

January 22, 2019

## Q3FY19 Result Update

☒ Change in Estimates | ☒ Target | ☐ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,460		1,300	
Sales (Rs. m)	220,726	253,740	215,371	248,345
% Chng.			2.5	2.2
EBITDA (Rs. m)	43,079	51,701	40,477	48,464
% Chng.			6.4	6.7
EPS (Rs.)	28.0	33.7	26.2	31.6
% Chng.			6.7	6.8

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	168,246	194,194	220,726	253,740
EBITDA (Rs. m)	31,976	36,652	43,079	51,701
Margin (%)	19.0	18.9	19.5	20.4
PAT (Rs. m)	19,743	22,550	26,824	32,338
EPS (Rs.)	20.6	23.5	28.0	33.7
Gr. (%)	0.5	14.2	19.0	20.6
DPS (Rs.)	10.3	8.9	11.3	13.5
Yield (%)	0.7	0.6	0.8	1.0
RoE (%)	24.7	25.0	25.9	27.2
RoCE (%)	33.2	33.8	34.8	37.0
EV/Sales (x)	8.0	6.9	6.0	5.2
EV/EBITDA (x)	41.9	36.4	30.8	25.5
PE (x)	68.4	59.8	50.3	41.7
P/BV (x)	16.0	14.0	12.2	10.6

### Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.1,491 / Rs.1,082	
Sensex / Nifty	36,445 / 10,923	
Market Cap	Rs.1,349bn/ \$ 18,901m	
Shares Outstanding	959m	
3M Avg. Daily Value	Rs.4092.98m	

### 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	1.3	0.7	19.6
Relative	(0.6)	0.9	17.5

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## EPS up ~7% as volume growth at 8 year high

We increase our FY19 and FY20 EPS by 6.9-6.7% as APNT has posted ~24% volume growth in domestic decorative business, first 20% growth number after 3QFY11. Although sustenance of the same is yet to be tested given benefit of low base and late Diwali this year and GST rate reduction in 3Q. APNT has given a cautiously optimistic outlook as sales growth will remain sensitive to overall demand and elections. Margins in the near term will be a function of USD/INR, crude price volatility, sales mix and stabilization of production in new units at Mysore and Vizag.

We 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 7.4% price increase in the calendar year and 3) lower share of Automotive/ Industrial paints (5% of Consol sales) which will face more demand and margin pressure in near term.

We estimate CAGR of 14.7% in revenue and 17.9% in Adj. PAT over FY19-21. We value the stock at 45xDec20 EPS of 32.4 and arrive at a target price of 1460 (Earlier Rs1300). Retain Accumulate.

- Concall Takeaways:** 1) Challenging domestic economic environment, volatile rupee and elections remain a key factor to sales acceleration in the coming quarters. 2) Rural sales growth was faster than the Urban sales growth in Diwali. 3) Demand for coatings has witnessed good growth, However, Auto demand is seeing a slowdown. Sale of Distempers and lower end products have grown YoY, however, they were lower QoQ 4) Two price hikes were taken in 3Q19: 2.35% from Oct'18 and 1.75% from Dec'18. However, the price increases were not enough to cover the input cost inflation for the quarter 5) The cost of painting for consumers has remained almost same as GST rate reduction to 18% was off-set by 7.4% price increases in Calendar year 2018 6) The anticipated demand growth in Kerala post the floods has not happened yet 7) Slow-down in real estate had a minimal impact on sales as major revenue comes from repainting which is more than 75% of sales.8) Employee costs and overheads increased due to commissioning of Mysore plant in Sept'18 and increased outlay on interest cost on Gratuity. Commissioning of Vizag plant in 4Q will further increase manpower and overheads. 9) IBD is expected to remain under pressure due to challenges in Egyptian pound and continuing forex scarcity in Ethiopia. 10) Impact of natural calamity in Indonesia was not significant, APNT added more than 100 colour infinities there taking the total to ~175. APNT is likely to increase investments behind brand building and distribution 11) ANPT shall be receiving incentives in the form of Interest free loan from Karnataka for Mysore plant and refund on GST paid on sales of products from Vizag plant in the state of AP. 12) APNT maintained the Capex guidance for FY19 at Rs10bn (including Rs8bn for the new plants). Post commissioning of 2 new plants, capex is expected to decline in FY19.

