

# Asian Paints limited

Industry	Consumers
Bloomberg	APNT IN
BSE CODE	500820

## Uncertain Demand outlook; higher A&P spends impact EBITDAM

<b>RATING</b>	<b>HOLD</b>
<b>CMP</b>	<b>1354</b>
<b>Price Target</b>	<b>1321</b>
<b>Potential Upside</b>	<b>-2%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↓
<b>Target Change</b>	↓

### Stock Info

52wk Range H/L	1530/1118
Mkt Capital (Rs Cr)	129895
Free float (%)	47%
Avg. Vol 1M (,000)	1401
No. of Shares (Cr)	96
Promoters Pledged %	12%

### Research Analyst

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### 4QFY19 Result Update

- Asian Paints reported a 11.9% YoY growth in revenue to Rs 5,018 crores for Q4FY19.
- Domestic Decorative business reported a double digit volume growth of 10.4% YoY (calculated) for Q4FY19 and 13.8% YoY for the full year FY19. The company didn't take any price hikes in the tough quarter and the realisations for the quarter remained flat sequentially.
- The gross margins improved sequentially by 60bps to 41.6% with the cool down in raw material prices and better rupee. However, the margins are down 170bps on a YoY basis with inflation in raw materials still up 10% YoY.
- The operating margins also fell by 230bps YoY to 16.4% due to higher A&P spends, overheads for the two new plants and few crores provision for bad debts in international markets.
- PAT for the quarter came in lower by 1.6% YoY at Rs 473 crores, indicating a PAT margin of 9.4%.
- Depreciation expense for Q4 reported a rise of more than 40% to Rs 130 crores with the both the facilities operational in Q4FY19.

### View and Valuation

ASIANPAINT's double digit volume growth in the decorative business helped it to report overall sales growth of 11.9% YoY for Q4 and 15% for FY19. FY19 has been a roller coaster year for the whole industry due to the extreme movement in the crude oil prices, exchange rate and the geo-political tensions given a potential trade war. Post Q4, the management has raised concerns over the demand environment being uncertain due to geopolitical tensions, inflationary environment and fear of a lousy monsoon season this year. The industrial business growth has been good in powder & protective coatings and industrial refinish segment while facing pressures from a major slowdown witnessed in the auto segment. The international businesses continue to face region specific pressures like unavailability of forex, hyper-inflation and slow down, barring few like GCC nations and Nepal. The home improvements continue to perform in-line with expectations of the management. Higher raw material costs (still up 10%YoY) and higher A&P spends along with overhead costs for two new plants lead to margin compression. We reduce our FY20 PAT estimates by 8.4% with revised FY20 EBITDA margins at 19.2%. Given the strong brand and corporate governance, we continue to maintain HOLD on ASIANPAINT valuing it at 52x FY20e EPS to arrive at a price target of Rs 1321.

### Key Risks to our rating and target

- Slowdown in demand
- Depreciating rupee and underperforming international economies

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	14271	15062	16825	19350	21033
EBITDA	2769	2986	3198	3525	4038
EBIT	2494	2652	2837	3094	3507
PAT	1798	1914	1969	2159	2437
EPS (Rs)	18	20	21	23	25
EPS growth (%)	25%	11%	5%	6%	13%
ROE (%)	29%	28%	25%	24%	24%
ROCE (%)	37%	33%	31%	30%	31%
BV	68	79	88	99	112
P/B (X)	12.8	13.5	12.8	15.0	12.1
P/E (x)	47.7	53.0	52.7	66.3	53.3

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## 4QFY19 Results Lower than estimates

