

Asian paints reports very strong set of numbers for Q2FY14 which were significantly higher than our and consensus estimates on all the financial as well as operational parameters. The company's volume growth and margins were significantly ahead of expectations as the company beat earnings estimates by 25%. The management indicated that some part of the sharp growth rate could be attributed to base effect and restocking demand on account of the early festival season. Notwithstanding the comprehensive earnings beat, we maintain our Sell recommendation on stock as the current run up in the stock price largely captures the earnings growth and the rich valuations leave limited scope for negative surprises. The key takeaways of the results are as follows:

Revenue growth of 18% YoY primarily driven by volume growth of ~15% YoY: Asian Paints reported a sharp volume growth 15% YoY on the back of low base of 6% in Q2FY13 and restocking demand on account of early festive season. The company has taken 2 rounds of price hikes: 1.8% in September and 1% in October. In H1FY14 the company has effectively taken a price hike of 4.1%. We estimate that 0.5% growth could be attributed to improvement in product mix as uptrading trends have continued to sustain. The management in the conference call has stated that the demand in the tier 2 and tier 3 cities continues to be robust and the double digit volume growth trend is sustainable in H2FY14.

Gross profit growth helped by sharper than expected margin expansion: Gross margins expanded by 290bps YoY due to consumption of lower cost inventory. The management has indicated that current margins are not sustainable in the forthcoming quarters but refrained to indicate the impact of dollar appreciation on the raw material basket.

Strong EBIDTA growth helped by gross margin expansion: The management indicated that current capacity utilisation of Khandala plant has improved to ~50% and the higher power cost associated to power shortage problem has been resolved as the plant is now connected to the power grid. The EBIDTA margin expanded by 170bps YoY primarily aided by gross margin expansion and EBIDTA grew by 33% YoY. Other operating expenses grew by 23% YoY and increased as a % of sales by 110bps YoY.

PAT growth at 37% YoY helped by other income and other operating income: Higher PAT was supported by 80% YoY growth in Other Income and Other Operating Income. Other operating income benefited from subsidy income on Khandala plant and Other Income was higher on account of dividend income of Rs. 16 cr relative to Rs. 4 cr in Q2FY13. Effective tax rate at 30% was lower than expectations of 33%.

Upgrade estimates; Maintain SELL recommendation: We have raised our FY14 earnings estimates by 5% taking into account the lower tax rate but have maintained our FY15 estimates remain unchanged. We value the company at 30x FY15E earnings at Rs 460 which implies a downside of 13% from the current levels. We maintain our Sell recommendation on the stock.

Sell

APNT IN | CMP RS 516

TARGET RS 460 (-11%)

Company Data

O/S SHARES (MN) :	959
MARKET CAP (RSBN) :	495
MARKET CAP (USDBN) :	8.1
52 - WK HI/LO (RS) :	529 / 376
LIQUIDITY 3M (USDMN) :	10.4
FACE VALUE (RS) :	10

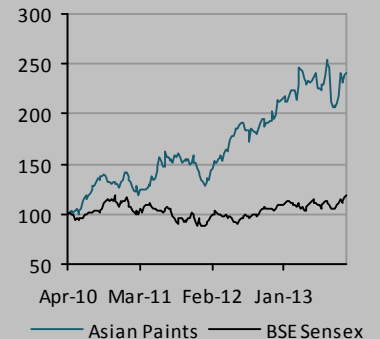
Share Holding Pattern, %

PROMOTERS :	52.8
FII / NRI :	20.9
FI / MF :	7.9
NON PROMOTER CORP. HOLDINGS :	5.8
PUBLIC & OTHERS :	12.7

Price Performance, %

	1mth	3mth	1yr
ABS	5.9	0.0	33.1
REL TO BSE	5.9	0.0	33.1

Price Vs. Sensex (Rebased values)



Source: Phillip Capital India Research

Other Key Ratios

Rs mn	FY13	FY14E	FY15E
Net Sales	109,063	125,423	146,328
Ebidta	17,319	19,969	23,307
Net Profit	11,139	12,544	14,795
EPS, Rs	11.6	13.1	15.4
PER, X	44.4	39.4	33.4
EV/EBIDTA, x	28.6	24.5	20.7
EV/Net Sales, x	4.5	3.9	3.3
ROE, %	32.9	31.0	30.7
Debt/Equity, %	9.4	7.8	6.6

Source: PhillipCapital India Research Est.