**Exhibit 1: Q3FY19 Results- Consolidated (Rs m): Adj. PAT increased 12.1% despite 120bp margin decline**

Y/e March	3QFY19	3QFY18	YoY gr. (%)	2QFY19	9MFY19	9MFY18	YoY gr. (%)
<b>Net Sales</b>	<b>52,940</b>	<b>42,605</b>	<b>24.3</b>	<b>46,391</b>	<b>1,43,233</b>	<b>1,23,410</b>	<b>16.1</b>
Gross Profit	21,690	17,995	20.5	18,467	59,136	51,945	13.8
% of NS	41.0	42.2	-1.3	39.8	41.3	42.1	-0.8
Other Expenses	11,260	9,083	24.0	10,625	32,120	28,368	13.2
% of NS	21.3	21.3		22.9	22.4	23.0	
<b>EBITDA</b>	<b>10,430</b>	<b>8,912</b>	<b>17.0</b>	<b>7,842</b>	<b>27,016</b>	<b>23,577</b>	<b>14.6</b>
Margins (%)	19.7	20.9	-1.2	16.9	18.9	19.1	
Depreciation	1,154	896	28.8	947	3,006	2,690	11.7
Interest	148	92	60.6	121	357	259	37.5
Other Income	452	497	-9.0	633	1,702	1,814	-6.2
<b>PBT</b>	<b>9,580</b>	<b>8,420</b>	<b>13.8</b>	<b>7,406</b>	<b>25,355</b>	<b>22,441</b>	<b>13.0</b>
Tax	3,263	2,913	12.0	2,427	8,460	7,533	12.3
Tax rate %	34.1	34.6		32.8	33.4	33.6	
<b>Adjusted PAT</b>	<b>6,356</b>	<b>5,672</b>	<b>12.1</b>	<b>4,928</b>	<b>16,864</b>	<b>15,005</b>	<b>12.4</b>