## Poor margins

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	4,484	4,390	4,639	5,294	5,018	11.9%	-5.2%	16,825	19,350	15.0%
Other Income	39	62	63	45	57	45.0%	25.8%	221	227	2.9%
Total Revenue	4,523	4,452	4,702	5,339	5,075	12.2%	-4.9%	17,045	19,577	14.9%
COGS	2,545	2,492	2,792	3,125	2,933	15.2%	-6.2%	9,691	11,342	17.0%
Gross Margin	43%	43%	40%	41%	42%	-1.7%	0.6%	42%	41%	-1.0%
Employee Cost	276	306	307	323	334	20.9%	3.5%	1,115	1,270	13.9%
Other Expenses	823	717	755	803	929	12.9%	15.6%	2,820	3,205	13.6%
EBITDA	840	874	784	1,043	823	-2.0%	-21.1%	3,198	3,525	10.2%
EBITDA Mar.	19%	20%	17%	20%	16%	-2.3%	-3.3%	19%	18%	-0.8%
Depreciation	91	91	95	115	130	42.2%	12.8%	360	431	19.5%
EBIT	748	784	689	928	693	-7.4%	-25.3%	2,837	3,094	9.0%
Interest	9	9	12	15	15	67.8%	3.6%	35	51	45.4%
PBT	779	837	741	958	734	-5.7%	-23.3%	3,023	3,270	8.2%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	288	277	243	326	253	-12.1%	-22.5%	1,041	1,099	5.6%
PAT from	-	-	-	-	-	0.0%	0.0%	71	-	-100%
Share of	5	11	8	15	6	16.9%	-61.9%	46	41	-10.9%
Minority Int	(15)	(13)	(13)	(12)	(14)	-3.9%	24.2%	(59)	(52)	-10.5%
PAT	481	558	493	636	473	-1.6%	-25.6%	2,039	2,159	5.9%
PAT Margin	11%	13%	11%	12%	9%	-1.3%	-2.6%	12%	11%	-1.0%

### Double digit volume growth in decorative business

Asian Paints reported a 11.9% YoY growth in revenue to Rs 5,018 crores for Q4FY19 against our estimate of Rs 5108 crores. The growth was led by double digit volume growth of 10.4% (calculated) against our estimate of 8% for Q4FY19. The company didn't take any price hikes in the tough quarter and the realisations for the quarter remained flat sequentially. The cumulative price hike of 7% taken over the past year didn't reflect due to higher rebates/incentives and deteriorating product mix towards lower band products like distempers, economic paints and putty. The revenue growth of 8% YoY in the international and industrial business was lower than our expectations of 10%. The management again guided that the challenging business conditions have affected its key units in Egypt, Ethiopia, Bangladesh and Sri-Lanka. The progress in Indonesia continues as per planned and company continues to expand its distribution network in the country. All units in GCC (Oman, UAE & Bahrain) and Nepal registered good topline growth. The automotive JV (PPG-AP) witnessed good growth in the general industrial and refinish 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 cost of higher costs continues to impact margins Home Improvement - Kitchen business under Sleek and the Bath business under Ess Ess, continued to do well with both growing at 20% and 25% respectively in revenue terms.

### Poor EBITDA margins due to higher A&P spends

The gross margins improved sequentially by 60bps to 41.6% (vs. estimate of 42.2%) with the cool down in raw material prices and better rupee. However, the margins are down 170bps on a YoY basis with inflation in raw materials still up 10% YoY.

The operating margins also fell by 230bps YoY to 16.4% (vs. estimate of 19.5%) due to higher A&P spends, overheads for the two new plants and few crores provision for bad debts in international markets.

### PAT margin at 9.4%

PAT for the quarter came in lower by 1.6% YoY at Rs 473 crores against our estimate of Rs 593 crores, indicating a PAT margin of 9.4%.

Depreciation expense for Q4 reported a rise of more than 40% to Rs 130 crores with both the facilities operational in Q4FY19.

## Analyst Meet Highlights

### ➤ Economic environment

- Growth expected to remain uncertain in the near term due to global scenario, inflationary environment and probable lousy monsoon.
- The demand is still average, not buoyant. The demand is more driven through re-painting works and from tier 2 or smaller towns. The demand from new construction has slowed down.

