



RESULT UPDATE

ASIAN PAINTS

High ad spends take sheen off volume growth

India Equity Research | Consumer Goods

Edelweiss
Ideas create, values protect

Asian Paints' (APL) Q2FY20 consolidated sales and PAT growth (adjusted for tax reversal) of 9.4% and 28.6% YoY came in line, while 13% EBITDA growth belied estimate. Domestic volume grew ~14% YoY on a base of 11%, clocking seventh consecutive quarter of double-digit spurt. However, after three quarters of positive difference between value and volume growth, product mix deteriorated in Q2FY20, leading to mere 9.4% value growth. While benign raw material costs led to 257bps YoY gross margin expansion, initial factory costs and ad spends jumped—staff and other expenses up 16.3% and 20.7% YoY, respectively—resulting in EBITDA growing mere 60bps YoY. We continue to estimate double-digit volume growth in the decorative business as well as margin expansion led by operating leverage benefit in new plants. Maintain 'BUY'.

Double-digit volume sustains; benign input cost spurs margin

Standalone sales growth of 9.3% YoY was slower than trend (~15% average of past four quarters); volume growth, however, remained resilient at ~14% YoY. Slowdown in the auto sector hurt the PPG-AP JV and overall demand slowdown impacted industrial coatings JV as well. International operations performed better than Q1FY20 with improvement in key units of Nepal and Egypt. Both segments of **home improvement** were impacted owing to slowdown in real estate business—revenue grew ~18.5% in both businesses. Standalone gross margin rose 257bps YoY, but dipped 142bps QoQ.

Q2FY20 conference call: Key takeaways

Low end paints emulsions and distempers have been growing at much faster clip. Painting industry was impacted owing to prolonged monsoon. **Introduced few products in distemper category – this has led to revival of distemper category.** Rural and small towns continue to grow faster. **Putty market size would be INR50-60bn. Distempers market size would be INR100bn.** H1FY20 margins are fair representation of margins for the full year.

Outlook and valuation: Shining bright; maintain 'BUY'

We expect decorative volumes to sustain riding likely demand shift from the unorganised segment (~30%). This, coupled with APL's capability to hike prices, should help maintain margin. Rolling forward, our revised TP comes to INR2,050 (55x, 12-month forward PE). Maintain 'BUY/SO'. The stock is trading at 47.8x FY21E EPS.

Financials

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	FY19	FY20E	FY21E
Net rev.	50,507	46,155	9.4	51,047	(1.1)	193,415	221,508	254,447
EBITDA	9,548	8,447	13.0	11,579	(17.5)	35,245	45,744	53,121
Adjusted Profit	8,450	5,057	67.1	6,742	25.3	22,119	31,446	35,756
Dilu. EPS (INR)	8.8	5.3	67.1	7.0	25.3	23.1	32.8	37.3
Dilu.P/E (x)						77.2	54.3	47.8
EV/EBITDA (x)						48.3	37.0	31.6
ROAE (%)						23.3	29.2	28.8

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: ASPN.BO, B: APNT IN)

CMP	: INR 1,780
Target Price	: INR 2,050
52-week range (INR)	: 1,825 / 1,118
Share in issue (mn)	: 959.2
M cap (INR bn/USD mn)	: 1,708 / 24,045
Avg. Daily Vol.BSE/NSE('000)	: 1,488.2

SHARE HOLDING PATTERN (%)

	Current	Q1FY20	Q4FY19
Promoters *	52.8	52.8	52.8
MF's, FI's & BK's	9.0	9.0	9.6
FII's	16.7	16.7	16.3
Others	21.5	21.5	21.3
* Promoters pledged shares (% of share in issue)	:		6.3

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	6.5	2.9	6.1
3 months	26.8	2.5	10.4
12 months	49.4	14.8	11.4

Abneesh Roy

+91 22 6620 3141
abneesh.roy@edelweissfin.com

Alok Shah

+91 22 6620 3040
alok.shah@edelweissfin.com

Tushar Sundrani

+91 22 6623 3004
tushar.sundrani@edelweissfin.com

October 23, 2019

Edelweiss Research is also available on www.edelresearch.com, Bloomberg EDEL <GO>, Thomson First Call, Reuters and Factset.

