Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Asian Paints (APNT IN)

Rating: ACCUMULATE | CMP: Rs1,479 | TP: Rs1,522

July 24, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**1,522**		**1,433**	
Sales (Rs. m)	219,891	251,507	214,959	245,108
% Chng.	*2.3*	*2.6*		
EBITDA (Rs. m)	44,635	52,492	41,548	49,795
% Chng.	*7.4*	*5.4*		
EPS (Rs.)	27.2	32.5	26.5	31.8
% Chng.	*2.5*	*2.2*		

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	168,246	193,415	219,891	251,507
EBITDA (Rs. m)	31,976	35,245	44,635	52,492
Margin (%)	*19.0*	*18.2*	*20.3*	*20.9*
PAT (Rs. m)	19,743	21,502	26,071	31,207
EPS (Rs.)	20.6	22.4	27.2	32.5
Gr. (%)	*0.5*	*8.9*	*21.2*	*19.7*
DPS (Rs.)	10.3	8.9	11.2	13.2
Yield (%)	*0.7*	*0.6*	*0.8*	*0.9*
RoE (%)	*24.7*	*24.0*	*25.4*	*26.4*
RoCE (%)	*33.2*	*32.4*	*34.2*	*36.0*
EV/Sales (x)	8.4	7.3	6.4	5.6
EV/EBITDA (x)	44.1	40.0	31.5	26.6
PE (x)	71.8	66.0	54.4	45.4
P/BV (x)	16.9	14.9	12.9	11.2

Key Data	ASPN.BO | APNT IN
52-W High / Low	Rs.1,530 / Rs.1,118
Sensex / Nifty	37,848 / 11,271
Market Cap	Rs.1,418bn/ $ 20,552m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.3549.19m

Shareholding Pattern (%)

Promoter's	52.79
Foreign	16.65
Domestic Institution	8.95
Public & Others	21.61
Promoter Pledge (Rs bn)	89.75

Stock Performance (%)

	1M	6M	12M
Absolute	7.4	5.5	0.7
Relative	11.1	0.9	(2.0)

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Strong vibes but pitfalls ahead; Accumulate

APNT has posted ~20% volume growth in domestic decorative business aided by sustained migration from unorganized segment, lower trade inventory in base quarter and channel filling led by dealer promotion schemes. Slowdown in demand is impacting the demand for automotive and industrial coatings, and we expect moderation in volume growth for domestic decorative paints in the coming quarter. Margin outlook remain positive given soft crude prices and favorable USD/INR, however gains from lower freight from new units will be partly neutralized by higher overheads.

We remain positive in the structural growth story due to 1) portfolio to straddle through price points and deep distribution 2) strong pricing power given 7.4% price increase in the calendar year (0.4% price cut in 1Q) and 3) lower share of Automotive/ Industrial paints (5% of Consol sales) which faces demand pressure in near term. We increase EPS estimates by 2.3-2.6% and now estimate CAGR of 14% in revenue and 20.5% in Adj. PAT over FY19-21. We value the stock at 45xJune21 EPS of 33.8 and arrive at a target price of 1533 (Earlier Rs1433). Retain Accumulate.

Concall Takeaways: 1) 1Q had higher channel filling led by innovative dealer promotion schemes. Inventory levels in base quarter was low due to GST rate cut 2) Overall 0.4% price reduction was done in solvent based products in 2 tranches on 1st May and 1st June 3) Higher Expenses from newly commissioned plants at Mysore and Vizag will come going forward 4) Ad-spends were lower as some spends was shifted to 4Q19 for early IPL 5) Earlier Diwali as compared to last year will lead to some shift in sales to 2Q. Lower gap between Monsoons and Diwali may lead to lower sales as compared to last year 6) Economy segment performed better than the premium segment as they have become more competitive post reduction in GST 7) Auto segment was impacted by the slowdown. Protective segment performed well while powder coatings de-grew 8) Challenges in Egypt and Sri Lanka continue. Indonesia performance was slower than expected 9) Waterproofing segment has done well led by new products launches 10) APNT currently has a dealer base of 60,000 with presence across most towns with population more than 10,000.

Consolidated: Domestic Decorative Volumes increased in high double digits (est ~20%); Automotive and Industrial coatings impacted by slowdown. Sales increased 16.9% to Rs51.3bn, Gross margins up 30bps. EBIDTA increased 24.4% to Rs11.6bn on 140bps margins expansion. Adj. PAT up 17.7% to Rs 6.6bn on 19.3% increase in other income despite increase in Interest costs, depreciation and tax rate by 27.6%, 41.8% and 160bps. **Standalone** sales increased 18.2% to Rs 43.8bn, Gross and EBITDA margins expanded by 20bps and 140bps respectively. Adj. PAT increased 20.5% to Rs6.5bn.