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Q2FY14 results (Consolidated)

(Rs mn)	Q2FY14	Q1FY14	QoQ, %	Q2FY13	YoY, %
Net sales	30,841	28,183	9.4	26,124	18.1
Growth, %	18.1	11.1		16.4	
Total income	30,841	28,183	9.4	26,124	18.1
Gross Profit	13,176	12,045	9.4	10,410	26.6
Growth, %	26.6	14.3		16.4	
Margin, %	42.7	42.7		39.8	
Other Operating expenses	8,374	8,681	-3.5	6,797	23.2
EBITDA	4802	3364	42.7	3613	32.9
Growth, %	32.9	0.9		14.0	
Margin, %	15.6	11.9		13.8	
Depreciation	603	599	0.6	357	68.7
EBIT	4,199	2,766	51.8	3,255	29.0
Margin, %	13.6	9.8		12.5	
Interest paid	120	86	39.9	122	-1.6
Other Operating and Non-Operating Income	760	506		422	
Pre-tax profit	4,839	3,186	51.9	3,556	36.1
Tax provided	1,449.2	1,389.8		1,041.0	39.2
PC Net Profit	3,268	1,698	92.5	2,393	36.6
Reported PAT	3,268	1,698	92.5	2,393	36.6
Growth, %	36.6	-4.6		14.6	
Margin, %	10.6	6.0		9.2	
Minority Interest	121.8	97.6		122.4	
Adj Fully Dilluted EPS, Rs	3.40	1.77	92.5	2.49	36.6

Source: Company, PhillipCapital India Research

Q2FY14 results (Standalone)

(Rs mn)	Q2FY14	Q1FY14	QoQ, %	Q2FY13	YoY, %
Net sales	25,049	23,008	8.9	21,309	17.6
Growth, %	17.6	12.6		16.0	
Total income	25,049	23,008	8.9	21,309	17.6
Gross Profit	10,972	10,060	9.1	8,621	27.3
Growth, %	27.3	14.1		15.6	
Margin, %	43.8	43.7		40.5	
Other Operating expenses	6,680	6,056	10.3	5,366	24.5
EBITDA	4293	4003	7.2	3255	31.9
Growth, %	31.9	1.4		18.1	
Margin, %	17.1	17.4		15.3	
Depreciation	515	530	-2.8	294	75.1
EBIT	3,777	3,473	8.8	2,961	27.6
Margin, %	15.1	15.1		13.9	
Interest paid	62	48	29.2	100	-38.3
Other Operating and Non-Operating Income	750	710		414	
Pre-tax profit	0	0.00		0.00	
Tax provided	4,466	4,136	8.0	3,275	36.4
PC Net Profit	1,359.6	1,296.5		972.2	39.8
Reported PAT	3,106	2,839	9.4	2,303	34.9
Growth, %	3,106	2,839	9.4	2,303	34.9
Margin, %	34.9	3.4		9.5	
Minority Interest	12.4	12.3		10.8	
Adj Fully Dilluted EPS, Rs	3.24	2.96	9.4	2.40	34.9

Source: Company, PhillipCapital India Research

Revision of estimates

(Rs mn)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net Sales	123,703	144,307	125,423	146,328	1.4%	1.4%
EBITDA	19,967	23,183	19,969	23,307	0.0%	0.5%
EBITDA margin (%)	16.1	16.1	15.9	15.9	(22)	(14)
PBT	18,489	22,002	18,724	22,247	1.3%	1.1%
Adj PAT	11,947	14,640	12,544	14,795	5.0%	1.1%
Adj PAT margin (%)	9.7	10.1	10.0	10.1	34	(3)
Adj EPS (Rs)	12.5	15.3	13.08	15.42	5.0%	1.1%