Edelweiss Securities Limited



Table 1: Trends at a glance

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Domestic decorative volume growth (% YoY)	8.0	6.0	11.0	12.5	11.0	22.0	~10.5	~16.0	~14.0
Consolidated sales growth (% YoY)	15.0	8.2	14.7	15.1	8.8	24.3	11.9	16.9	9.4
Consolidated gross margin (%)	41.3	42.2	43.2	43.2	39.8	41.0	41.6	43.5	42.4
Consolidated staff costs (% of revenue)	6.6	6.4	6.2	7.0	6.6	6.1	6.7	6.7	6.9
Consolidated other expenses (% of revenue)	15.9	15.0	18.4	16.3	16.3	15.2	18.5	14.3	16.7
Consolidated EBITDA growth (% YoY)	13.6	14.8	18.7	31.4	(2.1)	17.0	(2.0)	24.4	13.0
Consolidated EBITDA margin (%)	18.8	20.9	18.7	21.2	16.9	19.7	17.6	22.5	18.9
Standalone sales growth (% YoY)	16.1	10.7	13.7	15.7	8.7	26.4	12.2	18.2	9.3
Standalone gross margin (%)	42.2	43.5	44.7	44.6	40.8	42.1	43.0	44.8	43.4
Standalone EBITDA growth (% YoY)	14.1	21.9	22.9	38.2	1.0	20.5	(2.0)	25.2	12.4
Standalone EBITDA margin (%)	20.0	22.8	20.8	22.3	18.6	21.7	18.2	24.9	20.4
Ess Ess revenue (INR mn)	418	431	473	460	493	479	589	512	585
Ess Ess revenue growth (%)	5.7	23.3	10.7	55.9	17.9	11.3	24.6	11.4	18.7
Ess Ess EBIT (INR mn)	(78)	(24)	NA	(56)	(95)	(119)	(34)	(68)	(81)
Sleek revenue (INR mn)	431	417	503	450	527	565	602	566	625
Sleek revenue growth (%)	7.3	19.7	14.1	17.4	22.4	35.5	19.6	25.9	18.6
Sleek EBIT (INR mn)	(21)	(43)	(40)	(42)	(30)	(52)	(104)	(90)	(75)

Asian Paints | New CEO and CFO

- New CEO from 1st April, 2020 - Amit Syngle - Asian Paints since the last 29 years
- New CFO from 27th Nov, 2019 - R J Jeyamurugan - Asian Paints since the last 28 years

We see this as logical, proactive and good development given the age of senior management and relatively younger profile of New Management. Good part is both the new CEO and CFO have been in Asian Paints for 28-29 years and hence continuity in culture will continue.



Mr. Amit Syngle, COO
We.f from 1 April 2020
will be MD & CEO

- **Mr. Amit Syngle (age, 53 years), Chief Operating Officer, will succeed Mr. KBS Anand,** Managing-Director & CEO of the Company, as the Managing Director & CEO with effect from 1st April, 2020. Amit Syngle, a Mechanical engineer and a Postgraduate in Management has been working with Asian Paints since the last 29 years in various capacities across Sales, Marketing, Supply Chain & Research and Technology.
- Syngle has been the COO for the last two years, heading the Indian decorative business of more than \$2.5 billion and also spearheading the newly acquired businesses of kitchen and bathroom decor vertical of the company.
- As Asian Paints' Chief Operating Officer, Amit Syngle was the man behind India's only research based colour trend prediction system. Amit has been responsible for propelling the brand into a league of its own and has heralded several business initiatives over the last decade.
- R J Jeyamurugan, Vice President - Finance is appointed as the CFO and Company Secretary of the Company effective from 27th November, 2019, in place of Mr. Jayesh Merchant, .CFO & Company Secretary, President - Industrial JVs. He joined the Company in 1991, after completing his CA and CS.
- K B S Anand, Managing Director & CEO will be retiring from the Company on 31st March, 2020. Mr. K.B.S. Anand, Managing Director & CEO joined the Company in the year 1979 and has held various positions in Decorative Business Unit /Industrial Business /Chemical business functions of the Company. From the year 1998 to 2008, he served as Vice President - Sales and Marketing for the Decorative Business Unit of the Company. Prior to his appointment as Managing Director & CEO,. he held the position



of President - Decorative Business Unit from the year 2008 to 2012. Mr. Anand was appointed as the Managing. Directors & CEO effective 1 st April, 2012 for a period of three (3) years and thereafter again re-appointed for two terms; (i) from 1st April, 2015 to 31-1 March, 2018 and (ii) from 1 st April, 2018 to 31st March, 2020.

- Jayesh Merchant, CFO & Company Secretary, President - Industrial JVs of the Company will be retiring from the Company on 26th November, 2019. Mr. Jayesh Merchant joined the Company in the year 2002 as Vice President- Finance & Company Secretary and has been leading the Finance, Accounts, Legal, Taxation and Secretarial functions of the company. The Board of Directors designated him as the Chief Financial Officer of the Company in 2006.

Table 2: Segmental performance (consolidated)

Segment revenue (INR mn)	Q2FY20	Q2FY19	YoY growth
Paints	49,297	45,135	9.2
Home Improvement (both Sleek and Ess Ess)	1,210	1,020	18.6
Total	50,507	46,155	9.4
Segment PBIT (INR mn)			
Paints	9,152	8,300	10.3
Home Improvement (both Sleek and Ess Ess)	(155)	(125)	NM
Total	8,997	8,174	10.1
PBIT margins (%)			
Paints	18.6	18.4	17.7
Home Improvement	(12.8)	(12.3)	NM
Total	17.8	17.7	10.2

Source: Company, Edelweiss research

Table 3: Segmental performance (standalone)