Subsidiary: Imputed sub sales increased 9.7%, EBIDTA increased 12.4%. Egypt and Sri Lanka continues to witness challenging business environment.

Home improvement business of Sleek and ESS reported 18.6% increase in sales.

Exhibit 1: Q1FY20 Results- Consolidated (Rs m): Adj. PAT increased 17.7% with 140bp margin expansion

Y/e March	1QFY20	1QFY19	*YoY gr. (%)*	4QFY19	FY20E	FY19	*YoY gr. (%)*
Net Sales	**51,306**	**43,903**	***16.9***	**50,182**	**2,19,891**	**1,93,415**	***13.7***
Gross Profit	22,337	18,980	*17.7*	20,856	91,998	79,992	*15.0*
% of NS	*43.5*	*43.2*		*41.6*	*41.8*	*41.4*	
Other Expenses	10,774	9,683	*11.3*	12,626	47,363	44,747	*5.8*
% of NS	*21.0*	*22.1*		*25.2*	*21.5*	*23.1*	
EBITDA	**11,563**	**9,297**	***24.4***	**8,230**	**44,635**	**35,245**	***26.6***
Margins (%)	*22.5*	*21.2*		*16.4*	*20.3*	*18.2*	
Depreciation	1,926	1,358	*41.8*	1,301	7,536	4,307	*75.0*
Interest	268	210	*27.6*	153	858	510	*68.2*
Other Income	736	617	*19.3*	569	3,005	2,271	*32.4*
PBT	**10,104**	**8,346**	***21.1***	**7,344**	**39,247**	**32,699**	***20.0***
Tax	3,505	2,761	*27.0*	2,529	12,991	10,988	*18.2*
Tax rate %	*34.7*	*33.1*		*34.4*	*33.1*	*33.6*	
Adjusted PAT	**6,554**	**5,569**	***17.7***	**4,731**	**26,071**	**21,595**	***20.7***

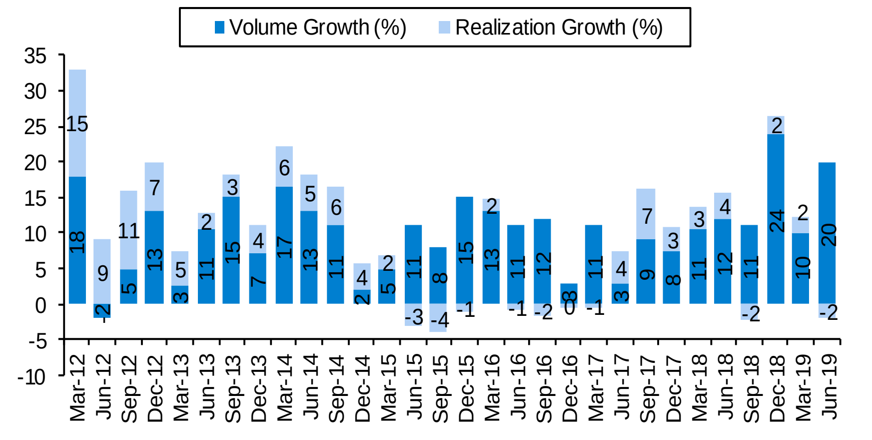
Source: Company Data, PL Research

Exhibit 2: Q1FY20 Results - Standalone (Rs m): Adj. PAT increased 20.5% with 140bps EBITDA margin expansion

Y/e March	1QFY20	1QFY19	*YoY gr. (%)*	4QFY19	FY20E	FY19	*YoY gr. (%)*
Net Sales	**43,802**	**37,062**	***18.2***	**42,353**	**1,86,943**	**1,63,918**	***14.0***
Gross Profit	19,622	16,537	*18.7*	18,225	80,955	69,812	*16.0*
% of NS	*44.8*	*44.6*		*43.0*	*43.3*	*42.6*	
Other Expenses	8,723	7,831	*11.4*	10,525	38,974	36,732	*6.1*
% of NS	*19.9*	*21.1*		*24.9*	*20.8*	*22.4*	
EBITDA	**10,899**	**8,706**	***25.2***	**7,700**	**41,981**	**33,080**	***26.9***
Margins (%)	*24.9*	*23.5*	*1.4*	*18.2*	*22.5*	*20.2*	
Depreciation	1,698	1,158	*46.6*	1,172	7,143	3,822	*86.9*
Interest	193	156	*23.8*	99	753	300	*151.0*
Other Income	855	689	*24.1*	720	3,589	2,788	*28.7*
PBT	**9,863**	**8,081**	***22.0***	**7,149**	**37,674**	**31,746**	***18.7***
Tax	3,339	2,665	*25.3*	2,352	12,432	10,398	*19.6*
Tax rate %	*33.8*	*33.0*		*32.9*	*33.0*	*32.8*	
Adjusted PAT	**6,525**	**5,416**	***20.5***	**4,797**	**25,242**	**21,348**	***18.2***