Source: Company Data, PL Research

**Exhibit 2: Q3FY19 Results - Standalone (Rs m): Adj. PAT increased 19.3% despite decline in EBITDA margin by 110bps**

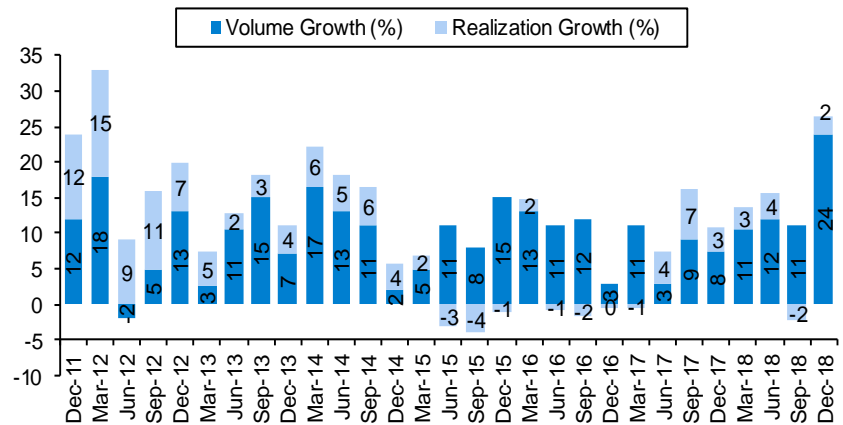
Y/e March	3QFY19	3QFY18	YoY gr. (%)	2QFY19	9MFY19	9MFY18	YoY gr. (%)
<b>Net Sales</b>	<b>45,361</b>	<b>35,874</b>	<b>26.4</b>	<b>39,142</b>	<b>1,21,565</b>	<b>1,03,925</b>	<b>17.0</b>
Gross Profit	19,076	15,613	22.2	15,973	51,586	44,841	15.0
% of NS	42.1	43.5	-1.5	40.8	42.4	43.1	
Other Expenses	9,218	7,432	24.0	8,700	26,207	23,488	11.6
% of NS	20.3	20.7		22.2	21.6	22.6	
<b>EBITDA</b>	<b>9,858</b>	<b>8,181</b>	<b>20.5</b>	<b>7,273</b>	<b>25,379</b>	<b>21,353</b>	<b>18.9</b>
Margins (%)	21.7	22.8	-1.1	18.6	20.9	20.5	
Depreciation	1,032	781	32.1	828	2,650	2,310	14.7
Interest	87	52	67.3	66	201	145	38.9
Other Income	663	684	-3.0	717	2,068	2,183	-5.3
<b>PBT</b>	<b>9,402</b>	<b>8,031</b>	<b>17.1</b>	<b>7,096</b>	<b>24,597</b>	<b>21,081</b>	<b>16.7</b>
Tax	3,092	2,742	12.8	2,281	8,046	7,047	14.2
Tax rate %	32.9	34.1		32.1	32.7	33.4	
<b>Adjusted PAT</b>	<b>6,310</b>	<b>5,290</b>	<b>19.3</b>	<b>4,815</b>	<b>16,551</b>	<b>14,034</b>	<b>17.9</b>

Source: Company Data, PL Research

- Consolidated:** Domestic decorative volumes grew in high double digits, we est it at ~24% given festive season in 3Q and low base. Volumes were also boosted by shift from unorganized to organized sector post GST rate reduction from 28% to 18%. Adj. Consol sales increased 24.3% to Rs 52.94bn. Gross margins declined 130bps while EBITDA margin declined 120bps. EBITDA increased by 17% to Rs 10.4bn. Adj. PAT increased by 12.1% to Rs6.35bn despite 60.6% increase in Interest cost and depreciation by 60.6% and 28.8% and decrease in other income by 9%.
- Standalone** sales increased by 26.4% to Rs 45.3bn. Gross margins and EBITDA margins both declined 150bps and 110bps. EBITDA increased by 20.5% to Rs9.85bn Adj. PAT up 19.3% to Rs. 6.3bn.

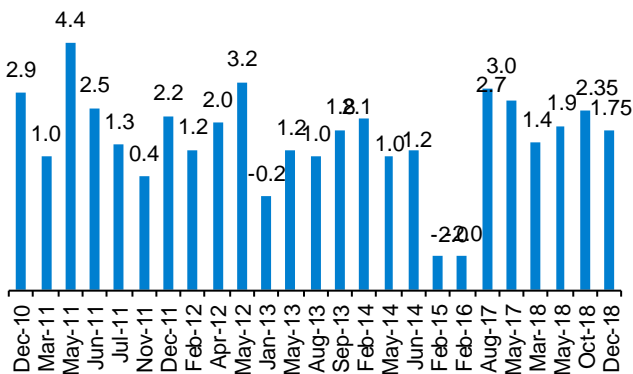
- IBD performance remain impacted as some key geographies in Egypt and Ethiopia continued to witness challenging business conditions. Imputed sub sales increased 12.6%, EBIDTA declined 21.8%.
- Home Improvement: Home improvement business of Sleek and ESS reported 23.2% increase in sales.

