

Asian Paints limited

Industry Consumers
Bloomberg APNT IN
BSE CODE 500820

Robust volume growth boosts EBITDA margins

RATING	HOLD
CMP	1407
Price Target	1443
Potential Upside	3%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1491/1090
Mkt Capital (Rs Cr)	134954
Free float (%)	47%
Avg. Vol 1M (,000)	1570
No. of Shares (Cr)	96
Promoters Pledged %	12%

Research Analyst

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3Q FY19 Results-

- Asian Paints reported a 24.3% YoY growth in revenue to Rs 5294 crores for Q3FY19, as against our expectation of Rs 4850 crores on the back on strong revenues in the domestic decorative business.
- Domestic Decorative business reported a strong volume growth of 19%(calculated) as against our expectation of 13% denoting high demand in the delayed Diwali quarter three. Also, two price hikes, one in October of 2.3% and another in December of about 1.7%, along with unwinding of product mix/rebate impact from previous quarter led to a improvement of ~8% QoQ in realisations.
- The company reported gross margins in-line with our expectations at 41% which continued to face pressure due to higher raw material costs. The strong volume growth in decorative business and an in-line performance in the International and Home improvement segments led to operational efficiency driving EBITDAM margins at 19.7% as against our expectation of 18.5%.
- PAT was a strong upbeat at Rs 636 crores indicating net profit margin of 12% and a growth of 11.7% YoY, against our estimate of Rs 539 crores.
- The expansion at Vizag, Andhra Pradesh is expected to come on stream in quarter 4.

View and Valuation

ASIANPAINT reported a stellar quarter with sales growing 24.3% and PAT growing 11.7% with EBITDA margins improving sequentially. The achieved sales growth is on the back of high double digit volume growth (~19% as per our calculations). However, the management in its commentary continues to remain cautious on the demand with the upcoming election season next years and the volatility in the global economy with regards to crude prices and currency movements. The international business continues to remain under pressure with business challenges, however in-lines to our expectation. We hold a similar view with management and have taken cautious revenue visibility until clear indications by the industry and thus, expect revenue CAGR of 13% over FY18-20. The improvement in gross margin with the price hikes taken brings the confidence of better gross margins going ahead. The sequential improvement in gross margins and operational efficiency seen in Q3 compels us to improve our EBITDA margins estimates of FY19/20 by 60bps respectively. We revise our FY19/20 EPS estimates by 7%/6% upwards on better sales and improving EBITDA margins factored post Q3. We continue to value ASIANPAINT at 52x FY20e EPS and arrive at a price target of Rs 1443 and maintain HOLD.

Key Risks to our rating and target

- Slowdown in demand
- Rising input costs, depreciating rupee and underperforming international economies

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	14271	15062	16825	19431	21591
EBITDA	2769	2986	3198	3700	4397
EBIT	2494	2652	2837	3263	3812
PAT	1798	1914	1969	2270	2661
EPS (Rs)	18	20	21	24	28
EPS growth (%)	25%	11%	5%	11%	17%
ROE (%)	29%	28%	25%	25%	25%
ROCE (%)	37%	33%	31%	32%	32%
BV	68	79	88	101	117
P/B (X)	12.8	13.5	12.8	13.9	12.0
P/E (x)	47.7	53.0	52.7	59.5	50.7

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3Q FY 19 Results Higher than estimates

Strong Sales Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	4,261	4,484	4,390	4,639	5,294	24.3%	14.1%	15,062	16,825	11.7%
Other Income	50	39	62	63	45	-9.0%	-28.6%	262	221	-15.9%
Total Revenue	4,310	4,523	4,452	4,702	5,339	23.9%	13.5%	15,324	17,045	11.2%
COGS	2,461	2,545	2,492	2,792	3,125	27.0%	11.9%	8,329	9,691	16.4%
Gross Margin	42%	43%	43%	40%	41%	-1.3%	1.2%	45%	42%	-2.3%
Employee Cost	271	276	306	307	323	19.0%	5.0%	1,034	1,115	7.9%
Other Expenses	637	823	717	755	803	26.1%	6.4%	2,713	2,820	4.0%
EBITDA	891	840	874	784	1,043	17.0%	33.0%	2,986	3,198	7.1%
EBITDA Mar.	21%	19%	20%	17%	20%	-1.2%	2.8%	20%	19%	-0.8%
Depreciation	90	91	91	95	115	28.8%	21.8%	335	360	7.7%
EBIT	802	748	784	689	928	15.7%	34.6%	2,652	2,837	7.0%
Interest	9	9	9	12	15	60.6%	22.0%	30	35	16.9%
PBT	842	779	837	741	958	13.8%	29.4%	2,884	3,023	4.8%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	291	288	277	243	326	12.0%	34.5%	943	1,041	10.4%
PAT from	-	-	-	-	-	0%	0.0%	31	71	131.1%
Share of	17	5	11	8	15	-6.7%	91.3%	50	46	-7.7%
Minority Int	2	(22)	(23)	(13)	(12)	-680%	-12.8%	(77)	(59)	-23.7%
PAT	569	474	549	493	636	11.7%	29.0%	1,939	2,039	5.1%
PAT Margin	13%	11%	12%	11%	12%	-1.4%	1.4%	13%	12%	-0.8%