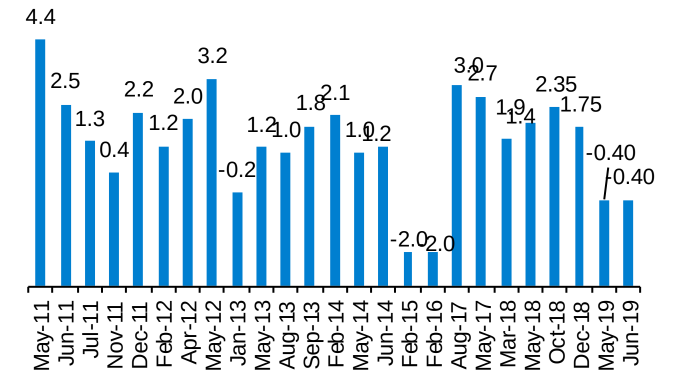
Source: Company Data, PL Research

Exhibit 3: Strong Volume growth at ~20% partly aided by channel filling



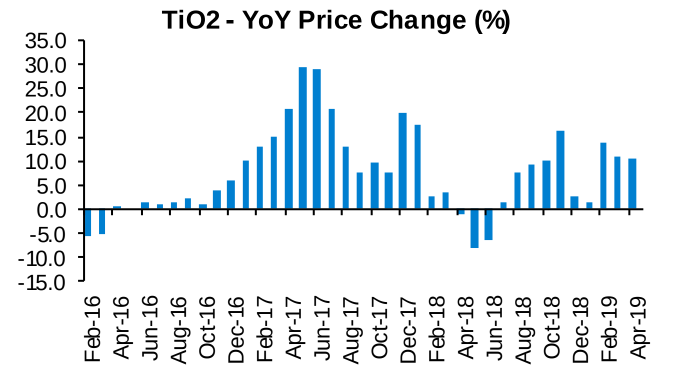
Source: Company, PL

Exhibit 4: Decorative prices cut by 0.4% in 2 tranches



Source: Company, PL

Exhibit 5: Tio2 prices up 2.3% QoQ and down 1.5% YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	**168,246**	**193,415**	**219,891**	**251,507**
YoY gr. (%)	*11.7*	*15.0*	*13.7*	*14.4*
Cost of Goods Sold	96,912	113,423	127,894	144,484
Gross Profit	71,334	79,992	91,998	107,023
Margin (%)	*42.4*	*41.4*	*41.8*	*42.6*
Employee Cost	11,155	12,700	14,259	16,381
Other Expenses	28,203	32,046	33,104	38,151
EBITDA	**31,976**	**35,245**	**44,635**	**52,492**
YoY gr. (%)	*7.1*	*10.2*	*26.6*	*17.6*
Margin (%)	*19.0*	*18.2*	*20.3*	*20.9*
Depreciation and Amortization	3,605	4,307	7,536	8,245
EBIT	**28,371**	**30,939**	**37,099**	**44,246**
Margin (%)	*16.9*	*16.0*	*16.9*	*17.6*
Net Interest	351	510	858	821
Other Income	2,206	2,271	3,005	3,478
Profit Before Tax	**30,227**	**32,699**	**39,247**	**46,903**
Margin (%)	*18.0*	*16.9*	*17.8*	*18.6*
Total Tax	10,410	10,988	12,991	15,525
Effective tax rate (%)	*34.4*	*33.6*	*33.1*	*33.1*
Profit after tax	**19,817**	**21,711**	**26,256**	**31,378**
Minority interest	532	617	691	759
Share Profit from Associate	458	408	507	589
Adjusted PAT	**19,743**	**21,502**	**26,071**	**31,207**
YoY gr. (%)	*0.5*	*8.9*	*21.2*	*19.7*
Margin (%)	*11.7*	*11.1*	*11.9*	*12.4*
Extra Ord. Income / (Exp)	700	-	-	-
Reported PAT	**20,443**	**21,502**	**26,071**	**31,207**
YoY gr. (%)	*2.7*	*5.2*	*21.2*	*19.7*
Margin (%)	*12.2*	*11.1*	*11.9*	*12.4*
Other Comprehensive Income	(348)	(136)	-	-
Total Comprehensive Income	20,095	21,366	26,071	31,207
Equity Shares O/s (m)	**959**	**959**	**959**	**959**
EPS (Rs)	**20.6**	**22.4**	**27.2**	**32.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	**57,368**	**82,932**	**95,132**	**102,832**
Tangibles	53,628	78,978	90,978	98,478
Intangibles	3,741	3,954	4,154	4,354
Acc: Dep / Amortization	**23,319**	**27,633**	**33,241**	**39,461**
Tangibles	22,443	26,416	31,557	37,289
Intangibles	876	1,217	1,683	2,172
Net fixed assets	**34,050**	**55,299**	**61,891**	**63,371**