Source: Company, PhillipCapital India Research Estimates

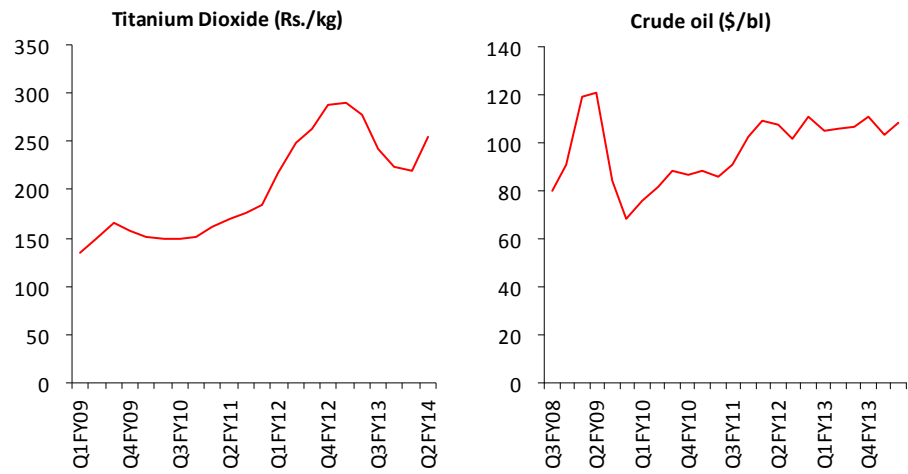
Other key concall comments

- Rural demand continues to outperform urban demand. Decorative Paints reported double digit volume growth led by strong demand in Tier 2 and Tier 3 cities.
- Volume offtake in certain states like Gujarat and Kerala were negatively impacted on account of heavy rains and prolonged monsoon season.
- Product mix gain continues with visibility in uptrading.
- Growth in International business in constant currency terms is 11.8% YoY. GeoPolitical risks namely Sri Lanka, Middle East continue to weigh pressure on revenues. International business achieved 1,00,000 KL of volume sales in H1FY14.
- Industrial paints business growth remains muted as absence of market demand continues.
- The company acquired 51% stake in Sleek for consideration of ~Rs. 100 crore. The company made a 2nd tranche of payment of Rs. 20 cr with equitable contribution from promoters. Sleek has been consolidated from Aug 2013, however material impact on Asian Paints is insignificant.
- The management remains bullish on the Home Improvement Segment in the longer term.
- Maintenance capex of Rs. 2 bn in FY14.
- The company currently has a dealer network of 35,000 dealers.
- Effective tax rate expected at 30% as higher Other Income mitigates impact of surcharge levied as per FY14 budget.

International Business H1FY14 financials

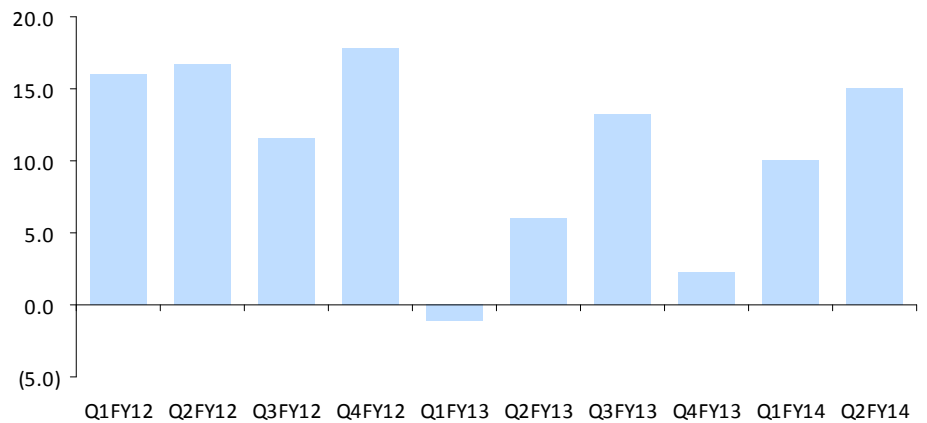
	H1FY10	H1FY11	H1FY12	H1FY13	H1FY14
Total Sales	4,881	5,169	5,508	7,069	8,245
Carribean	743	655	716	890	978
Middle East	2,845	2,880	2,902	3,819	4,330
South Asia	962	1,272	1,477	1,814	2,297
South Pacific	331	362	413	546	640
Sales Growth YoY %					
Total Sales		6%	7%	28%	17%
Carribean		-12%	9%	24%	10%
Middle East		1%	1%	32%	13%
South Asia		32%	16%	23%	27%
South Pacific		9%	14%	32%	17%
Contribution %					
Carribean	15%	13%	13%	13%	12%
Middle East	58%	56%	53%	54%	53%
South Asia	20%	25%	27%	26%	28%
South East Asia	0%	0%	0%	0%	0%
South Pacific	7%	7%	7%	8%	8%
Segment EBIT					
Segment EBIT	744	644	563	666	776
Carribean	36	19	25	23	37
Middle East	551	434	332	460	435
South Asia	116	131	148	138	239
South Pacific	41	60	58	45	65
EBIT Growth YoY %					
Segment EBIT		-13%	-13%	18%	17%
Carribean		-47%	31%	-8%	61%
Middle East		-21%	-24%	39%	-6%
South Asia		13%	13%	-7%	74%
South Pacific		45%	-3%	-22%	44%
EBIT Margin %					
Segment	15.2%	12.5%	10.2%	9.4%	9.4%
Carribean	4.8%	2.9%	3.5%	2.6%	3.8%
Middle East	19.4%	15.1%	11.4%	12.0%	10.0%
South Asia	12.1%	10.3%	10.0%	7.6%	10.4%
South Pacific	12.4%	16.5%	14.0%	8.2%	10.2%