Segment revenue (INR mn)	Q2FY20	Q2FY19	YoY growth
Paints	42,196	38,649	9.2
Home Improvement (only Ess Ess)	585	493	18.7
Total	42,780	39,142	9.3
Segment PBIT (INR mn)			
Paints	8,485	7,870	7.8
Home Improvement (only Ess Ess)	(81)	(95)	NM
Total	8,404	7,775	8.1
PBIT margins (%)			
Paints	20.1	20.4	(25.4)
Home Improvement	(13.8)	(19.2)	NM
Total	19.6	19.9	(21.9)

Source: Company, Edelweiss research



Q2FY20 conference call key takeaways

Overall demand and decorative business

- The decorative business in India registered high double-digit volume growth, though lower than in Q1FY20.
- Low-end paints emulsions and distempers have been growing at a much faster clip. Putty segment sales were also strong.
- Will need to critically monitor impact of government measures on demand post Diwali.
- Automotive coatings JV (PPG-AP) business continued to be impacted by the slowdown in the automobile industry and even the industrial coatings JV (AP-PPG) was impacted by demand slowdown.
- Adhesives growth was decent. APL has launched many premium products in the market.
- Painting industry was also impacted owing to prolonged monsoon.
- Management expects demand to pick up post monsoon and Diwali.
- North has been relatively better this quarter.
- Introduced a number of new products in the distemper category. This has led to revival of distemper category for APL.
- Premiumisation of unorganised to organised is underway in lower-end products.
- Management has further added lower-end distemper products which will lead to better growth in the mass segment.
- Rural and small towns continue to grow at a faster clip.
- In Q2FY19, there was better sales of top-end products and hence this quarter volume value mix deterioration was accentuated.
- Inventory mix change has started to reflect in secondary trade.
- Price cuts have been to the extent of 0.8% on portfolio basis.
- Mix will be relatively richer in Q3.
- Putty market size will be INR50-60bn. Distempers market size will be INR100bn.
- Has two quality of distempers. Premium end distemper has waterproofing within paints.
- APL's distempers are priced the highest.
- Distemper and emulsions can be tinted at dealer end.
- Q2FY20 also had higher discounts.

International business

- International operations performed better than in Q1FY20 with improvement in key units of Nepal and Egypt.
- Severe monsoon affected Bangladesh and Sri Lanka. Further, economic scenario has not remained strong.



Home improvement and subsidiary business

- Both the segments in the Home Improvement category viz. the Kitchen (Sleek) and Bath (Ess Ess) business, were impacted by slowdown in the real estate construction space.
- AP Homes count now stands at 10.
- For home improvement, looking at newer geographies. Over the past two years, expansion has been strong.
- Full kitchen business would be 1/3rd of overall revenue and product business 40-50%.

Margin

- The entire coatings business, however, benefited from benign raw material price environment.
- AP-PPG and PPG-AP registered better margins on benign raw material cost.
- Other expenditure jumped primarily owing to higher ad spends.
- Factory cost YoY is higher but limited on QoQ basis.
- H1FY20 margin is fair representation of margins for the full year.
- Higher other income is owing to treasury income booked.

Distribution

- There is no mismatch between demand for products likely to come in Q3 and stocks lying at retailer level.
- Average inventory days at 15-30.
- No credit line introduced to dealers.

Capex

- Capex for FY20 will be INR7bn. Of this INR2bn has been already spent.
- From FY21, it will be regular maintenance capex only.

Outlook and valuation: Bright prospects; maintain 'BUY'

The domestic paints industry commands strong pricing power, which is evident from frequent price hikes amidst inflationary raw material prices; moreover, price cuts happen with a lag in a deflationary environment.

We believe, post the budget stimulus, recovery should start from Q4FY20, which is likely to boost discretionary spending and improve GDP growth. Since industry volume growth has a strong correlation with GDP growth (1.5–2.0x), volumes of paint companies should get a boost. Furthermore, innovation and strong repainting demand (90% of total) are additional levers. Besides, considering the industry's low penetration (~45% according to our analysis), growth potential remains huge. In fact, even if the sector clocks 12% CAGR over the coming decade, we expect penetration to widen to only about 64%.

The recent GST rate reduction from 28% to 18% too bodes well for paint companies in the organised segment, making them more competent against unorganised players (30% share).



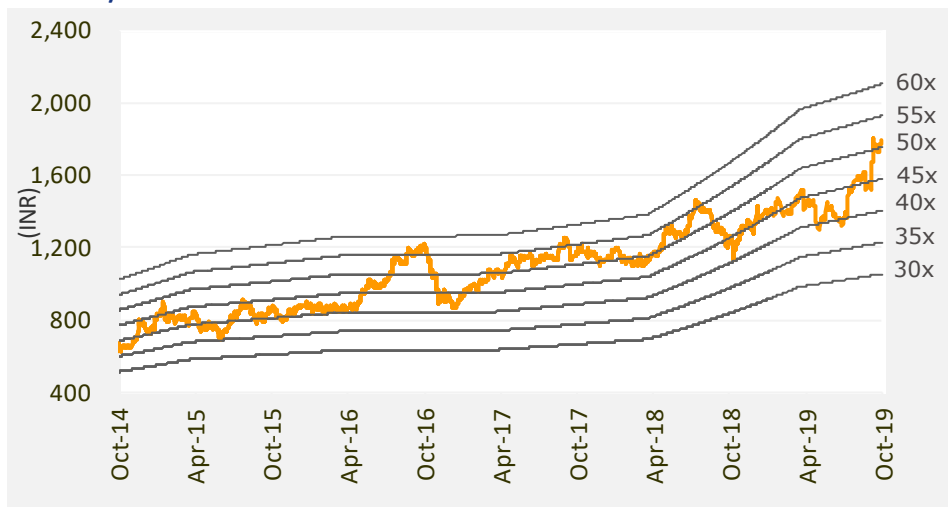
APL sharpened focus on other allied segments such as waterproofing. The entry in adhesives with bigger plans for home décor (Color Ideas, AP Homes) is an additional growth trigger.

