

RETAIL EQUITY RESEARCH

Asian Paints Ltd

Paint & Varnishes

BSE CODE:500820

NSE CODE: ASIANPAINT

Bloomberg CODE: APNT:IN SENSEX: 36,140

BUY

Rating as per Large cap

12months investment period

CMP Rs. 1168 TARGET Rs. 1283 RETURN 10% ↑

24th January 2018

Volume growth to pick-up...

Asian paints (APNT), is the market leader in the Indian paint manufacturing industry with a market share of ~53%.

- Subdued volume (~6.5%) growth due to extended monsoon & split in festival demand between Q2 & Q3 capped revenue growth to 11% YoY in Q3FY18.
- Gross margin declined by 143bps YoY while EBITDA margin improved by 126bps YoY to 20.9% due to cost cutting initiatives.
- Better operating margin & rise in other income resulted a PAT growth of 20% YoY in Q3FY18.
- We expect revenue to start revive from FY19 led by pick up in rural demand for decorative paints.
- Increasing rural demand & company's strong presence in the industry will maintain rich valuation. We roll over our target price to FY20E EPS based on a P/E of 42x and upgrade our rating to 'Buy'.

Volume yet to reach pre GST level...

In Q3FY18, revenue grew by 10.6% YoY to Rs4,267cr (below estimate) on account of subdued volume growth of ~6.5%. Management stated that extended monsoon in southern part coupled with split in festival demand between Q2 & Q3 impacted the topline growth. In the International operations, Units in Nepal, Bangladesh, Oman and Bahrain continue to stay on the growth trajectory. However, adverse exchange rate fluctuation and currency devaluation impacted the business in Ethiopia and Egypt. Home improvement business reported a revenue growth of 22%YoY to Rs85cr. We expect volume to improve led by pick up in rural demand & reduced interest rate.

Margin maintained...

Gross margin declined by 143bps YoY to 42.3% in Q3FY18 as rise in Titanium dioxide (TiO₂) & other monomers continue to have impact on margins. Due to increasing competition and subdued growth the company has not took any price revision in third quarter. However, EBITDA margin improved by 126bps YoY to 20.9% as reduction in other expenses due to cost cutting measures and investments on renewable energy, brought down power and fuel costs. Inflation in RM cost is likely to remain in the near term but we expect better operational efficiency and pricing power will keep the margins above 19% in FY18/19E.

PAT grown by 20% YoY...

Positive impact on margin coupled with 20% YoY growth in other income raised the PAT growth by 20% YoY to Rs567cr. Volume growth to pick-up with ease in GST hiccups and revival in rural demand. We factor earnings to grow at 14% CAGR over FY17-20E.

Valuations

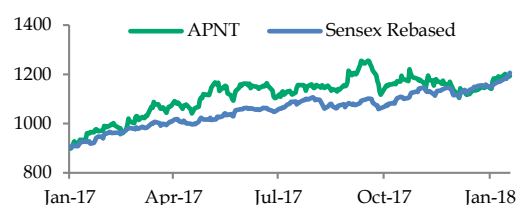
Strong presence in decorative paint and cost control initiatives to contain pressure on inflating raw material price will improve margins and profitability. We roll over our valuation to FY20E EPS and upgrade our rating to Buy with a target price of Rs1,283, based on a P/E of 42x FY20E earnings.

Company Data	
Market Cap (cr)	Rs1,12,035
Enterprise Value (cr)	Rs1,12,584
Outstanding Shares (cr)	96
Free Float	47.2%
Dividend Yield	0.9%
52 week high	Rs1,261
52 week low	Rs954
6m average volume (cr)	0.13
Beta	0.8
Face value	Rs1

Shareholding (%)	Q1FY18	Q2FY18	Q3FY18
Promoters	52.8	52.8	52.8
FII's	17.46	16.66	16.35
MFs/Insti	13.96	9.43	9.97
Public	15.78	21.11	20.88
Total	100.0	100.0	100.0

Price Performance	3month	6month	1 Year
Absolute Return	-2.9%	3.0%	21.1%
Absolute Sensex	9.4%	11.6%	33.3%
Relative Return	-12.3%	-8.6%	-12.2%

