
Margin (%)	*19.0*	*18.0*	*18.8*	*19.5*
Depreciation and Amortization	3,605	4,408	5,352	6,009
EBIT	**28,371**	**29,301**	**35,125**	**42,455**
Margin (%)	*16.9*	*15.6*	*16.3*	*17.1*
Net Interest	351	351	339	315
Other Income	2,206	2,424	2,791	3,218
Profit Before Tax	**30,227**	**31,373**	**37,576**	**45,358**
Margin (%)	*18.0*	*16.7*	*17.4*	*18.3*
Total Tax	10,410	10,353	12,400	14,968
Effective tax rate (%)	*34.4*	*33.0*	*33.0*	*33.0*
Profit after tax	**19,817**	**21,020**	**25,176**	**30,390**
Minority interest	532	402	521	661
Share Profit from Associate	458	442	493	537
Adjusted PAT	**19,743**	**21,060**	**25,148**	**30,266**
YoY gr. (%)	*0.5*	*6.7*	*19.4*	*20.4*
Margin (%)	*11.7*	*11.2*	*11.7*	*12.2*
Extra Ord. Income / (Exp)	700	-	-	-
Reported PAT	**20,443**	**21,060**	**25,148**	**30,266**
YoY gr. (%)	*2.7*	*3.0*	*19.4*	*20.4*
Margin (%)	*12.2*	*11.2*	*11.7*	*12.2*
Other Comprehensive Income	(348)	-	-	-
Total Comprehensive Income	20,095	21,060	25,148	30,266
Equity Shares O/s (m)	**959**	**959**	**959**	**959**
EPS (Rs)	**20.6**	**22.0**	**26.2**	**31.6**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	**57,368**	**74,168**	**86,468**	**94,268**
Tangibles	53,628	70,128	82,128	89,628
Intangibles	3,741	4,041	4,341	4,641
Acc: Dep / Amortization	**23,319**	**27,727**	**33,079**	**39,089**
Tangibles	22,443	26,384	31,234	36,704
Intangibles	876	1,343	1,845	2,384
Net fixed assets	**34,050**	**46,441**	**53,389**	**55,180**
Tangibles	31,185	43,743	50,894	52,923
Intangibles	2,865	2,698	2,495	2,256
Capital Work In Progress	14,051	8,000	4,000	6,000
Goodwill	3,273	3,273	3,273	3,273
Non-Current Investments	13,168	13,779	15,126	16,624
Net Deferred tax assets	(3,975)	(3,987)	(4,003)	(4,025)
Other Non-Current Assets	3,888	3,432	3,972	4,621
Current Assets				
Investments	10,567	12,460	18,028	22,687
Inventories	26,583	29,282	33,338	38,102
Trade receivables	17,371	19,008	21,242	23,814
Cash & Bank Balance	4,047	5,788	5,877	7,009
Other Current Assets	4,552	4,219	4,307	4,967
Total Assets	**1,37,831**	**1,51,860**	**1,69,617**	**1,90,386**
Equity				
Equity Share Capital	959	959	959	959
Other Equity	83,143	94,179	1,06,356	1,21,056
Total Networth	**84,102**	**95,138**	**1,07,315**	**1,22,016**
Non-Current Liabilities				
Long Term borrowings	283	194	63	38
Provisions	1,401	1,526	1,724	1,956
Other non current liabilities	36	36	36	36
Current Liabilities				
ST Debt / Current of LT Debt	5,051	4,960	4,911	4,526
Trade payables	21,600	24,309	27,480	31,307
Other current liabilities	17,860	17,686	20,033	22,400
Total Equity & Liabilities	**1,37,831**	**1,51,861**	**1,69,617**	**1,90,385**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	30,227	31,373	37,576	45,358
Add. Depreciation	3,605	4,408	5,352	6,009
Add. Interest	351	351	339	315
Less Financial Other Income	2,206	2,424	2,791	3,218
Add. Other	722	(7,000)	(7,000)	(7,000)
Op. profit before WC changes	34,904	29,133	36,268	44,682
Net Changes-WC	(632)	(3,714)	(9,659)	(10,107)
Direct tax	(10,410)	(10,353)	(12,400)	(14,968)
Net cash from Op. activities	**23,863**	**15,066**	**14,209**	**19,607**
Capital expenditures	(19,365)	(10,749)	(8,300)	(9,800)
Interest / Dividend Income	-	-	-	-
Others	3,596	(40)	(669)	(747)
Net Cash from Invt. activities	**(15,770)**	**(10,789)**	**(8,969)**	**(10,547)**
Issue of share cap. / premium	(1,538)	7,313	6,479	6,339
Debt changes	2,970	(561)	1,777	1,283
Dividend paid	(11,874)	(10,261)	(12,971)	(15,565)
Interest paid	(351)	(351)	(339)	(315)
Others	-	-	-	-
Net cash from Fin. activities	**(10,793)**	**(3,861)**	**(5,054)**	**(8,258)**
Net change in cash	**(2,700)**	**417**	**186**	**801**
Free Cash Flow	4,497	4,317	5,909	9,807

