

# Asian Paints

BSE SENSEX

28,024

S&amp;P CNX

8,615

**CMP: INR1,062 TP: INR970(-9%)**
**Neutral**

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Bloomberg	APNT IN
Equity Shares (m)	959.2
M.Cap.(INRb)/(USDb)	1018.5 / 15.6
52-Week Range (INR)	1080 / 779
1, 6, 12 Rel. Per (%)	1/9/23
12M Avg Val (INR M)	1040
Free float (%)	47.2

## Financials & Valuations (INR b)

Y/E Mar	2016	2018E	2018E
Net Sales	153.3	160.5	187.8
EBITDA	26.1	31.2	36.1
NP	17.8	21.4	24.8
EPS (INR)	18.5	22.3	25.9
EPS Gr. (%)	25.0	20.1	16.3
BV/Sh. (INR)	58.4	68.3	80.7
RoE (%)	34.4	35.1	34.8
RoCE (%)	30.8	32.1	31.8
P/E (x)	57.3	47.7	41.0
P/BV (x)	18.2	15.6	13.2

Estimate change	+8% ↑
TP change	+13% ↑
Rating change	↔

## Healthy growth, stellar margin performance

- **Asian Paints (APNT)** posted 1Q17 consol. sales growth of 9.1% YoY (est.11.5%) to INR36.4b (IndAS) with estimated 11% volume growth (management mentioned lower double digit growth) in the domestic decorative paints business despite base of 12% volume growth in 1Q16. Consol. EBITDA/Adj. PAT grew 20.9% (est.14.6%)/ 17.9% YoY (est.14.9%) to INR8.2b and INR5.3b resp.
- **Domestic Decorative paints business posted est. 11% volume growth** aided by recovery in demand, reducing repainting cycles and continued strong rural growth ahead of urban growth led by increase in permanent dwellings, low base and expanding distribution reach.
- **Gross margin expanded 450bp YoY** (est. 200bp YoY) to 47.2% led by benign input costs. Despite higher other expenses (up 180bp YoY) and employee expenses (up 50bp YoY) EBITDA margin expanded 220 bp YoY (est. 50 bp YoY improvement) to 22.6%. Thus EBITDA posted growth of 20.9% YoY (est. 14.6%) to INR8.2b. High depreciation (up 29% YoY) and higher tax rate (up 170 bp YoY to 32.5) led to PAT growth of 17.9% YoY (est. 14.9%) to INR5.3b. Imputed sub. Sales, EBITDA and Adj. PAT grew 10.5%, 29.1% and 29.4% resp.
- **Concall takeaways:** (a) Demand uniformly good all across the country. There has been no major shift from unorganized to organized recently which makes the double digit domestic decorative volume growth highly creditable; (b) Healthy demand is also being witnessed in kitchen and batch fittings as well as industrial and auto paints.
- **Valuation and view:** We upgrade estimates by 8% due to possible pick-up in demand in 2HFY17 and sustained gross margin improvements. APNT enjoys strong position in the Deco Paints industry, backed by unparalleled supply chain leadership. However, steep stock price increase of 19% in last 3 months and fair valuations prevents us from being more constructive. Maintain Neutral with a revised target price of INR970 (36x June'2018).

## Quarterly Performance (Consolidated)

Y/E March	FY16		FY17				FY16		FY17		(INR Million)	
	1Q	4Q	1Q	2QE	3QE	4QE			1QE		1QE	Var. (%)
Volume Growth % *	12.0	13.0	11.0	16.0	15.0	17.0	11.8	15.5	13.0			
Net Sales	33,343	36,698	36,374	39,126	42,843	42,114	153,307	160,457	39,894			-8.8%
Change (%)			9.1	14.0	13.5	14.8	9.5	4.7	11.5			
Gross Profit	14,254	16,643	17,183	15,763	17,441	17,794	71,251	68,181	18,994			-9.5%
Gross Margin (%)	42.8	45.4	47.2	40.3	40.7	42.3	46.5	42.5	47.6			
Operating Expenses	7,468	9,669	8,981	9,047	9,430	9,556	45,199	37,014	11,680			
% of Sales	22.4	26.3	24.7	23.1	22.0	22.7	29.5	23.1	29.3			
EBITDA	6,786	6,974	8,203	6,717	8,010	8,238	26,052	31,167	7,314			12.2%
Margin (%)	20.4	19.0	22.6	17.2	18.7	19.6	17.0	19.4	18.3			
Change (%)			20.9	17.4	7.7	18.1	26.6	19.6	14.6			
Interest	89	149	64	93	77	183	405	417	90			
Depreciation	663	721	855	794	812	781	2,880	3,242	776			
Other Income	610	466	719	1,276	1,254	1,132	4,041	4,380	1,308			
PBT	6,643	6,570	8,003	7,105	8,375	8,406	26,809	31,889	7,756			3.2%
Tax	2,047	2,279	2,603	2,203	2,596	2,484	8,491	9,886	2,404			
Effective Tax Rate (%)	30.8	34.7	32.5	31.0	31.0	29.5	31.7	31.0	31.0			
PAT before Minority	4,596	4,291	5,400	4,903	5,779	5,922	18,317	22,004	5,351			
Minority Interest	59	117	50	156	117	323	531	646	122			
Adjusted PAT	4,537	4,174	5,351	4,747	5,662	5,599	17,787	21,358	5,229			2.3%