**Exhibit 3: Strong Volumes at ~25% in 3QFY19 on low base and festive season**



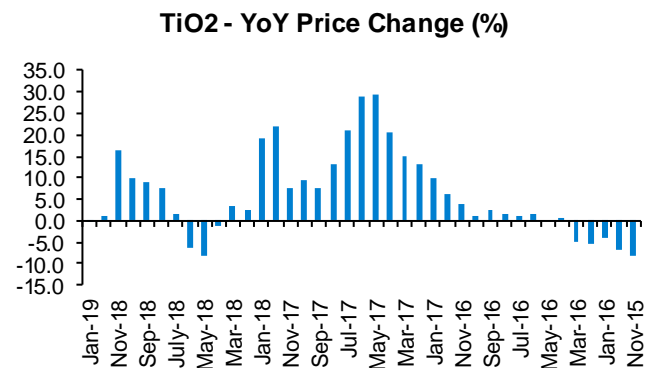
Source: Company, PL

**Exhibit 4: Decorative price increased 1.75% from Dec'18**



Source: Company, PL

**Exhibit 5: Tio2 prices up 3.4% QoQ and flattish YoY**



## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>168,246</b>	<b>194,194</b>	<b>220,726</b>	<b>253,740</b>
YoY gr. (%)	11.7	15.4	13.7	15.0
Cost of Goods Sold	96,912	113,914	127,313	143,972
Gross Profit	71,334	80,280	93,413	109,768
Margin (%)	42.4	41.3	42.3	43.3
Employee Cost	11,155	12,304	14,027	16,150
Other Expenses	28,203	31,325	36,307	41,916
<b>EBITDA</b>	<b>31,976</b>	<b>36,652</b>	<b>43,079</b>	<b>51,701</b>
YoY gr. (%)	7.1	14.6	17.5	20.0
Margin (%)	19.0	18.9	19.5	20.4
Depreciation and Amortization	3,605	4,361	5,333	5,988
<b>EBIT</b>	<b>28,371</b>	<b>32,290</b>	<b>37,746</b>	<b>45,714</b>
Margin (%)	16.9	16.6	17.1	18.0
Net Interest	351	472	339	315
Other Income	2,206	2,129	2,767	3,189
<b>Profit Before Tax</b>	<b>30,227</b>	<b>33,947</b>	<b>40,174</b>	<b>48,588</b>
Margin (%)	18.0	17.5	18.2	19.1
Total Tax	10,410	11,372	13,257	16,034
Effective tax rate (%)	34.4	33.5	33.0	33.0
<b>Profit after tax</b>	<b>19,817</b>	<b>22,575</b>	<b>26,916</b>	<b>32,554</b>
Minority interest	532	468	585	753
Share Profit from Associate	458	442	493	537
<b>Adjusted PAT</b>	<b>19,743</b>	<b>22,550</b>	<b>26,824</b>	<b>32,338</b>
YoY gr. (%)	0.5	14.2	19.0	20.6
Margin (%)	11.7	11.6	12.2	12.7
Extra Ord. Income / (Exp)	700	-	-	-
<b>Reported PAT</b>	<b>20,443</b>	<b>22,550</b>	<b>26,824</b>	<b>32,338</b>
YoY gr. (%)	2.7	10.3	19.0	20.6
Margin (%)	12.2	11.6	12.2	12.7
Other Comprehensive Income	(348)	-	-	-
Total Comprehensive Income	20,095	22,550	26,824	32,338
<b>Equity Shares O/s (m)</b>	<b>959</b>	<b>959</b>	<b>959</b>	<b>959</b>
<b>EPS (Rs)</b>	<b>20.6</b>	<b>23.5</b>	<b>28.0</b>	<b>33.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>57,368</b>	<b>74,168</b>	<b>86,468</b>	<b>94,268</b>
Tangibles	53,628	70,128	82,128	89,628
Intangibles	3,741	4,041	4,341	4,641
<b>Acc: Dep / Amortization</b>	<b>23,319</b>	<b>27,680</b>	<b>33,013</b>	<b>39,000</b>
Tangibles	22,443	26,341	31,175	36,628
Intangibles	876	1,339	1,837	2,372
<b>Net fixed assets</b>	<b>34,050</b>	<b>46,489</b>	<b>53,456</b>	<b>55,268</b>
Tangibles	31,185	43,786	50,952	52,999
Intangibles	2,865	2,702	2,503	2,269
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	13,813	15,153	16,651
Net Deferred tax assets	(3,975)	(3,990)	(4,008)	(4,033)
Other Non-Current Assets	3,888	3,593	4,104	4,765
