

View: Double-digit volume growth to persist; Maintain Accumulate

APL reported a strong double-digit volume growth of +20%, due to a shift in the festive season to Q3 in FY19, from Q2 in FY18. However, GM contracted, as it was adversely affected by higher price inventory of crude oil in the beginning of Q3. We believe that volume will continue to grow in double-digits, due to favorable volume base in rural market. In addition, ongoing government investments in rural infrastructure, and house construction in rural areas should benefit the company more than its peers (50% revenues attributed from rural). The price hikes implemented in October and December'18, should help boost revenues in the ensuing quarters. Further, the decline in crude oil prices and stable rupee are likely to increase margins in the near term. We are optimistic about the paint industry, considering an expected shift from the unorganised to organised sector in the long run. APL, a leader in the category, is likely to benefit the most from the shift. We revise our EPS estimates upward for FY19E and FY20E to ₹ 24.3 and ₹ 28.6, respectively, to factor in Q3 performance and favorable working conditions. We have introduced FY21E EPS estimates to ₹ 33.6. Maintain ACCUMULATE, with a revised TP of ₹ 1,513 (45x FY21 EPS).

Strong operational performance, despite high RM

Net sales rose 24.3% YoY to ₹ 52.9bn. The domestic paints business posted a 26.4% net sales growth to ₹ 45.4bn. Gross margin contracted by 130bps to 41%, due to a rise in RM costs, rupee depreciation, and delayed price actions. EBITDA margin fell 120bps to 19.7%. Other expense jumped 20bps, while employee costs declined 30bps. APAT rose 14.1% YoY to ₹ 6.5bn, more than our estimate of ₹ 6.0bn.

Margins to improve sequentially

GM contracted by 130bps due to a high cost inventory in the system and delayed price hikes ahead of the festive season. As the company has increased prices, we believe that the full benefits of price hikes should accrue in the ensuing quarter, and GM should improve sequentially. Further, a decline in crude oil prices is likely to further expand margins. In our view, APL will probably not pass prices completely, despite a favourable RM scenario.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	52,940	42,605	24.3	46,391	14.1
Total Expense	42,510	33,693	26.2	38,549	10.3
EBITDA	10,430	8,912	17.0	7,842	33.0
Depreciation	1,154	896	28.8	947	21.8
EBIT	9,276	8,016	15.7	6,894	34.6
Other Income	452	497	(9.0)	633	(28.6)
Interest	148	92	60.6	121	22.0
EBT	9,235	7,704	15.7	7,004	31.9
Tax	3,263	2,913	12.0	2,427	34.5
RPAT	6,126	4,956	23.6	4,658	31.5
APAT	6,472	5,672	14.1	5,060	27.9
			(bps)		(bps)
Gross Margin (%)	41.0	42.2	(127)	39.8	116
EBITDA Margin (%)	19.7	20.9	(122)	16.9	280
NPM (%)	11.6	11.6	(6)	10.0	153
Tax Rate (%)	35.3	37.8	(248)	34.6	69
EBIT Margin (%)	17.5	18.8	(129)	14.9	266

CMP	₹ 1,407
Target / Upside	₹ 1,513 / 8%
BSE Sensex	36,445
NSE Nifty	10,907

Scrip Details

Equity / FV	₹ 959mn / ₹ 1
Market Cap	₹ 1,350bn
	US\$ 19bn
52-week High/Low	₹ 1,491/₹ 1,090
Avg. Volume (no)	1,542,580
NSE Symbol	ASIANPAINT
Bloomberg Code	APNT IN

Shareholding Pattern Dec'18(%)

Promoters	52.8
MF/Banks/FIs	10.4
FIIIs	15.7
Public / Others	21.2

Valuation (x)

	FY19E	FY20E	FY21E
P/E	57.9	49.2	41.9
EV/EBITDA	36.8	31.0	26.3
ROE (%)	25.9	27.4	28.7
RoACE (%)	21.4	23.2	24.9

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	195,377	224,748	257,887
EBITDA	36,455	43,115	50,612
PAT	23,310	27,448	32,241
EPS (₹)	24.3	28.6	33.6

