

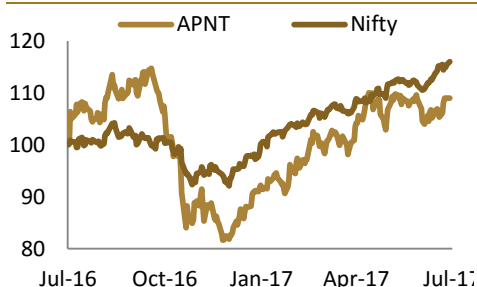
### Market statistics

Current stock price (₹)	1,223
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,17,300
52W H/L (₹)	1,262/ 849
6m avg. volume	9,29,629
Bloomberg	APNT IN

### Shareholding pattern

Promoters	52.79
Domestic Institution	9.43
Foreign Institution	16.66
Non-institution	21.02
of which > than 1%	
Ojasvi Trading Pvt. Ltd.	4.9

### KNPL vs Nifty



### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	25.4	26.9	27.6
RoCE (%)	36.2	38.5	39.3
P/B (x)	14.0	13.8	11.7
EV/OCF (x)	128.4	48.0	41.8
EV/EBITDA (x)	33.0	31.2	25.7
P/E (x)	53.1	49.6	41.2

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**Asian Paints' (APNT) 2QFY18 standalone performance improved on both volumes as well as margin front sequentially; as volumes grew higher single digit post GST implementation and EBITDA margins restored to 20% led by strict cost control and recent softening of RM. Consolidated revenues increased 14% YoY to Rs42.7b while EBITDA margins remained flattish at 18.7%; in line with our expectation. GST transition was smooth with 99%+ dealer network registered and volumes are expected to improve in coming quarters. In reported PAT, there was an exceptional income of Rs670m on gain on sale of Caribbean operation. Maintain Buy.**

### Strong operating performance led by volume uptick post GST

Asian Paints' (APNT) consolidated PAT increased 6% YoY to Rs5.1b led by strong operating performance in domestic market. Decorative business volume grew in single higher digits and it is expected to improve on the back of better monsoon and settling of GST. Although third largest player has recorded better volume growth in 1HFY18, value share is intact due to APNT's higher share in premium products. 1HFY18 saw many challenges in economy including GST, uneven monsoon, slower gdp growth, management is cautiously optimistic on domestic volume growth. International JVs saw improvement except Egypt and Ethiopia as currency and RM challenges continued.

Gross margins declined 300bps YoY to 41.4%, as raw material prices (monomer and TiO<sub>2</sub>) remained high in first half of 2QFY18. APNT has not taken any price hike in this quarter however if prices doesn't soften company would take hike depending upon the demand scenario. Full impact of price hikes taken in 1Q will be seen in 2HFY18.

Consolidated EBITDA grew 12% YoY to Rs8b (in line with our est of Rs7.9b) while margins contracted 20bps YoY to 18.7% much better QoQ. 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 2.3m klpa 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.

### Indonesia ops started; improved International performance

PPG-AP (automotive coatings business) witnessed decent demand in the Auto OEM business; however, auto-refinish market was impacted by GST. AP-PPG an industrial coatings JV did well in 2QFY18. International business improved as Nepal, Bangladesh and Oman witnessed good revenue growth sequentially, currency devaluation in Egypt and forex unavailability in Ethiopia remained a drag. Margins in the business improved 130bps QoQ to 12.1%. APNT also started its Indonesia facility (5kmtpa on single shift basis), it gained access to the dealer channel with the help of local manufacturer under APNT brand.

### Outlook & Valuation

With relatively weak 1HFY18 performance we have cut FY19 EPS by 2% however we expect APNT to deliver strong 2H on the back of price hikes, impending demand and its relentless focus on improving distribution network. Decorative business volume growth is expected to improve on relatively better monsoon, smooth GST transition, Govt's focus on improving rural income and housing. APNT trades at 41x 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 17%, 18% and 18% CAGR growth over FY17-19E in revenue, EBITDA & PAT respectively. Maintain **Buy**.

**Exhibit 1: Consolidated Quarter Performance**

Particulars (₹ mn)	2Q FY17	1Q FY18	2Q FY18	YoY Chg (%)
<b>Total Income</b>	<b>37,633</b>	<b>42,283</b>	<b>42,742</b>	<b>14</b>
Total RM	20,876	21,812	25,042	20
Gross Profit	16,758	20,470	17,699	6
Gross Margin (%)	44.5	48.4	41.4	-312bps
Employee Cost	2,794	2,862	2,822	1
% of sales	7.4	6.8	6.6	-82bps
ASP	0	4,130	90	
% of sales	0.0	9.8	0.2	21bps
Other Expenditure	6,834	6,825	6,777	-1
% of sales	18.2	16.1	15.9	-230bps
<b>EBITDA</b>	<b>7,130</b>	<b>6,654</b>	<b>8,011</b>	<b>12</b>
EBITDA Margin (%)	18.9	15.7	18.7	-20bps
Depreciation	844	905	889	5
Other Income	791	783	534	-33
<b>EBIT</b>	<b>7,078</b>	<b>6,532</b>	<b>7,656</b>	<b>8</b>
EBIT Margin (%)	18.8	15.4	17.9	-89bps
Interest	60.4	79.6	87.7	45
PBT	7,017	6,452	7,569	8
Total Tax	2,207	2,160	2,459	11
Effective tax rate (%)	5.9	5.1	5.8	-11bps
Reported PAT	4,810	4,292	5,110	6
<b>Adjusted PAT</b>	<b>4,672</b>	<b>4,382</b>	<b>5,262</b>	<b>13</b>