Commodity Charts

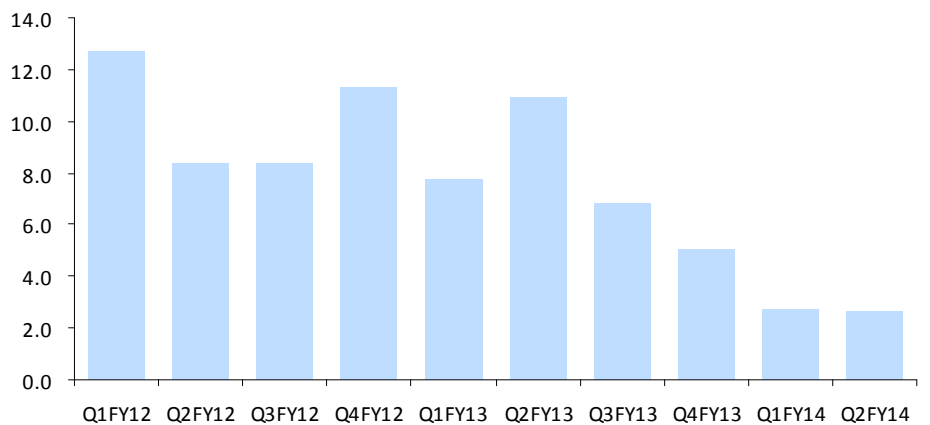


Source: Bloomberg, PhillipCapital India Research

Volume Growth rate at 14% YoY reports sharp improvement benefited by low base



Price growth at 3% similar to Q1FY14, incremental price hikes mitigate gap of price hike anniversary of 3.2% in May 2012.



Source: Bloomberg, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Net sales	95,983	109,063	125,423	146,328
Growth, %	25	14	15	17
Other income	339	644	1,079	1,273
Total income	96,322	109,707	126,502	147,602
Raw material expenses	-57,953	-64,385	-72,644	-85,206
Employee expenses	-5,260	-6,236	-7,673	-8,920
Other Operating expenses	-18,022	-21,768	-26,217	-30,169
EBITDA (Core)	15,088	17,319	19,969	23,307
Growth, %	13.6	14.8	15.3	16.7
Margin, %	15.7	15.9	15.9	15.9
Depreciation	-1,211	-1,546	-2,420	-2,610
EBIT	13,877	15,773	17,549	20,697
Growth, %	13.6	14.8	15.3	16.7
Margin, %	15.7	15.9	15.9	15.9
Interest paid	-410	-367	-358	-389
Other Non-Operating Income	1,074	1,145	1,533	1,940
Pre-tax profit	14,541	16,552	18,724	22,247
Tax provided	-4,335	-4,957	-5,720	-6,674
Profit after tax	10,206	11,595	13,004	15,573
Others (Minorities, Associates)	-319	-456	-460	-778
Net Profit	9,888	11,139	12,544	14,795
Growth, %	17.4	12.7	12.6	17.9
Net Profit (adjusted)	9,888	11,139	12,544	14,795
Unadj. shares (m)	96	959	959	959
Wtd avg shares (m)	96	959	959	959

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Cash & bank	2,283	2,538	8,185	16,462
Debtors	7,813	9,809	12,183	13,475
Inventory	15,989	18,303	21,900	22,920
Loans & advances	3,512	3,444	3,763	4,244
Other current assets	842	982	982	982
Total current assets	30,439	35,076	47,013	58,082
Investments	7,507	7,783	7,783	7,783
Gross fixed assets	21,041	33,853	35,853	38,103
Less: Depreciation	-8,453	-9,884	-12,304	-14,914
Add: Capital WIP	6,171	592	592	592
Net fixed assets	18,759	24,561	24,141	23,781
Non-current assets	415	457	442	442
Total assets	56,525	66,334	77,887	88,597
Current liabilities	23,882	27,688	32,129	34,314
Total current liabilities	23,882	27,688	32,129	34,314
Non-current liabilities	3,791	3,195	3,179	3,179
Total liabilities	27,673	30,883	35,309	37,493
Paid-up capital	959	959	959	959
Reserves & surplus	26,526	32,884	39,552	47,298
Shareholders' equity	28,852	35,451	42,579	51,103
Total equity & liabilities	56,525	66,334	77,887	88,597

