

Asian Paints (APNT IN)

Margins at all time high

INDIA | FMCG | Quarterly Update

12 May 2016

Top takeaways from Q4FY16

- ✓ Revenue growth (value and volume) was ahead of our/consensus' expectations; revenue was driven by strong volume growth, helped by lower Q4FY15 base;
- ✓ Decorative Coatings segment volumes grew in double digits, Automotive Coatings/Industrial Liquid Paints/Powder Coatings saw good growth; Home Improvement grew slower than expected
- ✓ In international business, Middle East, Bangladesh, Ethiopia registered strong growth while Nepal and Egypt underperformed
- ✓ Gross margins were highest in last 40 quarters

Conference call takeaways

- ✓ Demand was better in H2 vs. H1FY16; demand to improve with normal monsoons, One Rank One Pay implementation and seventh pay commission implementation
- ✗ South Indian markets grew slower than national average
- ✓ Rural markets account for 50-55% of sales and grew faster than urban markets
- ✗ Fresh painting (20% of Decoratives sales) was subdued due to construction slowdown
- ✗ Prices were cut by 2% in end of February 2016
- ✓ The company continues to focus on network expansion (currently 40000 dealers) and opening Colour Ideas store (currently 300 Colour Ideas stores)
- ✓ New product launches include "Royale Matt", "PGE Advance" and "Tractor Star"
- ✓ Introduced Adhesives in certain Indian markets; distribution arrangement with Henkel Adhesives Technologies, Germany to sell Loctite brand of adhesives under a co-branding initiative; will bear ad expenses solely
- ✓ "AP Homes" -Multi-category décor store inaugurated in Coimbatore; tied up with other players for bath fittings, sanitary ware, furnishings, light fittings, etc
- ⇒ Capacity of Rohtak plant has been doubled to 400,000 KL/annum; completed modernization for Ankleshwar (Gujarat) and Kasna (UP) plants
- ⇒ The company will invest Rs 7bn in capex in FY17 mostly in India and some in Indonesia; in medium term propose to set up 400,000/600,000 KL/annum plants in Andhra Pradesh/Karnataka in phases based on demand conditions

Maintain Sell: We have introduced our estimates for FY18 and have cut our estimates for FY17 by 5% incorporating recent surge in oil prices. However, it is to be noted that margins are at lifetime highs and may not sustain current levels if crude prices rise higher. Also the stock is trading at 43x our FY17 earnings vs. 5 year average of 34x one year forward earnings. We value the stock at 35x FY18 earnings at Rs 850 (Rs 770 earlier) and maintain Sell.

(Rs mn)	Q4FY16	Q3FY16	qoq growth %	Q4FY15	yoy growth %	vs. expectations %	Comments
Volume growth est. (% yoy)	15	16		4.5		500 bps	Volume growth beat estimates and was helped by a weak base
Price growth est. (%yoy)	-3	-3		1.4		0 bps	
Net Sales	39,192	41,030	-4%	34,904	12%	5%	Decoratives segment showed double-digit growth
Gross Profits	18,923	19,026	0%	15,485	22%	9%	
Gross Margin (%)	48.3	46.4	191 bps	44.4	392 bps	178 bps	GM rose on further fall in oil prices
Staff costs	2,766	2,470	0%	2,164	28%	14%	Staff costs higher due to higher incentive payouts, higher performance payouts
Other operating expenses	9,640	9,121	0%	8,168	18%	10%	
EBITDA	7,037	8,006	0%	5,599	26%	6%	
EBITDA margin (%)	18.0	19.5	-156 bps	16.0	191 bps	20 bps	
PBT	6,476	7,038	0%	5,218	24%	3%	
Tax rate (%)	34.80	32.51	228 bps	32.54	225 bps	380 bps	
PAT	4,223	4,750	0%	3,520	20%	-3%	
Adj. PAT	4,088	5,000	0%	3,427	19%	-3%	

Sell (Maintain)

CMP RS 912 / TARGET RS 850 (-7%)