The company's margin has benefited from benign raw material prices (monomers and TiO₂). With these raw materials being crude linked and crude being volatile, we believe, even if the inflationary pressure returns, APL has pricing power to deal with it.

We expect distribution synergies between the home décor segment and the existing paint distribution network to spur operating leverage. The GST rate cut has further triggered a shift from the unorganised towards organised. **Capacity expansion of 600,000KL bodes well for revenue growth.**

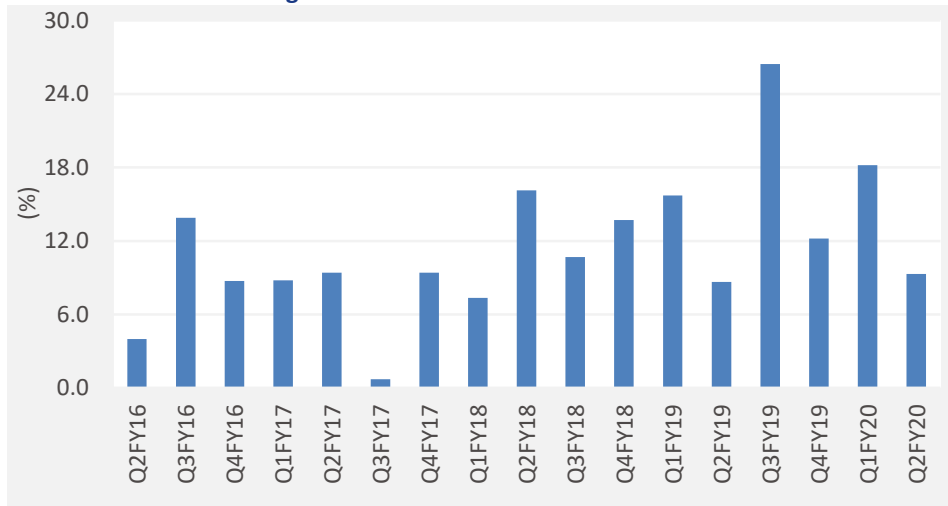
Rolling forward, our revised TP comes to INR2,050 (55x, 12-month forward PE). Maintain **'BUY/SO'**. The stock is trading at 47.8x FY21E EPS.

Chart 1: P/E band

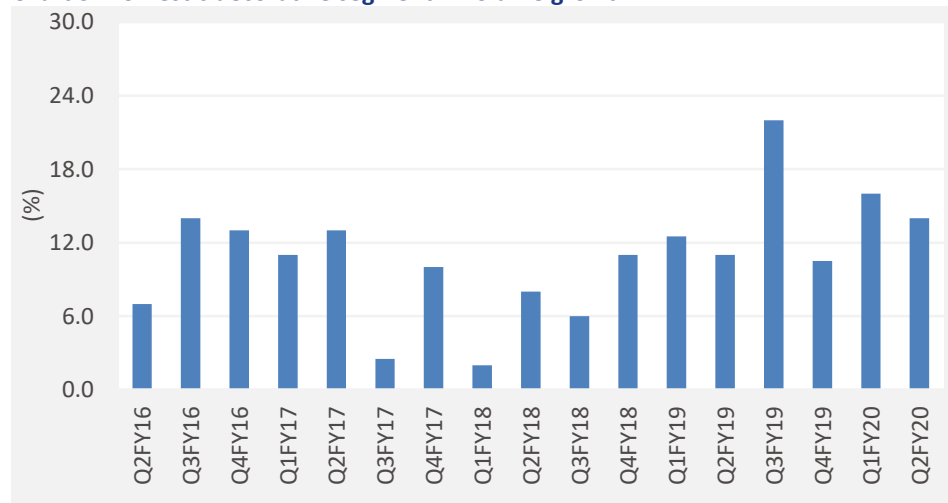
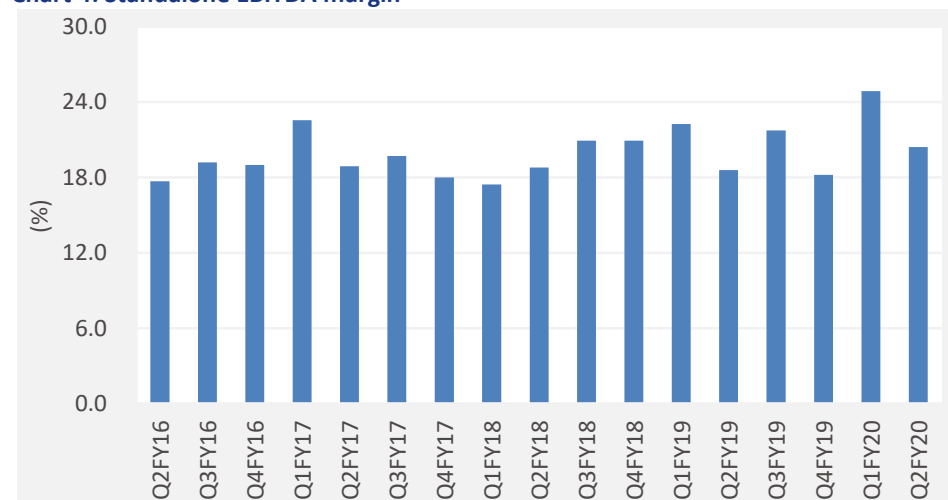