*over or under performance to benchmark index



Consolidated (Rs.bn)	FY18E	FY19E	FY20E
Sales	168.9	193.9	225.6
Growth (%)	11.8	14.8	16.4
EBITDA	32.2	37.2	43.3
Margin (%)	19.0	19.2	19.2
PAT Adj	21.1	24.7	29.3
Growth (%)	7.2	17.0	18.4
Adj.EPS	22.0	25.8	30.5
Growth (%)	7.2	17.0	18.4
P/E	53.0	45.3	38.2
P/B	13.0	11.4	9.8
EV/EBITDA	35.0	30.2	26.0
ROE (%)	26.1	26.8	27.5
D/E	0.1	0.1	0.0

Antu Eapen Thomas
Analyst

Quarterly Financials

Profit & Loss Account

(Rs cr)	Q3FY18	Q3FY17	YoY Growth %	Q2FY18	QoQ Growth %
Sales	4,267	3,857	10.6	4,274	-0.2
EBITDA	891	757	17.7	801	11.2
EBITDA margins	20.9	19.6	126bps	18.7	214bps
Depreciation	90	84	6.0	89	0.8
EBIT	802	673	19.2	712	12.5
Interest	9	9	1.9	9	5.0
Other Income	50	41	20.4	53	-7.0
Exceptional Items	-	-		-	
PBT	842	705	19.5	757	11.3
Tax	291	243	19.9	246	18.5
Share of profit from Associate	17	13	30.1	15	8.5
Reported PAT	567	474	19.6	526	7.8
Adjustments	-	-		-	
Adj PAT	526	474	19.6	526	7.8
No. of shares (cr)	96	96		96	
EPS (Rs)	5.9	4.9	19.6	5.5	7.8

Change in estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY18E	FY19E	FY18E	FY19E	FY20E	FY18E	FY19E
Revenue	17,169	20,159	16,891	19,390	22,569	-1.6	-3.8
EBITDA	3,172	3,888	3,216	3,723	4,334	1.4	-4.2
Margins (%)	18.5	19.3	19.0	19.2	19.2	57bps	-8bps
PAT	2,111	2,592	2,114	2,474	2,930	0.1	-4.6
EPS	22.01	27.01	22.04	25.79	30.54	0.1	-4.6

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	14,271	15,110	16,891	19,390	22,569
% change	0.6	5.9	11.8	14.8	16.4
EBITDA	2,847	2,986	3,216	3,723	4,334
% change	27	5	8	16	16
Depreciation	276	335	365	448	453
EBIT	2,571	2,652	2,851	3,275	3,881
Interest	41	30	35	32	33
Other Income	213	262	270	340	380
PBT	2,692	2,884	3,086	3,583	4,228
% change	30	7	7	16	18
Tax	844	943	1,027	1,165	1,353
Tax Rate (%)	30.8	32.7	33.3	32.5	32.0
Reported PAT	1,881	1,990	2,114	2,474	2,930
Adj*	40	18	-	-	-
Adj PAT	1,841	1,973	2,114	2,474	2,930
% change	29.4	7.2	7.2	17.0	18.4
No. of shares (mn)	96	96	96	96	96
Adj EPS (Rs)	19.2	20.6	22.0	25.8	30.5
% change	29.4	7.2	7.2	17.0	18.4
DPS (Rs)	7.5	8.5	9.6	10.7	11.8

Cash flow

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Net inc. + Depn.	2,967	3,219	3,506	4,087	4,736
Non-cash adj.	(897)	(1,123)	(986)	(1,187)	(1,341)
Changes in W.C	198	(603)	427	(251)	(362)
C.F.O	2,321	1,492	2,948	2,649	3,033
Capital exp.	(802)	(667)	(1,302)	(100)	(500)
Change in inv.	-64	11	(306)	(306)	(411)
Other invest.CF	0	0	0	0	0
C.F - investing	(866)	(656)	(1,608)	(406)	(911)
Issue of equity	0	0	0	0	0
Issue/repay debt	(151)	178	(31)	(57)	13
Dividends paid	(764)	(947)	(1,099)	(1,225)	(1,351)
Other finance.CF	0	0	20	20	20
C.F - Financing	(849)	(756)	(1,153)	(1,261)	(1,318)
Chg. in cash	606	80	187	981	804
Closing cash	1656	1710	1898	2879	3683

