

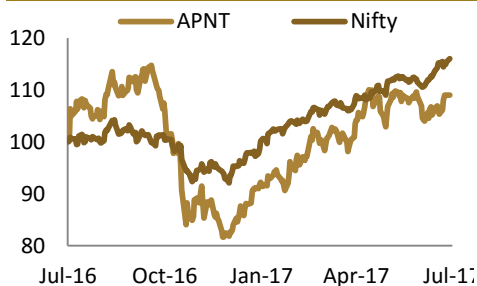
### Market statistics

Current stock price (₹)	1,134
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,08,773
52W H/L (₹)	1,228/ 849
6m avg. volume	10,00,334
Bloomberg	APNT IN

### Shareholding pattern

Promoters	52.79
Domestic Institution	7.6
Foreign Institution	18.07
Non-institution	21.54
of which > than 1%	
Ojasvi Trading Pvt. Ltd.	4.9

### KNPL vs Nifty



### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	25.4	27.5	28.1
RoCE (%)	36.2	39.3	40.1
P/B (x)	14.0	12.7	10.8
EV/OCF (x)	128.4	44.4	37.9
EV/EBITDA (x)	33.0	28.2	23.2
P/E (x)	53.1	44.9	37.3

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**Asian Paints' (APNT) 1QFY18 standalone performance was very weak on both volume as well as margin front; as volumes got affected due to destocking before GST and margins due to rising RM prices since 4Q. Consolidated revenues increased just 3.6% YoY to Rs42.3b while EBITDA margins declined 436bps to 15.7% lower than expectation. However GST transition was smooth with 90%+ dealer network already registered and strong volume uptick expected in coming quarters. Maintain Buy.**

### Weak operating performance affected by destocking before GST

Asian Paints' (APNT) consolidated PAT declined 16% YoY to Rs4.4b led by weak operating performance in domestic market which was affected by expectation of GST rollout in 1QFY18 and currency challenges in few international markets. While transition to GST was smooth in July, sales were impacted due to destocking in trade channel in May and June. Resultant, it clocked ~3% volume growth in 1QFY18 with poor revenue growth. Management expects volume growth in decorative business to recover over next few months as the trade stabilizes and was confident of recovering growth back in coming quarters. Discounting has increased marginally in 1Q to clear the stock before GST implementation. Performance post GST rollout was steady and on retail front APNT witnessed good pick up immediately in the month of July.

Gross margins declined 457bps YoY to 48.4% in 1QFY18, as raw material prices (monomer and TiO<sub>2</sub>) increased affected by shutdown of large plants in Europe and operating leverage was lower; however the facilities have restarted now and going forward it should ease the pressure on prices.

Consolidated EBITDA declined 19% YoY to Rs6.7b while margins contracted 436bps to 15.7% much lower than our full year expectation of 19%+. APNT has taken price hike of 2.68% in May 2017 post 3% in March; whose effect will be seen in 2QFY18 as month of June saw lower volumes. So when restocking will happen in trade during 2QFY18, positive impact of higher realization will be seen.

### On track to build capacities for much higher volume growth

APNT has recently doubled its production capacity at Rohtak to 4 lakh kl per annum and modernised its older plants at Ankleshwar and Kasna to take its total paint manufacturing capacity to 1.2mklpa. APNT has planned to almost double this to 2.3mklpa by setting up paint manufacturing facilities at Mysuru and Vizag; with initial phase of 3klpa each which will be commissioned by 4QFY19. For FY18, APNT has planned Capex of Rs12b out of which Rs10b will be spent on new facilities.

### Industrial JVs did well; mixed Intl performance due to Fx movement

PPG-AP (automotive coatings business) witnessed good demand in the Auto OEM and GI business; however, auto-refinish market was impacted by GST. AP-PPG (industrial coatings JV) growth was led by industrial liquids paint segment. Input cost inflation impacted margin for both these businesses in 1QFY18. International business posted a mixed performance – while Nepal, Bangladesh and Oman witnessed good revenue growth, currency devaluation in Egypt and forex unavailability in Ethiopia dragged overall performance. Margins in the business were also impacted by pickup in input cost inflation. APNT received license to produce at Indonesia facility which was commissioned recently and it will start contributing to consolidated revenues by 3QFY18.