E: MOSL Estimates

Krishnan Sambamoorthy (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 6129 1545

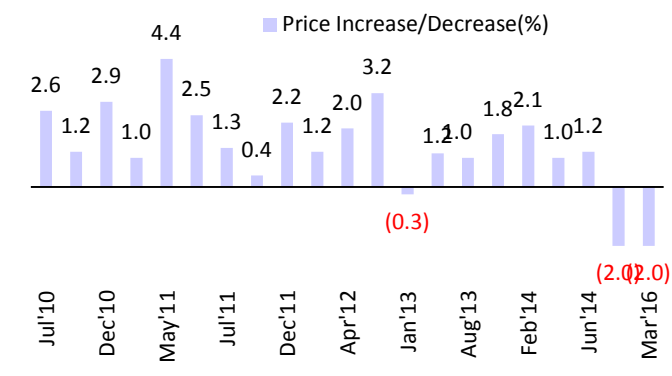
Vishal Punmiya (Vishal.Punmiya@MotilalOswal.com); +91 22 6129 1547

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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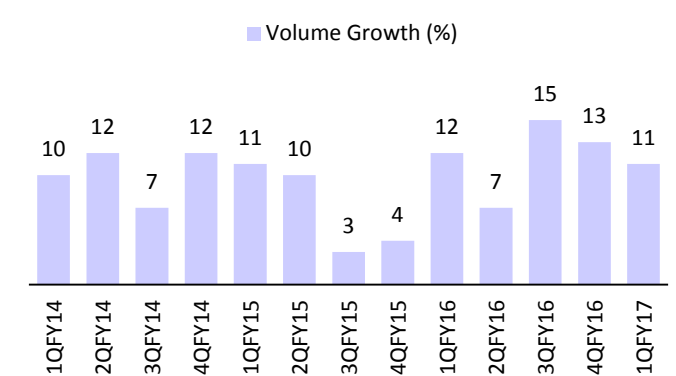
## Key quarterly charts

Exhibit 1: Last price action taken in 4QFY16



Source: Company, MOSL

Exhibit 2: Volume growth for decorative domestic business is estimated at 11%



Source: Company, MOSL

Exhibit 3: Healthy margin improvement in standalone business

### Quarterly Performance (Standalone)

Y/E March	FY16 1Q	FY17 1Q
<b>Net Sales</b>	<b>27,429</b>	<b>29,837</b>
Change (%)		9
Raw Material/PM	15,530	15,376
Gross Profit	11,899	14,462
Gross Margin (%)	43.4	48.5
<b>Operating Expenses</b>	<b>5,811</b>	<b>7,160</b>
% of Sales	21.2	24.0
<b>EBITDA</b>	<b>6,088</b>	<b>7,301</b>
Margin (%)	22.2	24.5
Change (%)		19.9
Interest	28	42
Depreciation	566	740
Other Income	671	788
<b>PBT</b>	<b>6,165</b>	<b>7,307</b>
Tax	1,890	2,295
Effective Tax Rate (%)	30.6	31.4
<b>Adjusted PAT</b>	<b>4,275</b>	<b>5,012</b>
Change (%)		17.2

Source: Company, MOSL

### Concall Takeaways

#### Demand and outlook

- Domestic economy recovery seen, however trajectory is uneven.
- Decorative segment reported low double digit volume growth.
- There has been a recovery in demand in the last 3 quarters now for Asian Paints
- Demand uniformly good all across the country.
- There has been no major shift from unorganized to organized (whole industry is growing at healthy pace) which makes the double digit domestic decorative volume growth highly creditable especially given 12% volume growth in the base quarter.