VP Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

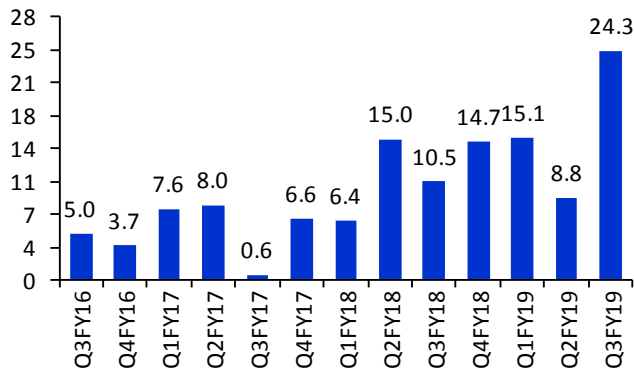
Conference call takeaways

- Double-digit volume growth (+20% - DART analysis) in Decorative Paints in Q3FY19. Strong volume growth was attributed to shift in festive season.
- Capex for FY19E expected at ₹ 10bn (standalone) of which ~₹ 8.0bn would be spent on construction of first phase of both these plants.
- First phase of Mysuru plant (600K KL/ annum) commissioned during September'18 is progressing well on stabilization. The first phase of Vizag plant is expected to be commissioned in Q4FY19.
- Current capacity utilization is ~80%.
- Affected 1.9% price increase across products wef 1st May'18, 1.4% wef 1st March'18, 2.35% from October' 18 and 1.7% from December'18 to partially mitigate pressure on margins due to rising RM costs.
- Both, the Kitchen (Sleek) and Bath (Ess Ess) categories of Home Improvement segment continued to scale up with expansion in network and improved product portfolio.
- Sleek business contributes 1.5% to total revenue. Company expects to grow consistently in both Home improvement segments in next few years.
- Raw material prices are cooling off. Price hikes implemented are enough to expand margins.
- The Automotive coatings JV (PPG-AP), witnessed subdued growth in the Auto OEM segment while the Industrial Coatings JV (AP-PPG) continued to witness good growth in the Protective coatings.
- International markets continued to be volatile. Sri Lanka, Bangladesh and Egypt continued to witness challenging business conditions. Ethiopia saw pick up during the quarter as the units were able to secure forex for raw material import.
- Company outsources 25-30% volume for lower value products.
- APL currently has 60-65K dealers. It adds 300-3000 dealers/ year.
- Company's market share in Real estate segment is picking up every year.
- At industrial level, Real estate constitutes 20-25% of overall paint demand.
- Uncertain raw material prices and elections would impact demand in ensuing quarters.

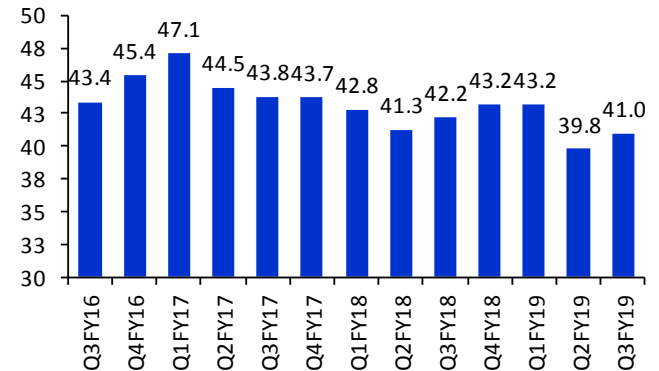
Exhibit 1: Change in estimate

Particulars (₹ mn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	195,377	190,350	2.6	224,748	220,153	2.1
EBITDA	36,455	34,336	6.2	43,115	41,609	3.6
EBITDA mgn (%)	18.7	18.0	60 bps	19.2	18.9	30 bps
PAT	23,310	21,819	6.8	27,448	26,350	4.2
EPS (₹)	24.3	22.7	6.8	28.6	27.5	4.2

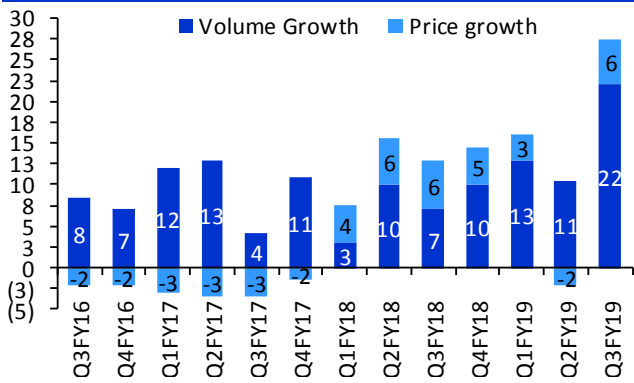
Source: DART, Company

Exhibit 2: Trend in Sales Growth (%)