Robust Sales Value growth on the back on higher decorative volumes

Asian Paints reported a 24.3% YoY growth in revenue to Rs 5294 crores for Q3FY19, as against our expectation of Rs 4850 crores on the back on strong revenues in the domestic decorative business. Domestic Decorative business reported a strong volume growth of 19%(calculated) as against our expectation of 13% denoting high demand in the delayed Diwali quarter three. The value growth was further helped by ~8% QoQ improvement in realisations. The company has taken two price hikes, one in October of 2.3% and another in December of about 1.7%, in Quarter three. Apart from the price hikes, higher realisations were achieved with the unwinding rebates giving to dealers in Q2 and better product mix relatively.

The revenue growth of 10% YoY in the international and industrial business was in line with our expectations. The management continued to guide that the challenging business conditions have affected its key units in Egypt, Bangladesh and Sri-Lanka. Though a bit of a pick-up was seen in Ethiopia with the unit able to secure forex for imports, the future outlook needs to be seen with the challenges continuing. The progress in Indonesia continues as per planned and the business was not much affected to natural troubles. The automotive JV (AP-PPG) witnessed good growth in the general industrial segment; however, the auto OEM segment continues to witness subdued growth with the ongoing sectorial demand slowdown. The Industrial Coatings JV (AP-PPG) continued to grow well led by good performance in the Protective coatings – dealer segment and the Powder segment. The lag effect on margins continues to be pressure in inflationary scenario.

Home Improvement - Kitchen business under Sleek and the Bath business under Ess Ess, continued to do well with both growing at 35% and 11% respectively in revenue terms.

Reporting lowest Gross margins and EBITDA margins since FY16

The company reported gross margins in-line with our expectations at 41% which continued to face pressure due to higher raw material costs in the highly volatile crude oil prices scenario and depreciating currency.

EBITDA margins came in higher at 19.7% as against our expectation of 18.5%. The outbeat is led by lower employee costs and other expenses as % of sales. This can be attributed to the operational efficiency driven by robust sales volume growth witnessed in domestic decorative business.

PAT margin at 12%

The company reported PAT of Rs 636 crores indicating PAT margin of 12% against estimated PAT margin of 11.1%.

Concall Highlights

Economic environment

- Increased volatility and challenging business conditions marked the quarter gone by.
- On the domestic macro front, growth trends still remain uncertain and the volatility in crude prices and exchange rates has only added to the uncertainty.

Decorative business

- The decorative business registered high double-digit volume growth in the third quarter and delivered strong performance across regions.
- With continued input cost pressures due to fall in rupee as well as increase in raw material prices, we have taken 2 price increases in the third quarter – 2.35% increase from Oct'2018 and another 1.7% increase from Dec'2018, to recover gross margins to an extent. The company would have liked to take further more price hikes but restrained itself due to market scenario. Fortunately the fall in crude prices in later half of quarter helped in achieving better margins.
- The current capacity utilization is around 80%.
- Added around 3000 dealers this year and have a total of 60k-65k dealers.

Industrial and International business

- In the industrial business, the Automotive coatings JV (PPG-AP), witnessed good growth in the General Industrial segment. However the Auto OEM segment witnessed subdued growth on the back of fall in production across auto OEMs. The Industrial Coatings JV (AP-PPG) continued to grow well led by good performance in the Protective coatings – dealer segment and the Powder segment. Both the businesses continued to face pressure from rising raw material prices and the price increases implemented in the market have not been enough to recover the margins fully.
- In the international portfolio, major units like Egypt, Bangladesh and Sri Lanka continued to face challenging business conditions. In Ethiopia, the third quarter saw a bit of pick-up as the unit was able to secure forex for its imports. The greenfield operations in Indonesia continued to progress on its planned trajectory.
- The challenge in the margins in International business is because it is difficult to take price hikes in a market where they are not market leader, especially in an inflationary scenario where the currencies are depreciating.
- There are no incremental pressures faced in the international market.
- The pass-through is difficult to auto players as they are themselves facing pressures in current market scenario.
- In Indonesia business – added three more distributors and the network is expanding.