- In fact the management stated that if GDP grows faster then pace of volume growth will quicken to high double digit volume growth witnessed in the latter part of the last decade.
- Monsoon progress is a bright spot and bodes well for rural demand.
- For Asian Paints rural growth continues to be consistently higher than urban growth because of lower base, increase in permanent dwellings and expanding reach of Asian Paints.
- Have seen good demand in all 3 key domestic consumer segments viz paints kitchen and bath fittings.
- Range and reach in kitchen and bath fittings expanding thereby aiding growth.
- Premiumization in paints continuing as it has been in the last decade.
- Good demand recovery seen for industrial, auto and powder coating as well.
- International business growth aided by healthy growth in Nepal.

### **Margins**

- Comfortable with these levels of margins. Will look at growth opportunity and work on pricing strategy along that. Management believes they are not sacrificing on growth currently despite sharp margin increases.

### **Depreciation increase**

- March 2016 commissioned third phase of Rohtak plant 400,000 kl from 200,000 kl earlier. Also expanded Ankleshwar and Kasna leading to higher depreciation YoY.

### **Ind AS impact on sales**

- Incentive to dealers and cash discount now deducted from sales.
- PPG AP Management control with PPG won't be added to sales now.
- AP PPG management control with AP so sales will be added.

### **New products and expansion**

- Every year add 2000-3000 retailers.
- Will continue to add 60-80 colour idea stores a year.
- Loctite is moving reasonably well. Localised supply as of now. As they roll out more, advertisement intensity will increase. The limited products launched so far expand India wide in the next 2 quarters.
- AP Homes Coimbatore experience has been good as has been the learning. Will update on expansion plans later.

### **Capex**

- INR 6 bn capex this year.
- Mysore and Vizag plant expansion 17.9 bn capex over 2 years.
- Indonesia plant- Have received approvals towards end of June quarter.
- For the new businesses no significant capex plans.

### **Other points**

- Labour is 60-70% of cost of painting 5 years ago around 50:50.
- No significant DIY demand improvement.

- Egypt, Ethiopia and Trinidad could have exchange related issues in the current year.
- Average painting cycle is now once in 4-5 years.
- The company is adding 2000-3000 retailers every year.

#### Valuation and View

- We upgrade estimates by 8% due to possible pick-up in demand in 2HFY17 and sustained gross margin improvements. APNT enjoys strong position in the Deco Paints industry, backed by unparalleled supply chain leadership.
- However, steep stock price increase of 19% in last 3 months and fair valuations prevents us from being more constructive. Maintain Neutral with a revised target price of INR970 (36x June'2018).

#### Exhibit 4: Upgrade estimates by 8% due to possible pick-up in demand in 2HFY17 and sustained gross margin improvements

INR m	New		Old		Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	160,457	187,832	174,566	204,349	-8.1%	-8.1%
EBITDA	31,167	36,081	29,910	33,302	4.2%	8.3%
PAT	21,358	24,844	20,603	22,926	3.7%	8.4%