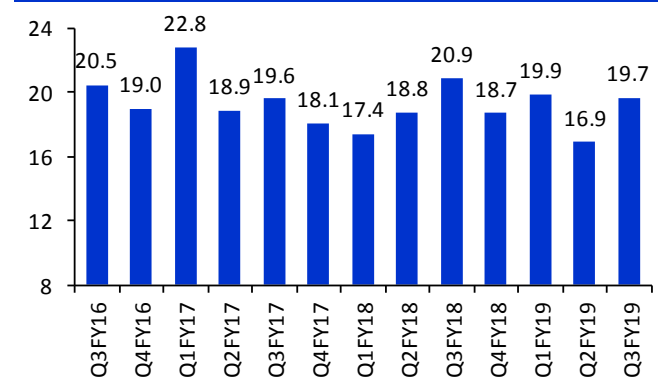
Source: DART, Company

Exhibit 3: Trend in Gross Margin (%)


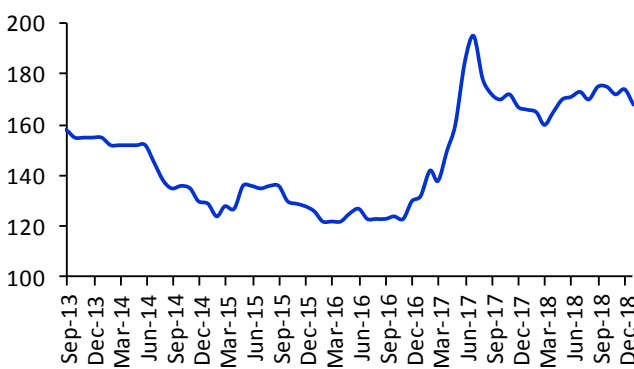
Source: DART, Company

Exhibit 4: Trend in Domestic Volume Growth (%)


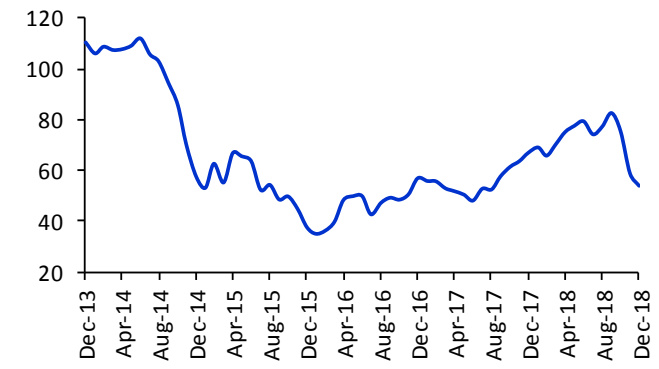
Source: DART, Company

Exhibit 5: Trend in EBITDA margins (%)


Source: DART, Company

Exhibit 6: Trend in Titanium Dioxide Price (INR/KG)


Source: DART, Company

Exhibit 7: Trend in Brent Price (USD)


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	168,246	195,377	224,748	257,887
Total Expense	136,269	158,922	181,634	207,275
COGS	96,912	114,633	130,876	148,776
Employees Cost	11,155	12,551	13,664	15,238
Other expenses	28,203	31,738	37,094	43,262
EBIDTA	31,976	36,455	43,115	50,612
Depreciation	3,605	3,972	4,344	4,676
EBIT	28,371	32,483	38,771	45,936
Interest	351	477	525	577
Other Income	2,206	2,536	2,465	2,568
Exc. / E.O. items	(1,159)	0	0	0
EBT	29,068	34,542	40,711	47,927
Tax	10,411	11,532	13,593	16,048
RPAT	18,657	23,010	27,118	31,878
Minority Interest	0	0	0	0
Profit/Loss share of associates	586	300	330	363
APAT	19,230	23,310	27,448	32,241

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	959	959	959	959
Minority Interest	3,277	2,977	2,647	2,284
Reserves & Surplus	83,143	92,546	103,608	116,723
Net Worth	84,102	93,505	104,567	117,682
Total Debt	5,334	5,334	5,334	5,334
Net Deferred Tax Liability	3,975	3,975	3,975	3,975
Total Capital Employed	96,688	105,791	116,523	129,275