Home Improvement Business

- Both the businesses in the Home improvement space continue to scale up at the planned levels with expansion in network and enhancement in the product portfolio.
- ESS bath fittings growth was marginally lower than expected.

Other Key updates

- The first phase of the plant at Vizag, Andhra Pradesh is also set to be commissioned in this quarter. The total capex plan for the standalone operations for the current year is about Rs. 1,000 crores including spends of about Rs. 800 crores on the two new plants.
- Next year, the figure of capex would be much lower.
- Depreciation was higher due to commission of the new plant at Mysuru. Could expect similar rise with the Vizag plant coming in Q4 and then this run-rate should continue.
- Tax rate: Mysuru tax benefit, procedures are in process, there is an industry loan benefit and so it would be more of a balance sheet item. Vizag is a more of Maharashtra type tax benefit which will accrue when they start hitting the market, maybe later part of year or next year, and it's more of refund subsidy and it will be reflected in other income.

Going Forward

- Company will need to monitor the demand conditions which would continue to remain uncertain given the upcoming busy election season.
- In the International markets, difficult business conditions in some of the key units continue to be a cause of concern.

Exhibit: Sales and Gross Margin %

Sales grew 24% YoY with price hikes helping gross margins

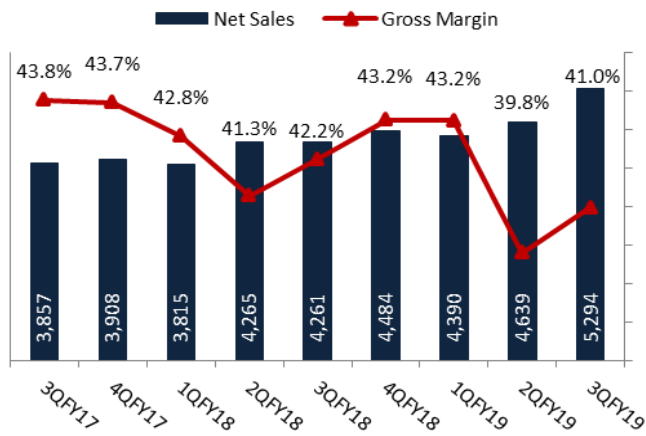


Exhibit: EBITDA and EBITDA margin %

EBITDA margins came higher on operational efficiency

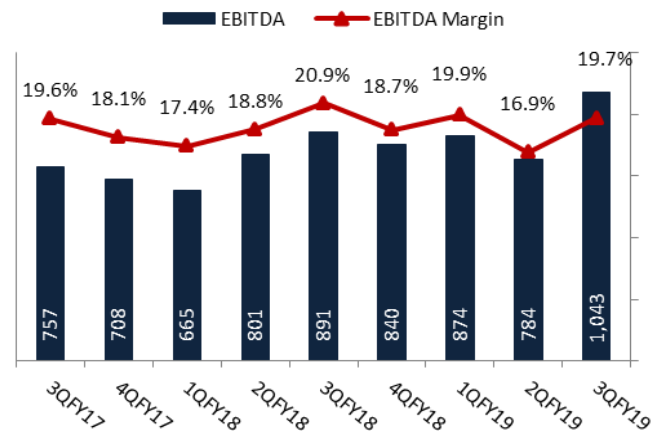


Exhibit: Return Ratios %