COMPANY DATA

O/S SHARES (MN) :	959
MARKET CAP (RSBN) :	869
MARKET CAP (USDBN) :	13.1
52 - WK HI/LO (RS) :	925 / 693
LIQUIDITY 3M (USDMN) :	13.0
PAR VALUE (RS) :	1

SHARE HOLDING PATTERN, %

	Dec 15	Sep 15	Jun 15
PROMOTERS :	52.8	52.8	52.8
FII / NRI :	17.4	17.4	17.0
FI / MF :	9.5	9.5	9.8
NON PRO :	2.3	2.3	2.3
PUBLIC & OTHERS :	18.1	18.1	18.1

Key Financials

Rs mn	FY16	FY17E	FY18E
Net Sales	153,308	172,475	199,048
EBIDTA	28,087	31,815	36,755
Net Profit	17,788	20,100	23,322
EPS, Rs	18.5	21.0	24.3
PER, x	49.2	43.5	37.5
EV/EBIDTA, x	31.1	27.3	23.3
ROE, %	31.7	30.4	30.3
Debt/Equity (%)	5.4	4.6	4.0

CHANGE IN ESTIMATES

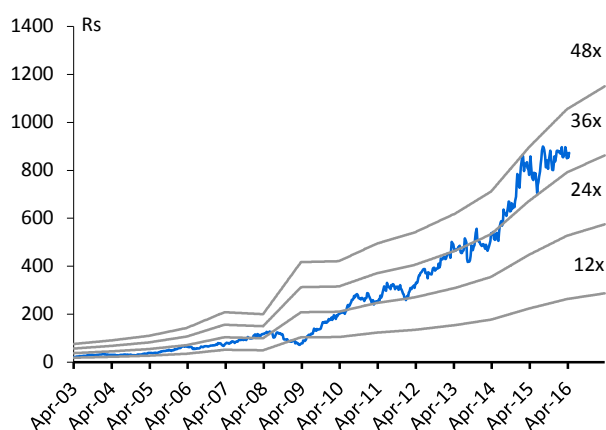
Rs bn	FY17E	FY18E	% Revision
Revenue	172,475	199,048	(0.1)
EBITDA	31,815	36,755	(3.6)
Core PAT	20,100	23,322	(4.6)
EPS (Rs)	21.0	24.3	(4.7)

Naveen Kulkarni and Jubil Jain

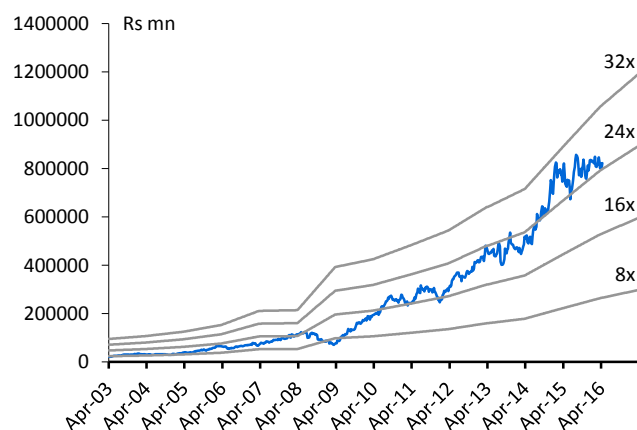
Other highlights:

- In FY16, international markets sales grew by 16.8% to Rs 20.8bn and PBIT grew 52.5% to Rs 2.3bn (profit growth was higher due to inclusion of Ethiopia in February 2015)
- In FY16 PPG Asian Paints (PPGAP) sales grew by 3.8% to Rs 10.4bn with PBIT of Rs 931mn, and Asian Paints PP (APPPG) sales grew 11.6% to Rs 3.2n with PBIT of Rs 71mn
- In FY16, *Sleek* registered net Sales of Rs 1.35bn and PBIT Loss of Rs 190mn and *Ess Ess* registered net Sales of Rs 1.1bn and PBIT Loss of Rs 302mn
- New state-of-the-art manufacturing facility inaugurated at Sohar in Oman with an annual capacity of 21,000 KL