Applications of Funds

Net Block	37,332	45,361	48,517	51,341
CWIP	14,051	14,051	14,051	14,051
Investments	10,840	10,840	10,840	10,840
Current Assets, Loans & Advances	73,924	74,775	87,768	103,848
Inventories	26,583	30,141	34,672	39,785
Receivables	17,306	16,956	19,492	22,363
Cash and Bank Balances	4,047	1,777	6,150	12,505
Loans and Advances	10,638	10,551	12,103	13,846
Other Current Assets	4,783	4,783	4,783	4,783
Less: Current Liabilities & Provisions	39,460	39,236	44,653	50,806
Payables	23,655	27,469	31,599	36,258
Other Current Liabilities	15,805	11,767	13,054	14,548
Net Current Assets	34,465	35,539	43,115	53,043
Total Assets	96,688	105,791	116,523	129,275

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	42.4	41.3	41.8	42.3
EBIDTA Margin	19.0	18.7	19.2	19.6
EBIT Margin	16.9	16.6	17.3	17.8
Tax rate	35.8	33.4	33.4	33.5
Net Profit Margin	11.1	11.8	12.1	12.4
(B) As Percentage of Net Sales (%)				
COGS	57.6	58.7	58.2	57.7
Employee	6.6	6.4	6.1	5.9
Other	16.8	16.2	16.5	16.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	80.9	68.1	73.9	79.6
Inventory days	58	56	56	56
Debtors days	38	32	32	32
Average Cost of Debt	6.4	8.9	9.8	10.8
Payable days	51	51	51	51
Working Capital days	75	66	70	75
FA T/O	4.5	4.3	4.6	5.0
(D) Measures of Investment				
AEPS (₹)	20.0	24.3	28.6	33.6
CEPS (₹)	23.8	28.4	33.1	38.5
DPS (₹)	12.7	14.5	17.1	19.9
Dividend Payout (%)	63.3	59.7	59.7	59.3
BVPS (₹)	87.7	97.5	109.0	122.7
RoANW (%)	23.3	25.9	27.4	28.7
RoACE (%)	19.6	21.4	23.2	24.9
RoAIC (%)	32.7	33.0	36.2	40.4
(E) Valuation Ratios				
CMP (₹)	1407	1407	1407	1407
P/E	70.2	57.9	49.2	41.9
Mcap (₹ Mn)	1,349,543	1,349,543	1,349,543	1,349,543
MCap/ Sales	8.0	6.9	6.0	5.2
EV	1,340,264	1,342,534	1,338,161	1,331,806
EV/Sales	8.0	6.9	6.0	5.2
EV/EBITDA	41.9	36.8	31.0	26.3
P/BV	16.0	14.4	12.9	11.5
Dividend Yield (%)	0.9	1.0	1.2	1.4
(F) Growth Rate (%)				
Revenue	11.7	16.1	15.0	14.7
EBITDA	7.1	14.0	18.3	17.4
EBIT	7.2	14.5	19.4	18.5
PBT	3.8	18.8	17.9	17.7
APAT	3.4	21.2	17.8	17.5
EPS	3.4	21.2	17.8	17.5

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	25,763	24,114	28,784	33,559
CFI	(16,760)	(12,000)	(7,500)	(7,500)
CFF	(12,968)	(14,384)	(16,911)	(19,704)
FCFF	11,675	12,114	21,284	26,059
Opening Cash	8,012	4,047	1,777	6,150
Closing Cash	4,047	1,777	6,150	12,505

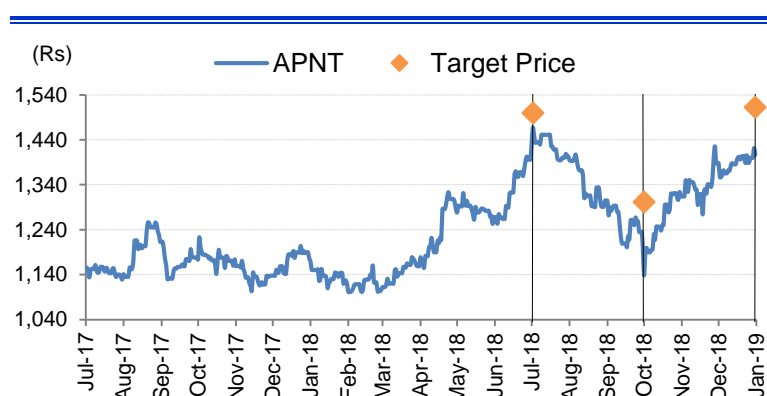
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jul-18	Accumulate	1,500	1,468
Oct-18	Accumulate	1,302	1,138
Jan-19	Accumulate	1,513	1,407

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. 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 Dolat Capital Market Private Limited. and/or its affiliated company(ies) 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 a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