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	20.6	22.0	26.2	31.6
CEPS	24.3	26.6	31.8	37.8
BVPS	87.7	99.2	111.9	127.2
FCF	4.7	4.5	6.2	10.2
DPS	10.3	8.9	11.3	13.5
Return Ratio(%)				
RoCE	33.2	30.9	33.0	35.5
ROIC	26.2	25.6	28.6	31.7
RoE	24.7	23.5	24.8	26.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	48	47	46	45
Valuation(x)				
PER	55.3	51.9	43.4	36.1
P/B	13.0	11.5	10.2	8.9
P/CEPS	24.3	26.6	31.8	37.8
EV/EBITDA	33.9	32.0	26.5	22.0
EV/Sales	6.4	5.8	5.0	4.3
Dividend Yield (%)	0.9	0.8	1.0	1.2

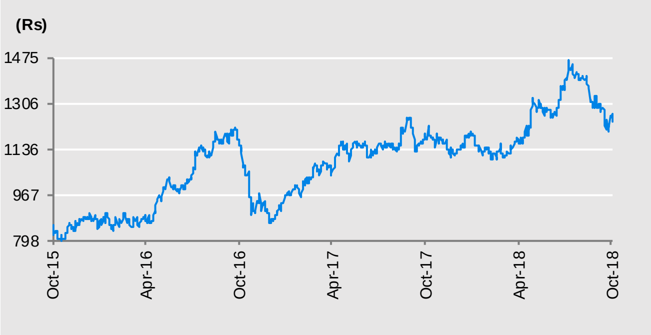
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	**42,605**	**44,836**	**43,903**	**46,391**
YoY gr. (%)	*8.2*	*13.4*	*15.1*	*8.8*
Raw Material Expenses	24,610	25,447	24,923	27,924
Gross Profit	17,995	19,389	18,980	18,467
Margin (%)	*42.2*	*43.2*	*43.2*	*39.8*
EBITDA	**8,912**	**8,399**	**8,744**	**7,842**
YoY gr. (%)	*11.2*	*(5.8)*	*4.1*	*(10.3)*
Margin (%)	*20.9*	*18.7*	*19.9*	*16.9*
Depreciation / Depletion	896	914	905	947
EBIT	**8,016**	**7,485**	**7,839**	**6,894**
Margin (%)	*18.8*	*16.7*	*17.9*	*14.9*
Net Interest	92	91	88	121
Other Income	497	392	617	633
Profit before Tax	**8,420**	**7,786**	**8,368**	**7,406**
Margin (%)	*19.8*	*17.4*	*19.1*	*16.0*
Total Tax	2,913	2,877	2,770	2,427
Effective tax rate (%)	*34.6*	*37.0*	*33.1*	*32.8*
Profit after Tax	**5,507**	**4,909**	**5,599**	**4,979**
Minority interest	-	-	133	132
Share Profit from Associates	165	50	115	81
Adjusted PAT	**5,672**	**4,959**	**5,580**	**4,928**
YoY gr. (%)	*21.7*	*3.4*	*31.3*	*(3.1)*
Margin (%)	*13.3*	*11.1*	*12.7*	*10.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**5,672**	**4,959**	**5,580**	**4,928**
YoY gr. (%)	*21.7*	*3.4*	*31.3*	*(14.4)*
Margin (%)	*13.3*	*11.1*	*12.7*	*10.6*
Other Comprehensive Income	(733)	45	471	(498)
Total Comprehensive Income	**4,940**	**5,004**	**6,051**	**4,430**
Avg. Shares O/s (m)	959	959	959	959
EPS (Rs)	**5.9**	**5.2**	**5.8**	**5.1**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	24-Oct-17	Accumulate	1,239	1,221
2	10-Jan-18	Accumulate	1,239	1,192
3	23-Jan-18	Accumulate	1,278	1,177
4	13-Apr-18	Accumulate	1,278	1,163
5	11-May-18	Accumulate	1,234	1,215
6	10-Jul-18	Hold	1,278	1,292
7	24-Jul-18	Hold	1,431	1,468
8	05-Oct-18	Hold	1,431	1,225

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	1,431	1,225
2	Avenue Supermarts	Reduce	1,286	1,412
3	Britannia Industries	Accumulate	6,588	5,625
4	Colgate Palmolive	Reduce	1,084	1,069
5	Dabur India	Hold	440	415
6	Emami	Accumulate	603	474
7	Future Retail	BUY	613	443
8	GlaxoSmithKline Consumer Healthcare	Hold	7,382	6,552
9	Hindustan Unilever	Hold	1,703	1,570
10	ITC	BUY	346	287
11	Jubilant FoodWorks	Accumulate	1,570	1,126
12	Kansai Nerolac Paints	Accumulate	474	387
13	Marico	Hold	366	314
14	Nestle India	Accumulate	10,996	9,609
15	Pidilite Industries	Accumulate	1,175	968
16	Titan Company	BUY	1,115	777
17	Tribhovandas Bhimji Zaveri	Accumulate	78	71

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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