## 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>1,61,546</b>	<b>1,81,988</b>	<b>2,14,631</b>
Change (%)	11.5	9.5	4.0	12.7	17.9
Raw Materials	79715	82056	84,113	99,931	1,16,579
Operating Expenses	39759	45200	47,260	45,472	53,604
<b>EBITDA</b>	<b>22,354</b>	<b>28,086</b>	<b>30,174</b>	<b>36,584</b>	<b>44,448</b>
Change (%)	11.9	25.6	7.4	21.2	21.5
Margin (%)	15.8	18.1	18.7	20.1	20.7
Depreciation	2,659	2,880	3,379	3,777	4,631
Int. and Fin. Charges	348	405	304	270	230
Other Income	1,697	2,007	2,625	3,340	3,381
<b>Profit before Taxes</b>	<b>21,044</b>	<b>26,808</b>	<b>29,116</b>	<b>35,877</b>	<b>42,968</b>
Tax	6,495	8,491	9,485	11,480	13,749
Tax Rate (%)	30.9	31.7	32.6	32.0	32.0
Minority Interest	322	531	284	743	758
<b>Adjusted PAT</b>	<b>14,227</b>	<b>17,786</b>	<b>19,347</b>	<b>23,654</b>	<b>28,460</b>
Change (%)	15.8	25.0	8.8	22.3	20.3
Margin (%)	10.0	11.4	12.0	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>19,347</b>	<b>23,654</b>	<b>28,460</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	86,901	1,02,042
<b>Net Worth</b>	<b>47,424</b>	<b>56,053</b>	<b>76,023</b>	<b>87,860</b>	<b>1,03,001</b>
<b>Minority Interest</b>	<b>2,637</b>	<b>2,942</b>	<b>3,755</b>	<b>4,214</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	22,744	28,165
Other Current Liabilities	9,997	12,320	12,669	12,669	12,669
Short Term Borrowings	3,316	2,311	5,044	6,256	7,756
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>1,40,220</b>	<b>1,62,297</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	31,073	38,479
Account Receivables	11,821	12,483	14,466	17,111	21,190
Cash and Bank Balance	2,044	4,204	8,012	8,864	11,587
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>1,40,220</b>	<b>1,62,297</b>

**Cash Flow**

Cash Flow Statement (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
<b>PBT before EO items</b>	21,044	26,808	29,116	35,877	42,968
Add : Depreciation	2,580	3,251	3,379	3,777	4,631
Interest	348	405	304	270	230
Less : Direct taxes paid	6,495	8,491	9,485	11,480	13,749
Less: Minority Interest	322	531	284	743	758
(Inc)/Dec in WC	5,203	-5,576	15,281	3,933	6,063
<b>CF from Op after extra</b>	<b>11,677</b>	<b>26,494</b>	<b>7,749</b>	<b>23,767</b>	<b>27,258</b>
(Incr)/Decr in FA	4,888	9,458	3,838	12,500	12,500
(Pur)/Sale of Investments	1,642	5,104	5,538	0	0
Others	-348	-405	1,531	-270	-230
<b>CF from Invest.</b>	<b>-6,878</b>	<b>-14,967</b>	<b>-7,845</b>	<b>-12,770</b>	<b>-12,730</b>
Inc/(Dec) in equity	-74	-216	12,183	0	0
Inc/(Dec) in debt	1,699	-1,039	2,467	1,211	1,500
Dividend paid	6,846	8,417	11,559	11,817	13,319
<b>CF from fin. activity</b>	<b>-5,045</b>	<b>-9,367</b>	<b>3,903</b>	<b>-10,146</b>	<b>-11,804</b>
<b>Incr/Decr of Cash</b>	<b>-246</b>	<b>2,160</b>	<b>3,808</b>	<b>851</b>	<b>2,724</b>
Add: Opening Balance	2,290	2,044	4,204	8,012	8,864
<b>Closing Balance</b>	<b>2,044</b>	<b>4,204</b>	<b>8,012</b>	<b>8,864</b>	<b>11,587</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	12.7	17.9
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	38.5	39.3
ROE	30.0	31.7	25.4	26.9	27.6

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹)	14.8	18.5	20.2	24.7	29.7
P/E (x)	55.3	46.8	53.1	49.6	41.2
BV (₹)	49.2	59.0	76.6	88.9	104.7
P/BV (x)	16.7	14.7	14.0	13.8	11.7
EV/EBITDA (x)	33.8	28.5	33.0	31.2	25.7
Fixed assets turnover ratio (x)	5.7	6.4	7.7	9.3	10.9
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	5.3	5.2	6.2	6.3	5.3

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Buy                              More than 15%

Hold                             15% to -15%

Sell                              Less than -15%

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