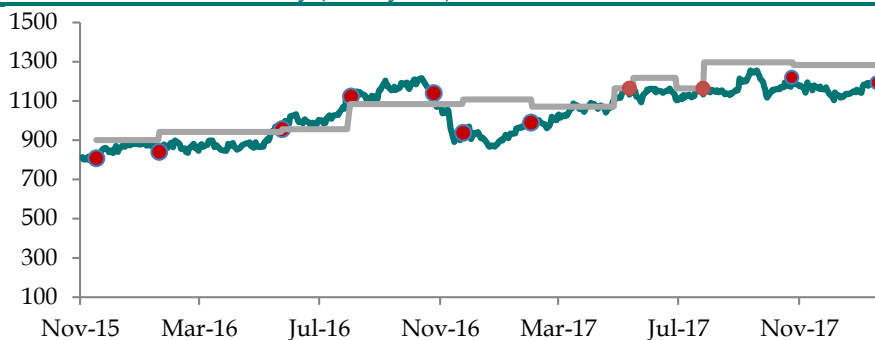
Balance Sheet

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	1,578	1,668	1,898	2,879	3,683
Accounts Receivable	1,192	1,447	1,411	1,541	1,762
Inventories	1,998	2,627	2,814	3,191	3,667
Other Cur. Assets	797	1,536	1,527	1,700	1,843
Investments	1,472	1,567	1,880	2,256	2,707
Gross Fixed Assets	3,305	3,513	4,713	4,913	5,413
Net Fixed Assets	3,056	2,957	3,818	3,599	3,680
CWIP	107	258	300	200	200
Intangible Assets	360	346	379	349	315
Def. Tax (Net)	-	-	0	0	0
Other Assets	-	-	0	0	0
Total Assets	10,559	12,404	14,027	15,715	17,856
Current Liabilities	2,874	3,342	3,913	4,318	4,778
Provisions	178	195	194	218	235
Debt Funds	304	546	549	524	570
Other Liabilities	679	718	752	788	828
Equity Capital	96	96	96	96	96
Reserves & Surplus	6,429	7,506	8,522	9,771	11,350
Shareholder's Fund	6,525	7,602	8,618	9,867	11,446
Total Liabilities	10,559	12,404	14,027	15,715	17,856
BVPS (Rs)	68.0	79.3	89.8	102.9	119.3

Ratios

Y.E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	19.9	19.8	19.0	19.2	19.2
EBIT margin (%)	18.0	17.5	16.9	16.9	17.2
Net profit mgn.(%)	12.9	13.1	12.5	12.8	13.0
ROE (%)	32.7	27.9	26.1	26.8	27.5
ROCE (%)	22.1	18.5	16.9	17.4	18.1
W.C & Liquidity					
Receivables (days)	30.3	31.9	30.9	27.8	26.7
Inventory (days)	54.4	55.9	58.8	56.5	55.5
Payables (days)	8.3	9.2	8.3	7.6	6.9
Current ratio (x)	1.8	2.1	1.9	2.1	2.2
Quick ratio (x)	1.0	0.9	0.8	1.0	1.1
Turnover & Levg.					
Gross asset T.O (x)	4.1	4.4	4.1	4.0	4.4
Total asset T.O (x)	1.5	1.3	1.3	1.3	1.3
Int. covge. ratio (x)	63.2	88.4	81.4	103.2	117.4
Adj. debt/equity (x)	0.0	0.1	0.1	0.1	0.0
Valuation ratios					
EV/Sales (x)	7.9	7.5	6.7	5.8	5.0
EV/EBITDA (x)	39.5	37.7	35.0	30.2	26.0
P/E (x)	60.9	56.8	53.0	45.3	38.2
P/BV (x)	17.2	14.7	13.0	11.4	9.8

Recommendation Summary (last 3 years)



Dates	Rating	Target
17th November 2015	*Accumulate	901
20th January 2016	Accumulate	942
24th May 2016	Hold	956
1st August 2016	Reduce	1,084
27th October 2016	Reduce	1,084
24th November 2016	Buy	1,108
2nd February 2017	Hold	1,071
16th May 2017	Hold	1,218
26th July 2017	Hold	1,164
26th October 2017	Hold	1,297
24th January 2018	BUY	1,283

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
			Reduce/Sell	-	Downside is more than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.					

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