### Outlook & Valuation

Decorative business volume growth is expected to improve with impending festive season, better monsoon, smooth GST transition and GoI's focus on improving rural income and housing. APNT trades at 37x FY19E EPS of ₹30 however with its capability of adding capacities, demonstrated operating efficiencies and innovative capabilities, it has always remained ahead of competition. We expect APNT to deliver 20%, 23% and 23% CAGR growth over FY17-19E in revenue, EBITDA & PAT respectively. Maintain Buy.

**Exhibit 1: Consolidated Quarter Performance**

Particulars (₹ mn)	1Q FY17	4Q FY17	1Q FY18	YoY Chg (%)
<b>Total Income</b>	<b>40,821</b>	<b>43,722</b>	<b>42,283</b>	3.6
Total RM	19,191	22,001	21,812	13.7
Gross Profit	21,630	21,721	20,470	-5.4
Gross Margin (%)	53.0	49.7	48.4	-457bps
Employee Cost	2,774	2,534	2,862	3.1
% of sales	6.8	5.8	6.8	-3bps
ASP	4,447	4,638	4,130	-7.1
% of sales	10.9	10.6	9.8	-112bps
Other Expenditure	6,206	7,471	6,825	10.0
% of sales	15.2	17.1	16.1	94bps
<b>EBITDA</b>	<b>8,203</b>	<b>7,078</b>	<b>6,654</b>	-18.9
EBITDA Margin (%)	20.1	16.2	15.7	-436bps
Depreciation	855	826	905	5.9
Other Income	719	701	783	8.9
<b>EBIT</b>	<b>8,067</b>	<b>6,953</b>	<b>6,532</b>	-19.0
EBIT Margin (%)	19.8	15.9	15.4	-431bps
Interest	63.6	88.1	79.6	25.2
PBT	8,003	6,865	6,452	-19.4
Total Tax	2,603	2,210	2,160	-17.0
Effective tax rate (%)	6.4	5.1	5.1	-127bps
Reported PAT	5,400	4,655	4,292	-20.5
<b>Adjusted PAT</b>	<b>5,275</b>	<b>4,761</b>	<b>4,407</b>	-16.4



## Financials – Consolidated

### P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>1,41,828</b>	<b>1,55,341</b>	<b>1,52,902</b>	<b>1,86,082</b>	<b>2,19,492</b>
Change (%)	11.5	9.5	-1.6	21.7	18.0
Raw Materials	79715	82056	84306	102163	119193
Operating Expenses	39759	45200	38381	46478	54797
<b>EBITDA</b>	<b>22,354</b>	<b>28,086</b>	<b>30,214</b>	<b>37,442</b>	<b>45,502</b>
Change (%)	11.9	25.6	7.6	23.9	21.5
Margin (%)	15.8	18.1	19.8	20.1	20.7
Depreciation	2,659	2,880	3,388	3,777	4,631
Int. and Fin. Charges	348	405	306	273	230
Other Income	1,697	2,007	2,626	3,340	3,381
<b>Profit before Taxes</b>	<b>21,044</b>	<b>26,808</b>	<b>29,146</b>	<b>36,732</b>	<b>44,022</b>
Tax	6,495	8,491	9,480	11,754	14,087
Tax Rate (%)	30.9	31.7	32.5	32.0	32.0
Minority Interest	322	531	284	742	758
<b>Adjusted PAT</b>	<b>14,227</b>	<b>17,786</b>	<b>19,382</b>	<b>24,235</b>	<b>29,177</b>
Change (%)	15.8	25.0	9.0	25.0	20.4
Margin (%)	10.0	11.4	12.7	13.0	13.3
Exceptional/Prior Period inc	-276	-525	0	0	0
<b>Reported PAT</b>	<b>13,952</b>	<b>17,262</b>	<b>19,382</b>	<b>24,235</b>	<b>29,177</b>