Source: Company, Edelweiss research

Chart 2: Standalone sales growth



Source: Company

Chart 3: Domestic decorative segment – Volume growth**Chart 4: Standalone EBITDA margin**

Source: Company



Table 4: A snapshot of standalone business

(INR mn)

Year to March	Q2FY20	Q2FY19	% Change	Q1FY20	% Change
Net sales	42,780	39,142	9.3	43,802	(2.3)
COGS	24,223	23,169	4.6	24,180	0.2
Gross Profit	18,557	15,973	16.2	19,622	(5.4)
Staff costs	2,532	2,148	17.9	2,475	2.3
Other expenditure	7,290	6,052	20.5	6,248	16.7
Total expenditure	9,823	8,200	19.8	8,723	12.6
EBITDA	8,735	7,773	12.4	10,899	(19.9)
Depreciation	1,743	1,234	41.3	1,698	2.7
EBIT	6,991	6,539	6.9	9,201	(24.0)
Interest	202	189	7.3	193	5.1
Other income	1,141	732	55.9	855	33.5
PBT	7,930	7,083	12.0	9,863	(19.6)
Exceptional item	0	0	NA	0	NA
Tax expenses	25	2,276	(98.9)	3,339	(99.2)
Net profit	7,905	4,806	64.5	6,525	21.2
As % of net revenues					
COGS	56.6	59.2	(257)	55.2	142
Staff expenses	5.9	5.5	43	5.7	27
Others	17.0	15.5	158	14.3	278
EBITDA	20.4	19.9	56	24.9	(446)
PAT	18.5	12.3	620	14.9	358
Tax rate	0.3	32.1	(3,182)	33.8	(3,353)

Table 5: Pricing summary

Date	Price hike
Sep-19	(0.8)
May-19	(0.4)
Dec-18	1.7
Oct-18	2.4
May-18	1.9
Mar-18	1.4
May-17	2.7
Mar-17	2.9
Mar-16	(2.0)
Mar-15	(1.9)
Jun-14	1.2
May-14	1.0

Table 6: Cash flow statement

Year to March	30-Sep-19	30-Sep-18	% YoY
Operating profit before working capital changes	22,135	18,597	19.0
Less: Changes in WC	4,874	5,493	(11.3)
Less: Direct taxes paid	4,838	3,314	46.0
Operating cash flow	12,423	9,790	26.9
Financing cash flow	(12,723)	(6,153)	106.8
Investing cash flow	(3,903)	(5,744)	(32.1)
Change in cash	(4,203)	(2,107)	99.5

Source: Company

**Table 7: Balance sheet**

INR mn	30-Sep-19	31-Mar-19
Sources of funds		
Share capital	959	959
Reserves and surplus	99,749	93,746
Shareholders fund	100,708	94,706
Minority Interest	3,798	3,613
Long term borrowings	6,037	5,607
Deferred tax liability (net)	4,141	5,433
Other long term liabilities	48	66
Long term provisions	1,589	1,556
Non-current liabilities	11,815	12,662
Short term borrowings	4,590	7,479
Trade payables	25,746	23,943
Other current liabilities	17,514	19,617
Short term provisions	607	762
Current liabilities	48,458	51,801
Total sources of funds	164,779	162,781
Uses of funds		
Fixed assets	58,048	59,165
Capital work in progress	1,716	2,097
Other intangible asset	2,612	2,737
Goodwill on consolidation	3,181	3,213
Non-current investments	13,972	13,941
Long term loans & advances	2,640	3,115
Deferred tax assets (net)	250	293
Other non current asset	2,208	2,101
Total non-current assets	84,627	86,661
Current investments	7,094	11,745
Inventories	35,358	31,499
Trade receivables	20,158	19,073
Cash and cash equivalents	5,205	4,449
Short term loans and advances	8,579	5,416
Other current assets	3,759	3,939
Total current assets	80,152	76,120
Total uses of funds	164,779	162,781

Source: Company



Financial snapshot

(INR mn)