Source: Company, PhillipCapital India Research Estimates

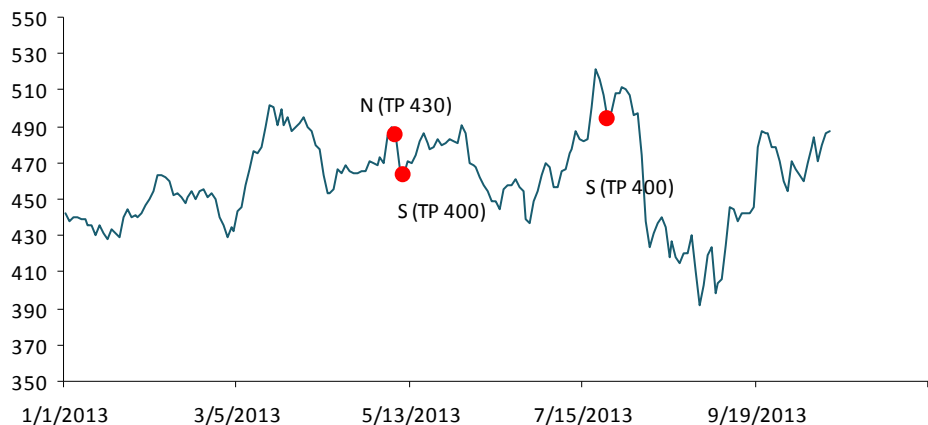
Cash Flow

Y/E Mar, Rs mn	FY12	FY13	FY14E	FY15E
Pre-tax profit	14,541	16,552	18,724	22,247
Depreciation	1,211	1,546	2,420	2,610
Chg in working capital	-2,336	-269	-1,902	-608
Total tax paid	-4,259	-4,341	-5,720	-6,674
Other operating activities	2,773	2,493	354	3,202
Cash flow from operating activities	11,931	15,981	13,876	20,777
Capital expenditure	-6,810	-7,348	-2,000	-2,250
Chg in investments	1,713	-277	0	0
Cash flow from investing activities	-5,098	-7,624	-2,000	-2,250
Free cash flow	6,833	8,356	11,876	18,527
Equity raised/(repaid)	-1,389	-3,642	-5,000	-6,168
Debt raised/(repaid)	1,219	-612	0	0
Dividend (incl. tax)	-4,459	-5,155	-5,871	-7,049
Cash flow from financing activities	-4,680	-9,625	-10,871	-13,217
Net chg in cash	2,153	-1,268	1,006	5,311

Valuation Ratios & Per Share Data

	FY12	FY13	FY14E	FY15E
Per Share data				
EPS (INR)	103.1	11.6	13.1	15.4
Growth, %	17.4	(88.7)	12.6	17.9
Book NAV/share (INR)	286.5	35.3	42.2	50.3
FDEPS (INR)	103.1	11.6	13.1	15.4
CEPS (INR)	115.7	13.2	15.6	18.1
CFPS (INR)	84.7	12.9	12.5	16.3
DPS (INR)	40.0	4.6	5.2	6.3
Return ratios				
Return on assets (%)	20.6	19.3	18.4	19.0
Return on equity (%)	36.0	32.9	31.0	30.7
Return on capital employed (%)	36.0	33.2	31.4	31.6
Turnover ratios				
Asset turnover (x)	4.9	4.1	4.2	4.7
Sales/Total assets (x)	1.9	1.8	1.7	1.8
Sales/Net FA (x)	6.0	5.0	5.2	6.1
Working capital/Sales (x)	0.0	0.0	0.1	0.0
Working capital days	16.3	16.2	19.5	18.2
Liquidity ratios				
Current ratio (x)	1.3	1.3	1.5	1.7
Quick ratio (x)	0.6	0.6	0.8	1.0
Interest cover (x)	33.9	43.0	49.1	53.1
Dividend cover (x)	2.6	2.5	2.5	2.4
Total debt/Equity (%)	13.8	9.4	7.8	6.6
Net debt/Equity (%)	5.5	1.9	(12.4)	(27.5)
Valuation				
PER (x)	5.0	44.4	39.4	33.4
Price/Book (x)	1.8	14.6	12.2	10.3
Yield (%)	7.8	0.9	1.0	1.2
EV/Net sales (x)	0.5	4.5	3.9	3.3
EV/EBITDA (x)	3.4	28.6	24.5	20.7
EV/EBIT (x)	3.4	28.6	24.5	20.7

Recommendation Chart



Source: PhillipCapital India Research

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