Tangibles	31,185	52,562	59,421	61,190
Intangibles	2,865	2,737	2,471	2,182
Capital Work In Progress	14,051	2,097	4,000	6,000
Goodwill	3,273	3,213	3,213	3,213
Non-Current Investments	13,168	17,006	18,241	19,598
Net Deferred tax assets	(3,975)	(5,397)	(5,408)	(5,424)
Other Non-Current Assets	3,888	2,318	3,093	4,121
Current Assets				
Investments	10,567	11,745	12,596	19,995
Inventories	26,583	31,499	35,544	39,965
Trade receivables	17,371	19,134	21,989	24,806
Cash & Bank Balance	4,047	4,449	4,803	6,053
Other Current Assets	4,552	4,010	4,618	5,282
Total Assets	**137,831**	**156,613**	**176,562**	**200,139**
Equity				
Equity Share Capital	959	959	959	959
Other Equity	83,143	94,238	109,141	125,142
Total Networth	**84,103**	**95,197**	**110,100**	**126,101**
Non-Current Liabilities				
Long Term borrowings	283	195	71	43
Provisions	1,401	1,556	1,745	2,005
Other non current liabilities	36	30	30	30
Current Liabilities				
ST Debt / Current of LT Debt	5,051	6,076	5,001	4,590
Trade payables	21,600	23,943	27,331	31,668
Other current liabilities	17,860	20,270	22,769	26,137
Total Equity & Liabilities	**137,831**	**156,613**	**176,562**	**200,139**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	30,227	32,699	39,247	46,903
Add. Depreciation	3,605	4,307	7,536	8,245
Add. Interest	351	510	858	821
Less Financial Other Income	2,206	2,271	3,005	3,478
Add. Other	722	(172)	-	-
Op. profit before WC changes	34,904	37,344	47,640	55,970
Net Changes-WC	(632)	(3,852)	(6,308)	(12,913)
Direct tax	(10,410)	(10,988)	(12,991)	(15,525)
Net cash from Op. activities	**23,863**	**22,503**	**28,342**	**27,532**
Capital expenditures	(19,365)	(13,542)	(16,032)	(11,725)
Interest / Dividend Income	-	-	-	-
Others	3,596	(2,134)	(525)	(526)
Net Cash from Invt. activities	**(15,770)**	**(15,676)**	**(16,557)**	**(12,251)**
Issue of share cap. / premium	(1,538)	(227)	1,158	(759)
Debt changes	2,970	3,819	653	2,440
Dividend paid	(11,874)	(10,272)	(12,893)	(15,206)
Interest paid	(351)	(510)	(858)	(821)
Others	-	-	-	-
Net cash from Fin. activities	**(10,793)**	**(7,189)**	**(11,940)**	**(14,347)**
Net change in cash	**(2,700)**	**(362)**	**(156)**	**934**
Free Cash Flow	4,497	8,962	12,310	15,807