<b>Current Assets</b>				
Investments	10,567	12,460	18,028	22,687
Inventories	26,583	30,326	34,167	38,930
Trade receivables	17,371	19,685	21,770	24,331
Cash & Bank Balance	4,047	6,308	8,204	11,229
Other Current Assets	4,552	4,369	4,415	5,075
<b>Total Assets</b>	<b>137,831</b>	<b>154,702</b>	<b>173,799</b>	<b>196,486</b>
<b>Equity</b>				
Equity Share Capital	959	959	959	959
Other Equity	83,143	95,669	109,522	126,295
<b>Total Network</b>	<b>84,102</b>	<b>96,628</b>	<b>110,481</b>	<b>127,254</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	283	194	63	38
Provisions	1,401	1,546	1,749	1,997
Other non current liabilities	36	36	36	36
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	5,051	4,960	4,911	4,526
Trade payables	21,600	24,967	27,904	31,556
Other current liabilities	17,860	18,357	20,595	22,965
<b>Total Equity &amp; Liabilities</b>	<b>137,831</b>	<b>154,702</b>	<b>173,799</b>	<b>196,486</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	30,227	33,947	40,174	48,588
Add. Depreciation	3,605	4,361	5,333	5,988
Add. Interest	351	472	339	315
Less Financial Other Income	2,206	2,129	2,767	3,189
Add. Other	722	(7,000)	(7,000)	(7,000)
Op. profit before WC changes	34,904	31,781	38,846	47,890
Net Changes-WC	(632)	(5,184)	(9,390)	(10,253)
Direct tax	(10,410)	(11,372)	(13,257)	(16,034)
<b>Net cash from Op. activities</b>	<b>23,863</b>	<b>15,225</b>	<b>16,198</b>	<b>21,603</b>
Capital expenditures	(19,365)	(10,749)	(8,300)	(9,800)
Interest / Dividend Income	-	-	-	-
Others	3,596	(40)	(669)	(747)
<b>Net Cash from Invst. activities</b>	<b>(15,770)</b>	<b>(10,789)</b>	<b>(8,969)</b>	<b>(10,547)</b>
Issue of share cap. / premium	(1,538)	7,248	6,415	6,247
Debt changes	2,970	(93)	1,684	1,272
Dividend paid	(11,874)	(10,261)	(12,971)	(15,565)
Interest paid	(351)	(472)	(339)	(315)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(10,793)</b>	<b>(3,579)</b>	<b>(5,211)</b>	<b>(8,361)</b>
<b>Net change in cash</b>	<b>(2,700)</b>	<b>857</b>	<b>2,019</b>	<b>2,695</b>
Free Cash Flow	4,497	4,476	7,898	11,803

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	20.6	23.5	28.0	33.7
CEPS	24.3	28.1	33.5	40.0
BVPS	87.7	100.7	115.2	132.7
FCF	4.7	4.7	8.2	12.3
DPS	10.3	8.9	11.3	13.5
<b>Return Ratio(%)</b>				
RoCE	33.2	33.8	34.8	37.0
ROIC	26.2	27.9	30.7	34.1
RoE	24.7	25.0	25.9	27.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	48	47	46	46
<b>Valuation(x)</b>				
PER	68.4	59.8	50.3	41.7
P/B	16.0	14.0	12.2	10.6
P/CEPS	57.8	50.1	42.0	35.2
EV/EBITDA	41.9	36.4	30.8	25.5
EV/Sales	8.0	6.9	6.0	5.2
Dividend Yield (%)	0.7	0.6	0.8	1.0