### ➤ Decorative Business:

- The decorative business segment in India registered double digit volume growth in the fourth Quarter and comfortable double digit in the full year FY19.
- No price revision affected in Q4. If there is an adverse change in the RM environment, company would need to take further price hikes.
- Apart from rebates/incentives, the fall in realization is due to deteriorating product mix towards bottom end of the pyramid. The growth witnessed in the economic paints/distempers is higher than growth in higher or premium range products.
- High raw material prices impacted gross margins. Material prices softened a bit in Q4; however inflation for the year still at 10%+
- The other expenses were higher in Q4 due to higher A&P spends on campaigns to match them with the IPL and overheads of 2 new plants. These two reasons affected EBITDA margins.
- Continued focus on network expansion and opening new 'Colour Ideas' store.

### ➤ Industrial and International business

- The Industrial Coatings JV (AP-PPG) witnessed good growth in the dealer channel for both, Powder and Protective coatings.
- PPG Asian Paints (PPG-AP): Auto Segment registered slowdown in the second half of the year on the back of deceleration in the Auto industry. Growth in General Industrial and Refinish segment supported revenue growth for the business.
- All units in GCC (Oman, UAE & Bahrain) and Nepal registered good topline growth. Sluggish growth in Egypt, Ethiopia, Sri Lanka and Bangladesh – impacting the overall International performance
- Raw material price inflation impacted operational profitability at International operations. Raw Material procurement continued to be a challenge due to forex unavailability in Ethiopia
- Indonesia: The operations are scaling up well. Expansion of distributor network and Colour Infinity (Colour World) spread is on track.
- Company had to take few provisions on debtor write off in Bangladesh

### ➤ Home Improvement Business

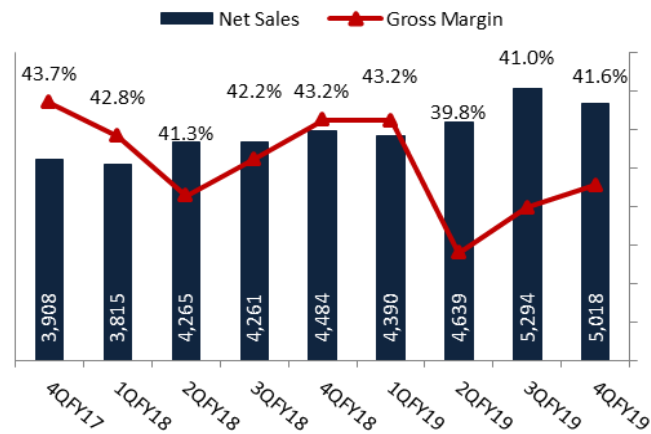
- SLEEK Growth is led by strong performance in the Components as well as the Full Kitchen Dealer segments.
- ESS ESS saw good growth in the Premium and Luxury range of products in line with our expectation.
- Continuous focus on enhancing distribution reach and driving operational efficiencies for both the businesses

### ➤ Other Key updates

- Capex for FY20 will be around Rs. 700 crores at the Standalone level. Majorly would be for maintenance & enhancement of existing facilities, little on ESS ESS and few leftover amounts to be spent on the two new facilities.
- The impact of fire at Vizag plant is covered under Insurance. Since the operations were already on, there is operations and crisis management related costs which would be incurred.