Source: Company, MOSL

## Financials and Valuations

### Income Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Net Sales</b>	<b>77,223</b>	<b>95,983</b>	<b>108,744</b>	<b>125,816</b>	<b>140,053</b>	<b>153,307</b>	<b>160,457</b>	<b>187,832</b>
Change (%)	15.6	24.3	13.3	15.7	11.3	9.5	4.7	17.1
Raw Materials	44,746	57,770	64,130	73,407	79,715	82,056	92,276	109,414
<b>Gross Profit</b>	<b>32,477</b>	<b>38,213</b>	<b>44,614</b>	<b>52,409</b>	<b>60,339</b>	<b>71,251</b>	<b>68,181</b>	<b>78,418</b>
Margin (%)	42.1	39.8	41.0	41.7	43.1	46.5	42.5	41.7
Operating Expenses	19,196	23,465	27,936	33,762	39,759	45,199	37,014	42,337
<b>EBITDA</b>	<b>13,281</b>	<b>14,749</b>	<b>16,677</b>	<b>18,647</b>	<b>20,579</b>	<b>26,052</b>	<b>31,167</b>	<b>36,081</b>
Change (%)	8.2	11.1	13.1	11.8	10.4	26.6	19.6	15.8
Margin (%)	17.2	15.4	15.3	14.8	14.7	17.0	19.4	19.2
Depreciation	1,131	1,211	1,546	2,457	2,659	2,880	3,242	3,480
Int. and Fin. Charges	232	410	367	422	348	405	417	424
Other Income	680	1,413	1,788	2,674	3,472	4,041	4,380	4,663
<b>Profit before Taxes</b>	<b>12,597</b>	<b>14,541</b>	<b>16,552</b>	<b>18,442</b>	<b>21,045</b>	<b>26,809</b>	<b>31,889</b>	<b>36,840</b>
Change (%)	0.3	15.4	13.8	11.4	14.1	27.4	19.0	15.5
Margin (%)	16.3	15.1	15.2	14.7	15.0	17.5	19.9	19.6
Tax	3,502	4,274	4,364	5,378	6,576	8,095	9,407	10,868
Tax Rate (%)	30.0	29.8	29.9	31.0	30.9	31.7	31.0	31.0
<b>PBT Before Minority</b>	<b>8,813</b>	<b>10,206</b>	<b>11,595</b>	<b>12,727</b>	<b>14,549</b>	<b>18,317</b>	<b>22,004</b>	<b>25,420</b>
Minority Interest	381	319	456	440	322	531	646	576
<b>Adjusted PAT</b>	<b>8,432</b>	<b>9,887</b>	<b>11,139</b>	<b>12,288</b>	<b>14,227</b>	<b>17,787</b>	<b>21,358</b>	<b>24,844</b>
Change (%)	1.0	17.3	12.7	10.3	15.8	25.0	20.1	16.3
Margin (%)	10.9	10.3	10.2	9.8	10.2	11.6	13.3	13.2
Exceptional/Prior Period inc	0	0	0	-100	-276	-525	0	0
<b>Reported PAT</b>	<b>8,432</b>	<b>9,887</b>	<b>11,139</b>	<b>12,188</b>	<b>13,952</b>	<b>17,262</b>	<b>21,358</b>	<b>24,844</b>

Note: We have adjusted FY17 and FY18 P&L numbers for Ind AS Impact. Since Ind AS Balance Sheet has not been shared we have retained earlier numbers.

### Balance Sheet

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Share Capital	959	959	959	959	959	959	959	959
Reserves	20,915	26,526	32,884	39,433	46,465	55,094	64,532	76,470
<b>Net Worth</b>	<b>21,874</b>	<b>27,485</b>	<b>33,843</b>	<b>40,392</b>	<b>47,424</b>	<b>56,053</b>	<b>65,491</b>	<b>77,429</b>
Loans	2,334	3,411	2,510	2,492	4,182	3,256	2,706	2,156
Other Liability	979	1,063	1,638	1,970	1,909	2,277	2,771	3,342
Minority Interest	1,099	1,367	1,608	2,460	2,637	2,942	3,588	4,164
<b>Capital Employed</b>	<b>26,287</b>	<b>33,326</b>	<b>39,598</b>	<b>47,314</b>	<b>56,151</b>	<b>64,527</b>	<b>74,555</b>	<b>87,090</b>
Gross Block	19,878	21,043	33,851	36,621	38,664	49,128	53,128	59,128
Less: Accum. Depn.	7,151	8,453	9,884	12,419	14,522	17,074	20,316	23,795
<b>Net Fixed Assets</b>	<b>12,727</b>	<b>12,590</b>	<b>23,967</b>	<b>24,202</b>	<b>24,142</b>	<b>32,054</b>	<b>32,813</b>	<b>35,333</b>
Capital WIP	433	6,171	592	716	1,960	1,108	1,108	1,108
<b>Investments</b>	<b>4,290</b>	<b>3,547</b>	<b>2,957</b>	<b>14,236</b>	<b>15,878</b>	<b>20,982</b>	<b>25,178</b>	<b>30,214</b>
<b>Curr. Assets, L&amp;A</b>	<b>28,284</b>	<b>34,398</b>	<b>39,887</b>	<b>40,187</b>	<b>44,707</b>	<b>45,308</b>	<b>54,004</b>	<b>63,712</b>
Inventory	13,054	15,989	18,303	20,699	22,585	20,640	23,435	27,433
Account Receivables	5,731	7,813	9,809	11,103	11,821	12,483	14,348	16,796
Cash and Bank Balance	6,262	6,243	7,367	2,290	2,044	4,204	7,976	9,609
Others	3,237	4,354	4,408	6,095	8,257	7,981	8,245	9,874
<b>Curr. Liab. and Prov.</b>	<b>19,819</b>	<b>23,796</b>	<b>28,247</b>	<b>33,441</b>	<b>32,995</b>	<b>36,901</b>	<b>40,524</b>	<b>45,253</b>
Account Payables	10,874	12,625	14,416	17,457	15,488	15,901	16,433	19,485
Other Liabilities	5,277	6,722	8,438	9,298	9,914	12,124	14,102	14,128
Provisions	3,668	4,449	5,394	6,686	7,593	8,877	9,989	11,640
<b>Net Current Assets</b>	<b>8,465</b>	<b>10,602</b>	<b>11,639</b>	<b>6,746</b>	<b>11,712</b>	<b>8,407</b>	<b>13,480</b>	<b>18,459</b>
Goodwill on Cons.	372	415	442	1,414	2,458	1,977	1,977	1,977
<b>Application of Funds</b>	<b>26,287</b>	<b>33,326</b>	<b>39,598</b>	<b>47,313</b>	<b>56,151</b>	<b>64,527</b>	<b>74,555</b>	<b>87,090</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>8.8</b>	<b>10.3</b>	<b>11.6</b>	<b>12.8</b>	<b>14.8</b>	<b>18.5</b>	<b>22.3</b>	<b>25.9</b>
Cash EPS	10.0	11.6	13.2	15.4	17.6	21.5	25.6	29.5
BV/Share	22.8	28.7	35.3	42.1	49.4	58.4	68.3	80.7
DPS	3.7	4.6	5.4	6.2	7.3	9.0	11.7	13.5
Payout %	36.4	38.8	39.6	41.4	41.1	40.4	44.9	44.4