Year to March	Q2FY20	Q2FY19	% change	Q1FY20	% change	YTD20	FY20E	FY21E
Net revenues	50,507	46,155	9.4	51,047	(1.1)	101,554	221,508	254,447
Raw material costs	29,072	27,752	4.8	28,767	1.1	57,839	128,806	147,847
Employee expenses	3,476	2,988	16.3	3,399	2.3	6,875	14,109	15,973
Other expenses	8,411	6,968	20.7	7,302	15.2	15,713	32,849	37,507
Total expenditure	40,958	37,708	8.6	39,468	3.8	80,426	175,764	201,327
EBITDA	9,548	8,447	13.0	11,579	(17.5)	21,128	45,744	53,121
Depreciation	1,972	1,436	37.3	1,918	2.8	3,889	7,924	8,246
EBIT	7,577	7,011	8.1	9,662	(21.6)	17,238	37,820	44,875
Interest	259	257	0.8	267	(2.7)	526	950	1,136
Other income	1,052	649	62.1	735	43.0	1,787	2,638	3,357
Add: Prior period items								
Add: Exceptional items								
Profit before tax	8,369	7,402	13.1	10,131	(17.4)	18,499	39,508	47,096
Provision for taxes	72	2,425	(97.0)	3,511	(97.9)	3,583	8,527	11,868
Minority interest	154	80	92.7	122	26.2	(276)	(465)	(528)
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	8,450	5,057	67.1	6,742	25.3	15,192	31,446	35,756
Adjusted Profit	8,450	5,057	67.1	6,742	25.3	15,192	31,446	35,756
Diluted shares (mn)	959	959		959		959	959	959
Adjusted Diluted EPS	8.8	5.3	67.1	7.0	25.3	15.8	32.8	37.3
As % of net revenues	-	-		-		-	1	1
COGS	57.6	60.1		56.4		57.0	58.1	58.1
Employee cost	6.9	6.5		6.7		6.8	6.4	6.3
Other expenses	16.7	15.1		14.3		15.5	14.8	14.7
EBITDA	18.9	18.3		22.7		20.8	20.7	20.9
EBIT	15.0	15.2		18.9		17.0	17.1	17.6
PBT	16.6	16.0		19.8		18.2	17.8	18.5
Adjusted net profit	17.0	11.1		13.4		14.7	14.0	13.8
Tax rate	0.9	32.8		34.7		19.4	21.6	25.2



Company Description

APL is the largest paints company in India and figures among the top 10 players in the world. The company has 25 manufacturing plants in 17 countries, serving consumers in 65 countries globally. The decorative segment accounts for almost 80% of the overall paints market. Paints sales in domestic and international markets contributed 81% and 13%, respectively, to the company's consolidated revenue; chemical sales accounted for the balance. Among APL's international businesses, Asia contributes the lion's share at 49% to revenue, Africa and Middle East contributes 21% and 24% respectively.

Investment Theme

The paints industry is expected to post robust volume growth led by strong repainting demand and from construction. Growth in the repainting segment, accounting for about 90% of decorative demand, is on account of good demand in rural and small towns. Further, anticipated growth in construction activity over the next five years creates opportunity for fresh painting. APL is expected to grow ahead of the market on account of its pricing strategy at the lower end, higher growth in premium products, brand equity and distribution strength. However, moderation in real estate and auto segments can act as barrier.

Key Risks

A slowdown in the economy is the biggest risk for the paints industry, as about 75% of demand for decorative paints arises from repainting, which, in turn, depends heavily on the country's economic condition.

A rise in crude oil price and INR depreciation could hurt APL's margin as crude derivatives account for majority of APL's input costs.



Financial Statements

Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Sales assumptions				
Sales growth-paints std	(3.8)	13.1	15.0	-
Volume growth-standalone	7.0	13.5	13.0	13.0
COGS as % of sales (Con)	57.6	58.6	58.1	58.1
COGS as % of sales (std)	56.4	57.4	58.2	57.9
Staff cost (% of sales)	6.6	6.6	6.4	6.3
Std Staff cost (% sales)	3.9	4.2	4.0	3.9
Con A&P (% of sales)	3.9	4.1	3.8	3.7
Dom A&P (% of sales)	3.9	4.2	4.0	3.9
Financial assumptions				
Tax rate (Consol)	34.4	33.6	25.2	25.2
Capex (INR mn)	18,054	13,609	13,700	7,500
Debtor days	35	34	32	32
Inventory days	100	93	90	90
Payable days	77	73	70	70
Cash conversion cycle	57	55	52	52
Dep. (% gross block)	8.9	7.6	10.4	9.5

Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	168,246	193,415	221,508	254,447
Materials costs	96,912	113,423	128,806	147,847
Employee costs	11,155	12,700	14,109	15,973
Ad. & sales costs	6,627	7,964	8,429	9,521
Other Expenses	21,576	24,082	24,420	27,985
EBITDA	31,976	35,245	45,744	53,121
Depreciation	3,605	4,307	7,924	8,246
EBIT	28,371	30,939	37,820	44,875
Less: Interest Expense	351	510	950	1,136
Add: Other income	2,206.19	2,270.5	2,637.75	3,356.78
Profit Before Tax	30,227	32,699	39,508	47,096
Less: Provision for Tax	10,410	10,988	8,527	11,868
Less: Minority Interest	(458)	(408)	(465)	(528)
Reported Profit	20,975	22,119	31,446	35,756
Exceptional Items	700	-	-	-
Adjusted Profit	20,275	22,119	31,446	35,756
Shares o /s (mn)	959	959	959	959
Adjusted Basic EPS	21.1	23.1	32.8	37.3
Diluted shares o/s (mn)	959	959	959	959
Adjusted Diluted EPS	21.1	23.1	32.8	37.3
Adjusted Cash EPS	24.9	27.5	41.0	45.9
Dividend per share (DPS)	9.9	10.5	13.8	15.7
Dividend Payout Ratio(%)	53.6	54.8	50.6	50.6