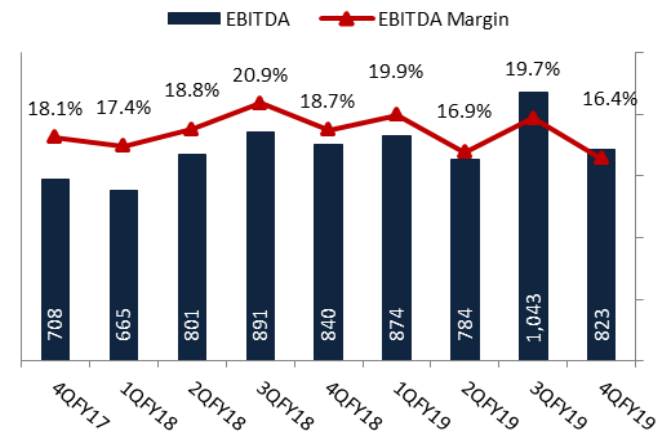
## Exhibit: Sales and Gross Margin %

Sales grew by 11.9% YoY with gross margins at 41.6%



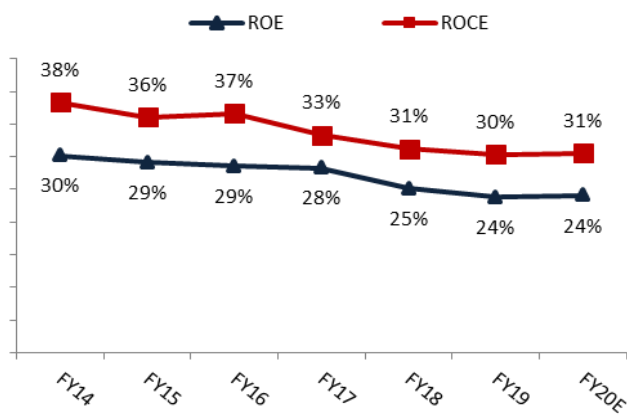
## Exhibit: EBITDA and EBITDA margin %

Poor EBITDA margins due to higher A&P spends



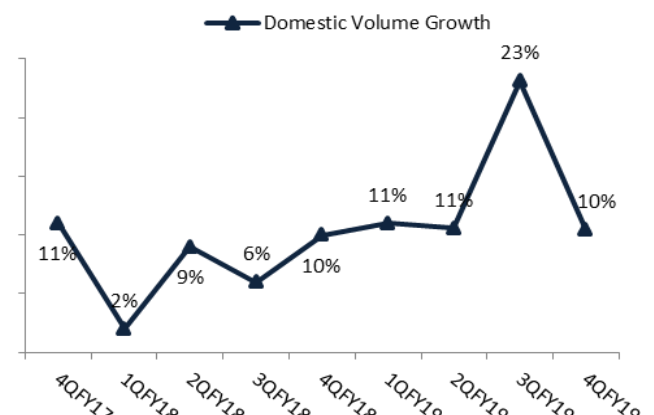
## Exhibit: Return Ratios %

Return ratios to sustain at these levels amidst sectoral headwinds



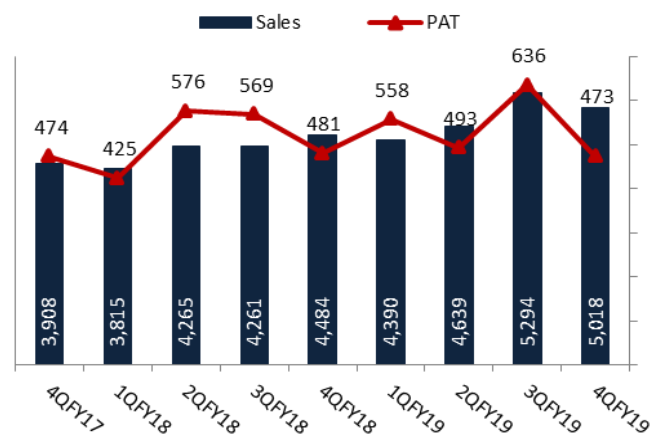
## Exhibit: Decorative Volume Growth %

Volume growth(calculated) at 10.4%



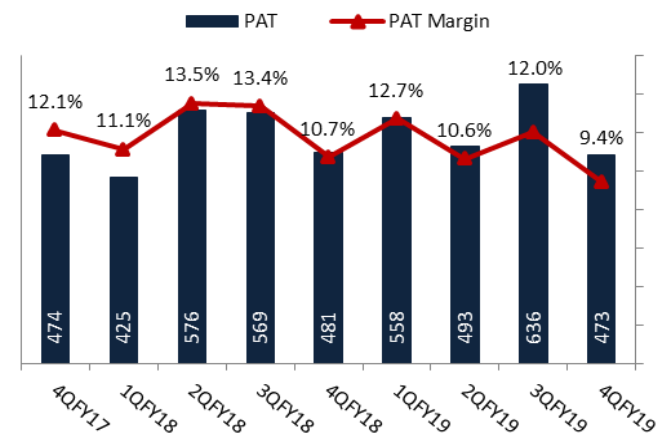
## Exhibit: Sales and PAT

Poor margins and higher depreciation lowers PAT



## Exhibit: PAT and PAT Margin

PAT margins lowest in last four years at 9.4%



## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Share Capital</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>
Reserves	3,943	5,452	6,429	7,508	8,314	9,424	10,633
<b>Net Worth</b>	<b>4,039</b>	<b>5,548</b>	<b>6,525</b>	<b>7,604</b>	<b>8,410</b>	<b>9,520</b>	<b>10,729</b>
<b>Minority Interest</b>	<b>246</b>	<b>346</b>	<b>384</b>	<b>375</b>	<b>328</b>	<b>363</b>	<b>411</b>
Debt	240	410	304	546	521	616	654
Other Non Current Liab	292	378	431	516	566	730	730
<b>Total Capital Employed</b>	<b>4,817</b>	<b>6,681</b>	<b>7,643</b>	<b>9,041</b>	<b>9,824</b>	<b>11,229</b>	<b>12,524</b>
Net Fixed Assets (incl CWIP)	2,492	2,607	3,324	3,368	4,810	5,740	5,909
Investment in Associates	-	242.1	274.8	319.8	365.9	406.9	447.0
Other non-current assets	671	1,252	1,227	1,768	1,693	1,881	1,881
<b>Non Current Assets</b>	<b>3,162</b>	<b>4,101</b>	<b>4,826</b>	<b>5,456</b>	<b>6,869</b>	<b>8,027</b>	<b>8,236</b>
Inventory	2,070	2,200	1,998	2,627	2,658	3,150	3,390
Debtors	1,110	1,125	1,187	1,447	1,731	1,907	2,073
Cash & Bank	229	195	337	582	312	276	467
Other Current Assets	1,506	1,715	2,213	2,310	2,213	2,301	2,993
<b>Current Assets</b>	<b>4,915</b>	<b>5,235</b>	<b>5,735</b>	<b>6,966</b>	<b>6,914</b>	<b>7,634</b>	<b>8,923</b>
Creditors	1,746	1,534	1,565	1,923	2,160	2,394	2,577
Provisions	576	40	57	49	57	76	77
Other Current Liabilities	939	1,080	1,296	1,408	1,742	1,962	1,982
<b>Curr Liabilities</b>	<b>3,260</b>	<b>2,654</b>	<b>2,918</b>	<b>3,380</b>	<b>3,959</b>	<b>4,432</b>	<b>4,635</b>