### Valuation (x)

P/E					71.6	57.3	47.7	41.0
Cash P/E					60.3	49.3	41.4	36.0
EV/Sales					7.2	6.5	6.2	5.2
EV/EBITDA					48.8	38.3	31.7	27.2
P/BV					21.5	18.2	15.6	13.2
Dividend Yield (%)					0.7	0.8	1.1	1.3

### Return Ratios (%)

RoE	43.3	40.1	36.3	33.1	32.4	34.4	35.1	34.8
RoCE	38.0	35.2	32.5	30.0	28.6	30.8	32.1	31.8
RoIC	48.1	46.9	40.3	29.4	25.7	28.4	30.9	31.7

### Working Capital Ratios

Debtor (Days)	27	30	33	32	31	30	33	33
Asset Turnover (x)	2.9	2.9	2.7	2.7	2.5	2.4	2.2	2.2

### Leverage Ratio

Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
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### Cash Flow Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
OP/(loss) before Tax	12,597	14,541	16,552	18,442	21,045	26,809	31,889	36,840
Depreciation	1,131	1,211	1,546	2,457	2,659	2,880	3,242	3,480
Net interest	-448	-1,004	-1,421	-2,252	-3,124	-3,636	-3,963	-4,239
Direct Taxes Paid	-3,502	-4,274	-4,364	-5,378	-6,576	-8,095	-9,407	-10,868
(Incr)/Decr in WC	-1,771	-2,156	87	-184	-5,212	5,466	-1,301	-3,346
<b>CF from Operations</b>	<b>8,007</b>	<b>8,318</b>	<b>12,400</b>	<b>13,086</b>	<b>8,791</b>	<b>23,423</b>	<b>20,459</b>	<b>21,866</b>
Incr in FA	-1,235	-6,903	-7,230	-2,894	-3,287	-9,612	-4,000	-6,000
Pur of Investments	1,951	742	591	-11,279	-1,642	-5,104	-4,196	-5,036
<b>CF from Invest.</b>	<b>717</b>	<b>-6,161</b>	<b>-6,639</b>	<b>-14,173</b>	<b>-4,930</b>	<b>-14,716</b>	<b>-8,196</b>	<b>-11,036</b>
Incr in Debt	42	1,077	-902	-18	1,690	-926	-550	-550
Dividend Paid	-3,571	-4,459	-5,155	-5,904	-6,981	-8,645	-11,223	-12,906
Int./Div. Received	680	1,413	1,788	2,674	3,472	4,041	4,380	4,663
Interest Paid	-232	-410	-367	-422	-348	-405	-417	-424
Others	-440	202	-2	-320	-1,942	-611	-681	18
<b>CF from Fin. Activity</b>	<b>-3,521</b>	<b>-2,177</b>	<b>-4,638</b>	<b>-3,990</b>	<b>-4,108</b>	<b>-6,546</b>	<b>-8,490</b>	<b>-9,199</b>
<b>Incr/Decr of Cash</b>	<b>5,204</b>	<b>-19</b>	<b>1,123</b>	<b>-5,077</b>	<b>-246</b>	<b>2,161</b>	<b>3,772</b>	<b>1,632</b>
Add: Opening Balance	1,058	6,262	6,243	7,367	2,290	2,044	4,204	7,976
<b>Closing Balance</b>	<b>6,262</b>	<b>6,243</b>	<b>7,367</b>	<b>2,290</b>	<b>2,044</b>	<b>4,205</b>	<b>7,977</b>	<b>9,609</b>