### Balance Sheet

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	959	959	959	959	959
Total Reserves	46,464	55,093	75,064	87,192	1,02,715
<b>Net Worth</b>	<b>47,424</b>	<b>56,053</b>	<b>76,023</b>	<b>88,151</b>	<b>1,03,674</b>
<b>Minority Interest</b>	<b>2,637</b>	<b>2,942</b>	<b>3,755</b>	<b>4,213</b>	<b>4,228</b>
Long Term Borrowings	783	749	483	483	483
Other LT Liabilities & provisions	1,308	1,349	528	528	528
Trade Payables	15,488	15,901	19,228	24,571	30,432
Other Current Liabilities	9,997	12,320	12,669	12,669	12,669
Short Term Borrowings	3,316	2,311	5,044	6,353	7,974
Short Term Provisions	6,394	7,633	1,460	1,460	1,460
<b>Total Liabilities</b>	<b>89,145</b>	<b>1,01,428</b>	<b>1,23,196</b>	<b>1,42,434</b>	<b>1,65,453</b>
<b>Net Fixed Assets</b>	<b>26,600</b>	<b>34,031</b>	<b>33,022</b>	<b>39,245</b>	<b>44,614</b>
Capital WIP	1,960	1,108	2,575	5,075	7,575
Non current Investments	4,009	5,393	13,007	13,007	13,007
Long term loans & advances	3,186	2,291	5,086	5,086	5,086
Inventory	22,585	20,640	26,269	33,568	41,575
Account Receivables	11,821	12,483	14,466	18,485	22,895
Cash and Bank Balance	2,044	4,204	8,012	7,208	9,943
Currents Investments	11,869	15,589	13,513	13,513	13,513
<b>Total Assets</b>	<b>89,145</b>	<b>1,01,428</b>	<b>1,23,196</b>	<b>1,42,434</b>	<b>1,65,453</b>

**Cash Flow**

Cash Flow Statement (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
<b>PBT before EO items</b>	21,044	26,808	29,146	36,732	44,022
Add : Depreciation	2,580	3,251	5,223	3,777	4,631
Interest	348	405	306	273	230
Less : Direct taxes paid	6,495	8,491	9,480	11,754	14,087
Less: Minority Interest	322	531	284	742	758
(Inc)/Dec in WC	5,203	-5,576	15,281	5,976	6,555
<b>CF from Op after extra</b>	<b>11,677</b>	<b>26,494</b>	<b>9,630</b>	<b>22,310</b>	<b>27,483</b>
(Incr)/Decr in FA	4,888	9,458	3,847	12,500	12,500
(Pur)/Sale of Investments	1,642	5,104	5,538	0	0
Others	-348	-405	-306	-273	-230
<b>CF from Invest.</b>	<b>-6,878</b>	<b>-14,967</b>	<b>-9,690</b>	<b>-12,773</b>	<b>-12,730</b>
Inc/(Dec) in equity	-74	-216	12,148	0	0
Inc/(Dec) in debt	1,699	-1,039	2,467	1,309	1,621
Dividend paid	6,846	8,417	11,559	12,107	13,655
<b>CF from fin. activity</b>	<b>-5,045</b>	<b>-9,367</b>	<b>3,868</b>	<b>-10,340</b>	<b>-12,018</b>
<b>Incr/Decr of Cash</b>	<b>-246</b>	<b>2,160</b>	<b>3,808</b>	<b>-804</b>	<b>2,735</b>
Add: Opening Balance	2,290	2,044	4,204	8,012	7,208
<b>Closing Balance</b>	<b>2,044</b>	<b>4,204</b>	<b>8,012</b>	<b>7,208</b>	<b>9,943</b>

**Key Ratios**

Y/E Mar (%)	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales	56.2	52.8	52.1	54.9	54.3
Manpower Cost/Sales	6.4	6.6	6.7	6.2	6.2
Operating & Other Cost/Sales	21.6	22.5	17.0	18.8	18.8
Revenue Growth	11.5	9.5	4.0	15.2	18.0
EBITDA Margins	15.8	18.1	18.7	20.1	20.7
Net Income Margins	10.0	11.4	12.0	13.0	13.3
ROCE	39.7	42.4	36.2	39.3	40.1
ROE	30.0	31.7	25.4	27.5	28.1

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹)	14.8	18.5	20.2	25.3	30.4
P/E (x)	55.3	46.8	53.1	44.9	37.3
BV (₹)	49.2	59.0	76.6	89.2	105.4
P/BV (x)	16.7	14.7	14.0	12.7	10.8
EV/EBITDA (x)	33.8	28.5	33.0	28.2	23.2
Fixed assets turnover ratio (x)	5.7	6.4	7.7	9.3	10.8
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	5.3	5.2	6.2	5.7	4.8

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Hold                             15% to -15%

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