Return ratios to improve going ahead

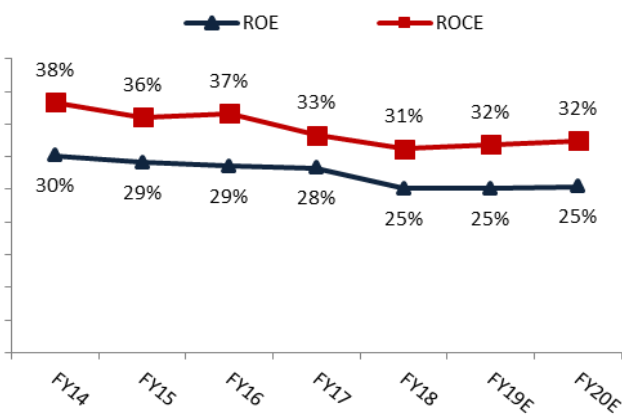


Exhibit: Decorative Volume Growth %

Volume growth(calculated) has been robust at 19%

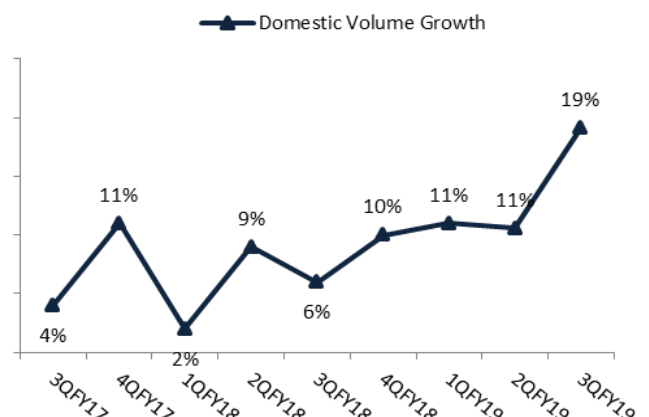


Exhibit: Sales and PAT

Strong sales growth and better margins boosts PAT

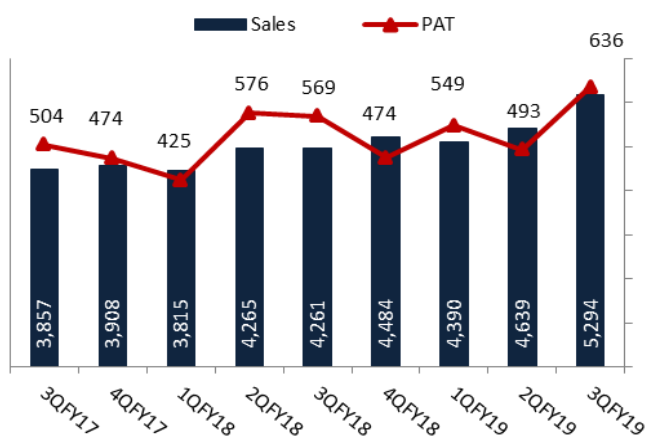
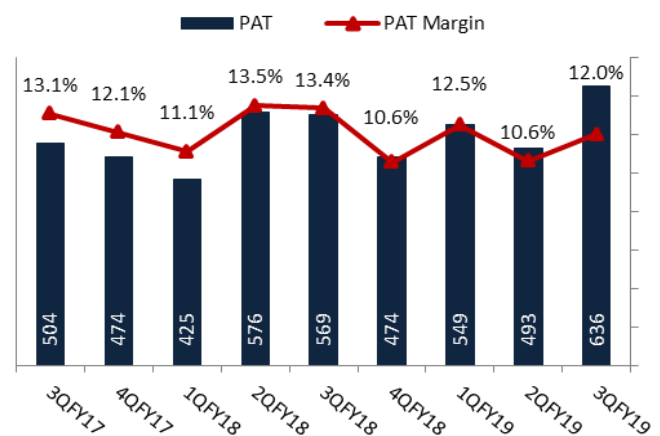


Exhibit: PAT and PAT Margin

Flow down from EBITDA on higher sales lifts PAT margins



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	96	96	96	96	96	96	96
Reserves	3,943	5,452	6,429	7,508	8,314	9,581	11,147
Net Worth	4,039	5,548	6,525	7,604	8,410	9,677	11,243
Minority Interest	246	346	384	375	328	389	446
Debt	240	410	304	546	521	728	701
Other Non Current Liab	292	378	431	516	566	566	566
Total Capital Employed	4,817	6,681	7,643	9,041	9,824	11,359	12,956
Net Fixed Assets (incl CWIP)	2,492	2,607	3,324	3,368	4,810	5,773	6,389
Investment in Associates	-	242.1	274.8	319.8	365.9	417.7	488.7
Other non-current assets	671	1,252	1,227	1,768	1,693	1,693	1,693
Non Current Assets	3,162	4,101	4,826	5,456	6,869	7,884	8,571
Inventory	2,070	2,200	1,998	2,627	2,658	3,361	3,669
Debtors	1,110	1,125	1,187	1,447	1,731	1,999	2,221
Cash & Bank	229	195	337	582	312	475	602
Other Current Assets	1,506	1,715	2,213	2,310	2,213	2,223	2,929
Current Assets	4,915	5,235	5,735	6,966	6,914	8,058	9,421
Creditors	1,746	1,534	1,565	1,923	2,160	2,708	2,956
Provisions	576	40	57	49	57	69	76
Other Current Liabilities	939	1,080	1,296	1,408	1,742	1,806	2,005
Curr Liabilities	3,260	2,654	2,918	3,380	3,959	4,582	5,037
Net Current Assets	1,655	2,581	2,817	3,585	2,955	3,475	4,385
Total Assets	8,078	9,336	10,561	12,421	13,783	15,942	17,992