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	**46,391**	**52,940**	**50,182**	**51,306**
YoY gr. (%)	*8.8*	*24.3*	*11.9*	*16.9*
Raw Material Expenses	27,924	31,250	29,326	28,970
Gross Profit	18,467	21,690	20,856	22,337
Margin (%)	*39.8*	*41.0*	*41.6*	*43.5*
EBITDA	**7,842**	**10,430**	**8,230**	**11,563**
YoY gr. (%)	*(2.1)*	*17.0*	*(2.0)*	*32.2*
Margin (%)	*16.9*	*19.7*	*16.4*	*22.5*
Depreciation / Depletion	947	1,154	1,301	1,926
EBIT	**6,894**	**9,276**	**6,929**	**9,636**
Margin (%)	*14.9*	*17.5*	*13.8*	*18.8*
Net Interest	121	148	153	268
Other Income	633	452	569	736
Profit before Tax	**7,406**	**9,580**	**7,344**	**10,104**
Margin (%)	*16.0*	*18.1*	*14.6*	*19.7*
Total Tax	2,427	3,263	2,529	3,505
Effective tax rate (%)	*32.8*	*34.1*	*34.4*	*34.7*
Profit after Tax	**4,979**	**6,317**	**4,816**	**6,599**
Minority interest	132	116	143	167
Share Profit from Associates	81	154	59	122
Adjusted PAT	**4,928**	**6,356**	**4,731**	**6,554**
YoY gr. (%)	*(3.1)*	*12.1*	*(4.6)*	*17.5*
Margin (%)	*10.6*	*12.0*	*9.4*	*12.8*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**4,928**	**6,356**	**4,731**	**6,554**
YoY gr. (%)	*(14.4)*	*12.1*	*(4.6)*	*17.5*
Margin (%)	*10.6*	*12.0*	*9.4*	*12.8*
Other Comprehensive Income	(498)	(345)	(46)	9
Total Comprehensive Income	**4,430**	**6,011**	**4,685**	**6,564**
Avg. Shares O/s (m)	959	959	959	959
EPS (Rs)	**5.1**	**6.6**	**4.9**	**6.8**

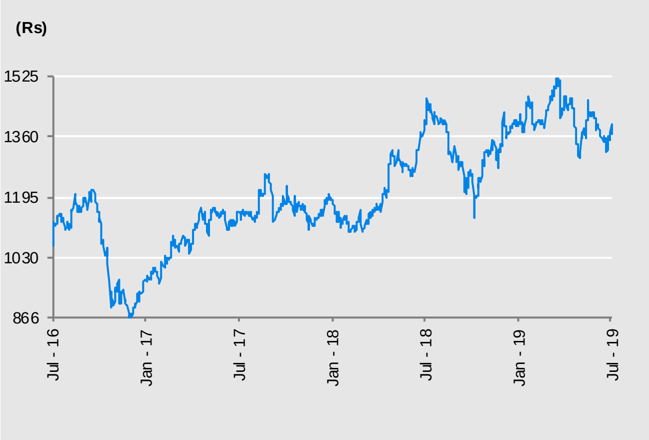
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	20.6	22.4	27.2	32.5
CEPS	24.3	26.9	35.0	41.1
BVPS	87.7	99.2	114.8	131.5
FCF	4.7	9.3	12.8	16.5
DPS	10.3	8.9	11.2	13.2
Return Ratio(%)				
RoCE	33.2	32.4	34.2	36.0
ROIC	26.2	25.9	27.3	30.5
RoE	24.7	24.0	25.4	26.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	48	50	50	48
Valuation(x)				
PER	71.8	66.0	54.4	45.4
P/B	16.9	14.9	12.9	11.2
P/CEPS	60.7	54.9	42.2	35.9
EV/EBITDA	44.1	40.0	31.5	26.6
EV/Sales	8.4	7.3	6.4	5.6
Dividend Yield (%)	0.7	0.6	0.8	0.9

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	1,433	1,360
2	9-May-19	Accumulate	1,433	1,386
3	5-Apr-19	Accumulate	1,480	1,514
4	22-Jan-19	Accumulate	1,460	1,407
5	7-Jan-19	Accumulate	1,300	1,396
6	23-Oct-18	Accumulate	1,300	1,138
7	5-Oct-18	Hold	1,431	1,225

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,360
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,208	1,204
5	Crompton Greaves Consumer Electricals	BUY	284	234
6	Dabur India	Hold	437	420
7	Emami	Accumulate	382	301
8	Future Retail	BUY	554	471
9	GlaxoSmithKline Consumer Healthcare	Hold	7,744	7,805
10	Hindustan Unilever	Accumulate	1,816	1,690
11	ITC	BUY	369	278
12	Jubilant FoodWorks	BUY	1,541	1,259
13	Kansai Nerolac Paints	Accumulate	464	442
14	Marico	Hold	351	374
15	Nestle India	Accumulate	10,656	11,884
16	Pidilite Industries	Accumulate	1,184	1,227
17	Titan Company	BUY	1,267	1,290
18	Voltas	Accumulate	584	635

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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