One-year forward P/E Band



EV/EBITDA



Source: Company, PhillipCapital India Research Estimates

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Net sales	140,053	153,308	172,475	199,048
Growth, %	11.3	9.5	12.5	15.4
Other income	1,775	2,034	2,339	2,690
Total income	141,828	155,342	174,814	201,738
Raw material expenses	-79,715	-82,057	-91,958	-106,614
Employee expenses	-9,071	-10,178	-11,510	-13,117
Other Operating expenses	-30,688	-35,021	-39,532	-45,252
EBITDA (Core)	22,354	28,087	31,815	36,755
Growth, %	11.9	25.6	13.3	15.5
Margin, %	16.0	18.3	18.4	18.5
Depreciation	-2,659	-2,879	-3,334	-3,633
EBIT	19,695	25,208	28,481	33,122
Growth, %	12.4	28.0	13.0	16.3
Margin, %	14.1	16.4	16.5	16.6
Interest paid	-348	-405	-275	-275
Other Non-Operating Income	1,697	2,007	2,235	2,464
Non-recurring Items	276	525	0	0
Pre-tax profit	21,320	27,335	30,441	35,311
Tax provided	-6,495	-8,491	-9,740	-11,299
Profit after tax	14,825	18,843	20,700	24,012
Others (Minorities, Associates)	-322	-531	-600	-690
Net Profit	14,503	18,313	20,100	23,322
Growth, %	15.8	25.0	13.0	16.0
Net Profit (adjusted)	14,227	17,788	20,100	23,322
Unadj. shares (m)	959	959	959	959
Wtd avg shares (m)	959	959	959	959

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & bank	2,044	4,575	8,821	20,089
Debtors	11,799	12,483	14,924	16,705
Inventory	22,585	20,640	24,709	27,868
Loans & advances	5,771	5,181	5,802	6,498
Other current assets	2,486	2,800	3,136	3,513
Total current assets	44,685	45,678	57,393	74,673
Investments	15,878	20,982	20,982	20,982
Gross fixed assets	38,664	48,603	55,603	60,603
Less: Depreciation	-14,522	-17,402	-20,738	-24,374
Add: Capital WIP	1,960	1,960	1,960	1,960
Net fixed assets	26,102	33,162	36,825	38,189
Non-current assets	2,458	1,977	1,977	1,977
Total assets	87,323	99,628	115,006	133,650
Current liabilities	33,053	37,203	42,081	49,098
Total current liabilities	33,053	37,203	42,081	49,098
Non-current liabilities	4,210	3,060	3,060	3,060
Total liabilities	37,263	40,263	45,141	52,158
Paid-up capital	959	959	959	959
Reserves & surplus	46,464	55,238	65,138	76,075
Shareholders' equity	50,060	59,364	69,865	81,492
Total equity & liabilities	87,323	99,627	115,006	133,650