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	12,715	14,183	14,271	15,062	16,825	19,431	21,591
Change (%)	16%	12%	1%	6%	12%	15%	11%
Other Income	134	170	213	262	221	215	252
EBITDA	1,998	2,235	2,769	2,986	3,198	3,700	4,397
Change (%)	15%	12%	24%	8%	7%	16%	19%
Margin (%)	16%	16%	19%	20%	19%	19%	20%
Depr & Amor.	246	266	276	335	360	437	584
EBIT	1,752	1,969	2,494	2,652	2,837	3,263	3,812
Int. & other fin. Cost	42	35	41	30	35	50	57
EBT	1,844	2,104	2,666	2,884	3,023	3,428	4,007
Exp Item	(10)	(28)	(52)	-	-	-	-
Tax	572	650	844	943	1,041	1,149	1,360
share of profit/(loss) of associates	-	-	33	50	46	52	71
Minority Interest	(44)	(32)	(58)	(77)	(59)	(61)	(57)
Reported PAT	1,219	1,395	1,745	1,939	2,039	2,270	2,661
Adjusted PAT	1,229	1,423	1,798	1,914	1,969	2,270	2,661
Change (%)	6%	16%	26%	6%	3%	15%	17%
Margin(%)	10%	10%	12%	13%	12%	12%	12%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	1.5	2.0	2.0	2.1	1.7	1.8	1.9
Debt-Equity Ratio	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Interest Coverage Ratio	41.5	56.7	61.3	88.4	80.9	65.3	66.7
Capital Turnover Ratio	3.1	2.5	2.2	2.0	2.0	2.0	1.9
Fixed Asset Turnover Ratio	5.1	5.6	4.8	4.5	4.1	3.7	3.6
Inventory Days outstanding	102.9	100.7	90.6	115.1	100.1	108.0	108.0
Accounts Receivable Days outstanding	31.9	29.0	30.4	35.1	37.5	37.5	37.5
Accounts Payable Days outstanding	86.8	70.3	71.0	84.3	81.4	87.0	87.0
ROCE	38.3%	36.1%	36.7%	33.3%	31.2%	31.9%	32.5%
ROE	30.2%	29.1%	28.5%	28.3%	25.1%	25.1%	25.4%
FCF per Share	12.2	7.8	15.0	9.0	7.3	9.3	17.2
Price / EPS	43.0	55.6	47.7	53.0	52.7	59.5	50.7
Price / Book Value	13.0	14.0	12.8	13.5	12.8	13.9	12.0
EV/EBITDA	25.7	34.8	30.1	34.4	33.7	36.5	30.7
EV/Sales	4.0	5.5	5.8	6.8	6.4	7.0	6.3
Div Yield	1.0%	0.8%	0.9%	1.0%	0.8%	0.7%	0.8%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	1,834	2,077	2,614	2,964	3,139	3,428	4,007
<i>(inc)/Dec in Working Capital</i>	(168)	(450)	198	(603)	(80)	(257)	(182)
<i>Non Cash Op Exp</i>	174	159	193	61	100	222	332
<i>Int Paid (+)</i>	42	35	41	31	35	50	57
<i>Tax Paid</i>	(480)	(633)	(802)	(925)	(1,081)	(1,149)	(1,360)
CF from Op. Activities	1,402	1,188	2,243	1,527	2,113	2,293	2,855
<i>(inc)/Dec in FA & CWIP</i>	(235)	(438)	(802)	(667)	(1,409)	(1,400)	(1,200)
<i>Free Cashflow</i>	1,167	750	1,441	860	705	893	1,655
<i>(Pur)/Sale of Inv</i>	(409)	35	(77)	204	43	(100)	(600)
<i>others</i>	39	(75)	13	(193)	(233)	215	252
CF from Inv. Activities	(605)	(478)	(866)	(656)	(1,599)	(1,285)	(1,548)
<i>inc/(dec) in NW</i>	-	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	(37)	153	(110)	213	(44)	207	(27)
<i>Int. Paid</i>	(42)	(35)	(40)	(36)	(35)	(50)	(57)
<i>Div Paid (inc tax)</i>	(547)	(695)	(764)	(947)	(1,218)	(1,003)	(1,095)
<i>others</i>	-	-	66	13	(82)	-	-
CF from Fin. Activities	(626)	(576)	(849)	(756)	(1,379)	(846)	(1,179)
Inc(Dec) in Cash	171	134	528	115	(865)	163	128
<i>Add: Opening Balance</i>	755	933	1,050	1,553	1,711	312	475
Closing Balance	926	1,067	1,578	1,668	846	475	602

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