<b>Net Current Assets</b>	<b>1,655</b>	<b>2,581</b>	<b>2,817</b>	<b>3,585</b>	<b>2,955</b>	<b>3,202</b>	<b>4,288</b>
<b>Total Assets</b>	<b>8,078</b>	<b>9,336</b>	<b>10,561</b>	<b>12,421</b>	<b>13,783</b>	<b>15,661</b>	<b>17,160</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>12,715</b>	<b>14,183</b>	<b>14,271</b>	<b>15,062</b>	<b>16,825</b>	<b>19,350</b>	<b>21,033</b>
Change (%)	16%	12%	1%	6%	12%	15%	9%
Other Income	134	170	213	262	221	227	252
<b>EBITDA</b>	<b>1,998</b>	<b>2,235</b>	<b>2,769</b>	<b>2,986</b>	<b>3,198</b>	<b>3,525</b>	<b>4,038</b>
Change (%)	15%	12%	24%	8%	7%	10%	15%
Margin (%)	16%	16%	19%	20%	19%	18%	19%
Depr & Amor.	246	266	276	335	360	431	531
<b>EBIT</b>	<b>1,752</b>	<b>1,969</b>	<b>2,494</b>	<b>2,652</b>	<b>2,837</b>	<b>3,094</b>	<b>3,507</b>
Int. & other fin. Cost	42	35	41	30	35	51	57
<b>EBT</b>	<b>1,844</b>	<b>2,104</b>	<b>2,666</b>	<b>2,884</b>	<b>3,023</b>	<b>3,270</b>	<b>3,702</b>
Exp Item	(10)	(28)	(52)	-	-	-	-
Tax	572	650	844	943	1,041	1,099	1,257
share of profit/(loss) of associates	-	-	33	50	46	41	40
Minority Interest	(44)	(32)	(58)	(77)	(59)	(52)	(48)
Reported PAT	1,219	1,395	1,745	1,939	2,039	2,159	2,437
<b>Adjusted PAT</b>	<b>1,229</b>	<b>1,423</b>	<b>1,798</b>	<b>1,914</b>	<b>1,969</b>	<b>2,159</b>	<b>2,437</b>
Change (%)	6%	16%	26%	6%	3%	10%	13%
Margin(%)	10%	10%	12%	13%	12%	11%	12%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Current Ratio	1.5	2.0	2.0	2.1	1.7	1.7	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	60.7	61.4
Capital Turnover Ratio	3.1	2.5	2.2	2.0	2.0	2.0	2.0
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	101.4	101.4
Accounts Receivable Days outstanding	31.9	29.0	30.4	35.1	37.5	36.0	36.0
Accounts Payable Days outstanding	86.8	70.3	71.0	84.3	81.4	77.1	77.1
ROCE	38.3%	36.1%	36.7%	33.3%	31.2%	30.4%	30.5%
ROE	30.2%	29.1%	28.5%	28.3%	25.1%	23.8%	24.1%
FCF per Share	12.2	7.8	15.0	9.0	7.3	12.3	18.6
Price / EPS	43.0	55.6	47.7	53.0	52.7	66.3	53.3
Price / Book Value	13.0	14.0	12.8	13.5	12.8	15.0	12.1
EV/EBITDA	25.7	34.8	30.1	34.4	33.7	40.7	32.2
EV/Sales	4.0	5.5	5.8	6.8	6.4	7.4	6.2
Div Yield	1.0%	0.8%	0.9%	1.0%	0.8%	0.7%	0.9%

### Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>1,834</b>	<b>2,077</b>	<b>2,614</b>	<b>2,964</b>	<b>3,139</b>	<b>3,270</b>	<b>3,702</b>
(inc)/Dec in Working Capital	(168)	(450)	198	(603)	(80)	161	(295)
Non Cash Op Exp	174	159	193	61	100	173	279
Int Paid (+)	42	35	41	31	35	51	57
Tax Paid	(480)	(633)	(802)	(925)	(1,081)	(1,099)	(1,257)
<b>CF from Op. Activities</b>	<b>1,402</b>	<b>1,188</b>	<b>2,243</b>	<b>1,527</b>	<b>2,113</b>	<b>2,556</b>	<b>2,486</b>
(inc)/Dec in FA & CWIP	(235)	(438)	(802)	(667)	(1,409)	(1,373)	(700)
Free Cashflow	1,167	750	1,441	860	705	1,183	1,786
(Pur)/Sale of Inv	(409)	35	(77)	204	43	(388)	(600)
others	39	(75)	13	(193)	(233)	151	252
<b>CF from Inv. Activities</b>	<b>(605)</b>	<b>(478)</b>	<b>(866)</b>	<b>(656)</b>	<b>(1,599)</b>	<b>(1,610)</b>	<b>(1,048)</b>
inc/(dec) in NW	-	-	-	-	-	-	-
inc/(dec) in Debt	(37)	153	(110)	213	(44)	95	38
Int. Paid	(42)	(35)	(40)	(36)	(35)	(51)	(57)
Div Paid (inc tax)	(547)	(695)	(764)	(947)	(1,218)	(1,026)	(1,228)
others	-	-	66	13	(82)	-	-
<b>CF from Fin. Activities</b>	<b>(626)</b>	<b>(576)</b>	<b>(849)</b>	<b>(756)</b>	<b>(1,379)</b>	<b>(982)</b>	<b>(1,247)</b>
<b>Inc(Dec) in Cash</b>	<b>171</b>	<b>134</b>	<b>528</b>	<b>115</b>	<b>(865)</b>	<b>(36)</b>	<b>191</b>
Add: Opening Balance	755	933	1,050	1,553	1,711	312	276
<b>Closing Balance</b>	<b>926</b>	<b>1,067</b>	<b>1,578</b>	<b>1,668</b>	<b>846</b>	<b>276</b>	<b>467</b>

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