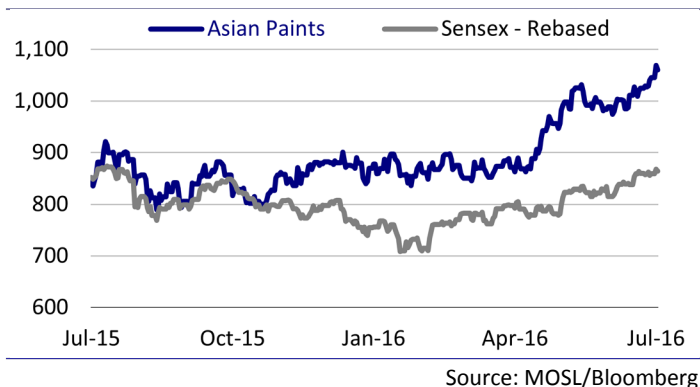
E: MOSL Estimates

## Corporate profile

### Company description

Asian Paints is India's leading paint manufacturer and marketer, with a dominant share in the decorative segment. AONT has operations in 19 countries with 26 paint manufacturing facilities, servicing consumers in over 65 countries. APNT has also forayed into the Home Improvement and Décor space in India with the acquisition of *Sleek* group and *Ess Ess* Bathroom Products.

**Exhibit 1: Sensex rebased**



**Exhibit 2: Shareholding pattern (%)**

	Jun-16	Mar-16	Jun-15
Promoter	52.8	52.8	52.8
DII	7.5	9.1	9.9
FII	18.8	18.0	17.0
Others	20.9	20.1	20.4

Note: FII Includes depository receipts

Source: Capitaline

**Exhibit 3: Top holders**

Holder Name	% Holding
LIC of India	5.1
Ojasvi Trading Private Limited	4.9

Source: Capitaline

**Exhibit 4: Top management**

Name	Designation
Ashwin Choksi	Chairman
Ashwin Dani	Vice Chairman
K B S Anand	Managing Director & CEO
Jayesh Merchant	CFO & Company Secretary

Source: Capitaline

**Exhibit 5: Directors**

Name	Name
Ashwin Choksi	Mahendra Shah*
Ashwin Dani	Deepak Satwalekar*
K B S Anand	Malav Dani
Mahendra Choksi	Amrita Vakil
S Sivaram*	M K Sharma*
S Ramadorai*	Abhay Vakil
Dipankar Basu*	Vibha Paul Rishi*

\*Independent

**Exhibit 6: Auditors**

Name	Type
BSR & Co LLP	Statutory
K R Chandratre	Secretarial Audit
RA & Co	Cost Auditor
Shah & Co	Statutory

Source: Capitaline

**Exhibit 7: MOSL forecast v/s consensus**

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	22.3	21.8	2.2
FY18	25.9	25.7	0.7

Source: Bloomberg



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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar  
[Varun.kumar@motilaloswal.com](mailto:Varun.kumar@motilaloswal.com)  
Contact : (+65) 68189232  
Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran  
[kadambari.balachandran@motilaloswal.com](mailto:kadambari.balachandran@motilaloswal.com)  
(+65) 68189233 / 65249115



## Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: [reports@motilaloswal.com](mailto:reports@motilaloswal.com)