Cash Flow

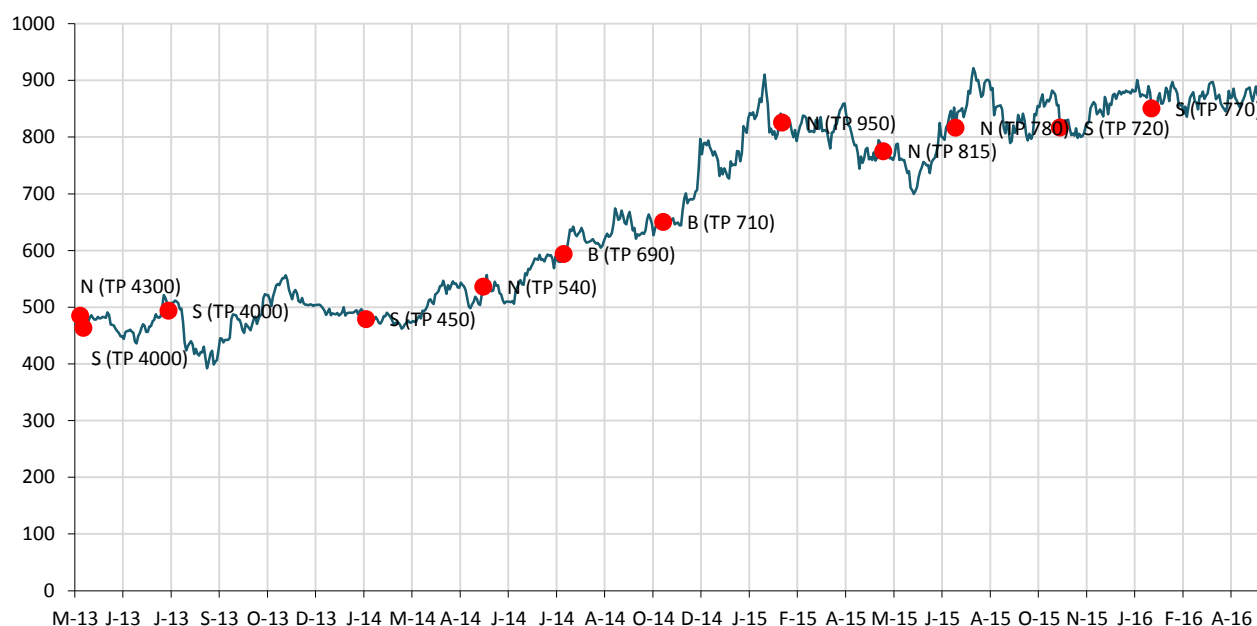
Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Pre-tax profit	21,320	27,335	30,441	35,311
Depreciation	2,659	2,879	3,334	3,633
Chg in working capital	-6,267	6,169	-2,590	1,005
Total tax paid	-6,574	-8,120	-9,740	-11,299
Other operating activities	-7,522	-7,050	-6,502	-7,003
Cash flow from operating activities	3,616	21,213	14,942	21,648
Capital expenditure	-3,844	-9,938	-6,998	-4,997
Chg in investments	-1,642	-5,104	0	0
Cash flow from investing activities	-5,486	-15,042	-6,998	-4,997
Free cash flow	-1,871	6,171	7,944	16,651
Equity raised/(repaid)	7,031	6,000	6,500	7,000
Dividend (incl. tax)	-6,981	-8,489	-10,198	-12,383
Cash flow from financing activities	1,624	-3,639	-3,698	-5,383
Net chg in cash	-247	2,531	4,246	11,268

Valuation Ratios

	FY15	FY16e	FY17e	FY18e
Per Share data				
EPS (INR)	14.8	18.5	21.0	24.3
Growth, %	15.8	25.0	13.0	16.0
Book NAV/share (INR)	49.4	58.6	68.9	80.3
FDEPS (INR)	14.8	18.5	21.0	24.3
CEPS (INR)	17.3	21.0	24.4	28.1
CFPS (INR)	10.9	26.9	20.0	27.3
DPS (INR)	6.1	7.5	9.0	10.9
Return ratios				
Return on assets (%)	18.1	20.4	19.5	19.5
Return on equity (%)	30.0	31.7	30.4	30.3
Return on capital employed (%)	30.2	32.7	30.8	30.7
Turnover ratios				
Asset turnover (x)	4.3	4.2	4.3	4.6
Sales/Total assets (x)	1.7	1.6	1.6	1.6
Sales/Net FA (x)	5.5	5.2	4.9	5.3
Working capital/Sales (x)	0.1	0.0	0.0	0.0
Working capital days	25.0	9.3	13.7	10.1
Liquidity ratios				
Current ratio (x)	1.4	1.2	1.4	1.5
Quick ratio (x)	0.7	0.7	0.8	1.0
Interest cover (x)	56.7	62.2	103.4	120.3
Dividend cover (x)	2.4	2.5	2.3	2.2
Total debt/Equity (%)	8.9	5.4	4.6	4.0
Net debt/Equity (%)	4.6	(2.7)	(8.7)	(22.1)
Valuation				
PER (x)	61.5	49.2	43.5	37.5
Price/Book (x)	18.4	15.6	13.2	11.4
Yield (%)	0.7	0.8	1.0	1.2
EV/Net sales (x)	6.3	5.7	5.0	4.3
EV/EBITDA (x)	39.2	31.1	27.3	23.3
EV/EBIT (x)	44.5	34.6	30.5	25.9

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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