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	57.6	58.6	58.1	58.1
Staff costs	6.6	6.6	6.4	6.3
Ad. & sales costs	3.9	4.1	3.8	3.7
Other expenses	12.8	12.5	11.0	11.0
EBITDA margins	19.0	18.2	20.7	20.9
EBIT margins	16.9	16.0	17.1	17.6
Net Profit margins	11.8	11.2	14.0	13.8

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	10.0	15.0	14.5	14.9
EBITDA	5.8	10.2	29.8	16.1
PBT	3.7	8.2	20.8	19.2
Adjusted Profit	0.6	9.1	42.2	13.7
EPS	0.6	9.1	42.2	13.7



Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	959	959	959	959	
Reserves & Surplus	83,143	94,238	109,331	127,455	
Shareholders' funds	84,102	95,197	110,290	128,414	
Minority Interest	3,277	3,631	3,166	2,637	
Long term borrowings	283	195	395	389	
Short term borrowings	5,051	6,075	12,325	12,131	
Total Borrowings	5,334	6,270	12,720	12,520	
Long Term Liabilities	1,487	1,625	1,625	1,625	
Def. Tax Liability (net)	3,975	5,397	5,397	5,397	
Sources of funds	98,175	112,119	133,198	150,594	
Gross Block	43,781	69,345	83,045	90,545	
Net Block	31,185	52,562	58,338	57,592	
Capital work in progress	14,051	2,097	3,000	3,000	
Intangible Assets	6,138	5,950	5,950	5,950	
Total Fixed Assets	51,374	60,609	67,288	66,542	
Non current investments	10,840	13,952	13,952	13,952	
Cash and Equivalents	14,613	16,194	30,805	45,015	
Inventories	26,583	31,499	31,760	36,455	
Sundry Debtors	17,371	19,134	19,420	22,308	
Loans & Advances	943	942	942	942	
Other Current Assets	15,911	14,004	14,004	14,004	
Current Assets (ex cash)	60,808	65,579	66,126	73,709	
Trade payable	21,600	23,943	24,702	28,354	
Other Current Liab	17,860	20,270	20,270	20,270	
Total Current Liab	39,460	44,214	44,973	48,624	
Net Curr Assets-ex cash	21,348	21,365	21,154	25,085	
Uses of funds	98,175	112,119	133,198	150,594	
BVPS (INR)	87.7	99.2	115.0	133.9	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	20,975	22,119	31,446	35,756	
Add: Depreciation	3,605	4,307	7,924	8,246	
Interest (Net of Tax)	230	339	745	850	
Others	(1,037)	(237)	(260)	(242)	
Less: Changes in WC	847	4,335	(212)	3,931	
Operating cash flow	22,926	22,192	40,067	40,678	
Less: Capex	18,054	13,609	13,700	7,500	
Free Cash Flow	4,872	8,583	26,367	33,178	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Asian Paints	24,045	54.3	47.8	37.0	31.6	29.2	28.8
Berger Paints	6,552	68.0	58.0	40.4	34.9	25.6	25.9
Hindustan Unilever	64,846	62.5	52.0	43.5	37.8	91.3	39.5
Pidilite Industries	9,658	56.5	48.1	39.0	33.1	25.6	25.5
Median	-	59.5	50.0	39.7	34.0	27.4	27.3
AVERAGE	-	60.3	51.5	40.0	34.3	42.9	29.9

Source: Edelweiss research

Cash flow metrics		FY18	FY19	FY20E	FY21E
Year to March					
Operating cash flow		22,926	22,192	40,067	40,678
Financing cash flow		(11,165)	(10,681)	(10,402)	(19,418)
Investing cash flow		(23,167)	(9,320)	(14,603)	(7,500)
Net cash Flow		(11,406)	2,192	15,061	13,760
Capex		(18,054)	(13,609)	(13,700)	(7,500)
Dividend paid		(11,246)	(12,127)	(15,902)	(18,082)

Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	23.7	23.3	29.2	28.8
ROACE (%)	34.3	33.6	35.0	35.8
Inventory Days	100	93	90	90
Debtors Days	35	34	32	32
Payable Days	77	73	70	70
Cash Conversion Cycle	57	55	52	52
Current Ratio	1.9	1.8	2.2	2.4
Gross Debt/EBITDA	0.2	0.2	0.3	0.2
Gross Debt/Equity	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	0.1	0.1	0.1	0.1
Net Debt/Equity	(0.1)	(0.1)	(0.2)	(0.2)
Interest Coverage Ratio	80.9	60.7	39.8	39.5