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>44,836</b>	<b>43,903</b>	<b>46,391</b>	<b>52,940</b>
YoY gr. (%)	13.4	15.1	8.8	24.3
Raw Material Expenses	25,447	24,923	27,924	31,250
Gross Profit	19,389	18,980	18,467	21,690
Margin (%)	43.2	43.2	39.8	41.0
<b>EBITDA</b>	<b>8,399</b>	<b>8,744</b>	<b>7,842</b>	<b>10,430</b>
YoY gr. (%)	(5.8)	4.1	(10.3)	33.0
Margin (%)	18.7	19.9	16.9	19.7
Depreciation / Depletion	914	905	947	1,154
<b>EBIT</b>	<b>7,485</b>	<b>7,839</b>	<b>6,894</b>	<b>9,276</b>
Margin (%)	16.7	17.9	14.9	17.5
Net Interest	91	88	121	148
Other Income	392	617	633	452
<b>Profit before Tax</b>	<b>7,786</b>	<b>8,368</b>	<b>7,406</b>	<b>9,580</b>
Margin (%)	17.4	19.1	16.0	18.1
Total Tax	2,877	2,770	2,427	3,263
Effective tax rate (%)	37.0	33.1	32.8	34.1
<b>Profit after Tax</b>	<b>4,909</b>	<b>5,599</b>	<b>4,979</b>	<b>6,317</b>
Minority interest	-	133	132	116
Share Profit from Associates	50	115	81	154
<b>Adjusted PAT</b>	<b>4,959</b>	<b>5,580</b>	<b>4,928</b>	<b>6,356</b>
YoY gr. (%)	3.4	31.3	(3.1)	12.1
Margin (%)	11.1	12.7	10.6	12.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,959</b>	<b>5,580</b>	<b>4,928</b>	<b>6,356</b>
YoY gr. (%)	3.4	31.3	(14.4)	12.1
Margin (%)	11.1	12.7	10.6	12.0
Other Comprehensive Income	45	471	(498)	(345)
<b>Total Comprehensive Income</b>	<b>5,004</b>	<b>6,051</b>	<b>4,430</b>	<b>6,011</b>
Avg. Shares O/s (m)	959	959	959	959
<b>EPS (Rs)</b>	<b>5.2</b>	<b>5.8</b>	<b>5.1</b>	<b>6.6</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	23-Jan-18	Accumulate	1,278	1,177
2	13-Apr-18	Accumulate	1,278	1,163
3	11-May-18	Accumulate	1,234	1,215
4	10-Jul-18	Hold	1,278	1,292
5	24-Jul-18	Hold	1,431	1,468
6	5-Oct-18	Hold	1,431	1,225
7	23-Oct-18	Accumulate	1,300	1,138
8	7-Jan-19	Accumulate	1,300	1,396

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,300	1,396
2	Avenue Supermarts	Reduce	1,270	1,572
3	Britannia Industries	Accumulate	3,231	3,144
4	Colgate Palmolive	Hold	1,157	1,303
5	Crompton Greaves Consumer Electricals	BUY	276	227
6	Dabur India	Hold	427	420
7	Emami	Accumulate	521	419
8	Future Retail	BUY	604	459
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,488
10	Hindustan Unilever	Hold	1,874	1,752
11	ITC	BUY	364	282
12	Jubilant FoodWorks	Accumulate	1,395	1,217
13	Kansai Nerolac Paints	Accumulate	474	467
14	Marico	Accumulate	387	387
15	Nestle India	Accumulate	11,129	10,786
16	Pidilite Industries	Accumulate	1,121	1,103
17	Titan Company	BUY	1,115	944
18	Voltas	Accumulate	658	542

## PL's Recommendation Nomenclature (Absolute Performance)

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

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