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	1.8	1.8	1.8	1.8
Fixed Asset Turnover	4.8	4.0	3.6	4.0
Equity Turnover	2.0	2.1	2.1	2.1

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	21.1	23.1	32.8	37.3
Y-o-Y growth (%)	0.6	9.1	42.2	13.7
Adjusted Cash EPS (INR)	24.9	27.5	41.0	45.9
Diluted P/E (x)	84.2	77.2	54.3	47.8
P/B (x)	20.3	17.9	15.5	13.3
EV / Sales (x)	10.1	8.8	7.6	6.6
EV / EBITDA (x)	53.2	48.3	37.0	31.6
Dividend Yield (%)	0.6	0.6	0.8	0.9



Additional Data

Directors Data

Ashwin Dani	Non-executive Chairman	Mr. Manish Choksi	Non-Executive Vice Chairman
Mr. K B S Anand	Managing Director & CEO	Mr. Abhay Vakil	Non-Executive Director
Mr. Malav Dani	Non-Executive Director	Ms. Amrita Vakil	Non-Executive Director
Mr. Deepak Satwalekar	Independent Director	Dr. S Sivaram	Independent Director
Mr. M K Sharma	Independent Director	Ms. Vibha Paul Rishi	Independent Director
Mr R Seshasayee	Independent Director	Mr. Jigish Choksi	Additional/Non – Executive Director
Ms. Pallavi Shroff	Independent Director	Mr. Suresh Narayanan	Independent Director

Auditors - Deloitte Haskin & Sells

**as per last annual report*

Top 10 holdings

	Perc. Holding		Perc. Holding
Teesta Retail	4.9	Life Insurance Corp Of India	2.9
Blackrock	1.4	Sbi Funds Management	1.3
Vanguard Group	1.1	Icici Prudential Asset Management	0.8
Axis Asset Management	0.8	Jpmorgan Chase	0.7
Standard Life Aberdeen	0.4	Motilal Oswal Asset Management	0.4

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
26 Mar 2019	Advaita Charitable Trust	Buy	50724.00
26 Mar 2019	Pious Charitable Trust	Buy	50724.00
26 Mar 2019	Ashwin-Ina Charitable Trust	Buy	101448.00
26 Mar 2019	Dani Charitable Foundation	Sell	253620.00
26 Mar 2019	Param-Arth Charitable Trust	Buy	50724.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Consumer Care	HOLD	SP	H
Berger Paints	BUY	SP	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	HOLD	SP	H	Future Consumer	BUY	SP	M
GlaxoSmithKline Consumer Healthcare	BUY	SP	M	Godrej Consumer	BUY	SO	H
Hindustan Unilever	BUY	SO	L	ITC	BUY	SP	M
Marico	BUY	SP	M	Nestle Ltd	HOLD	SP	L
Pidilite Industries	BUY	SP	M	United Spirits	HOLD	SP	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Consumer Care, Berger Paints, Britannia Industries, Colgate, Dabur, Future Consumer, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
22-Oct-19	Bajaj Consumer Care	Slowdown dents volumes; <i>Result Update</i>	264	Hold
14-Oct-19	Hindustan Unilever	Leader flexes muscle; <i>Result Update</i>	2,014	Buy
09-Oct-19	Consumer Goods	Down, but not out; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

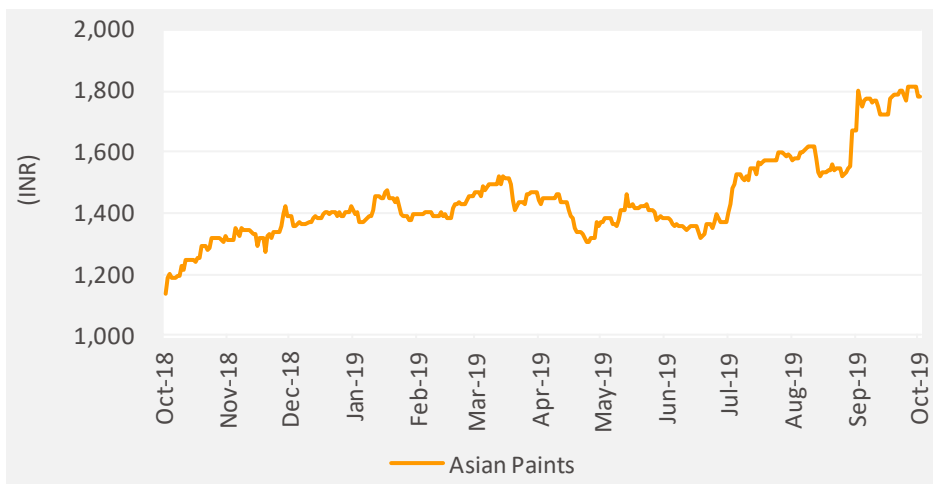
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart





DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No.INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. 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 ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall 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. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, 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 subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.



ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities 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 Edelweiss Securities 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, which is not the Major Institutional Investor.



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, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved