

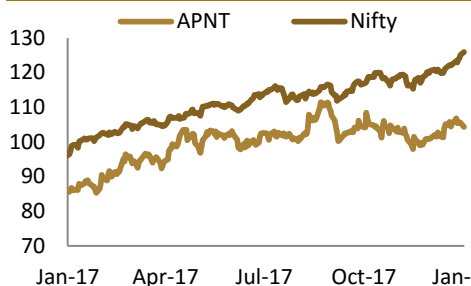
Market statistics

Current stock price (₹)	1,167
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,11,751
52W H/L (₹)	1,262/ 952
6m avg. volume	7,86,346
Bloomberg	APNT IN

Shareholding pattern

Promoters	52.79
Domestic Institution	9.97
Foreign Institution	16.35
Non-institution	20.89
of which > than 1%	
Teesta Retail Pvt. Ltd.	4.9

KNPL vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	25.9	25.8	25.4
RoCE (%)	37.1	36.8	36.0
P/B (x)	13.2	11.3	9.8
EV/OCF (x)	46.6	42.5	37.5
EV/EBITDA (x)	31.0	26.5	23.2
P/E (x)	49.4	42.8	37.5

Analyst

Tushar Chaudhari

+91-22 4224 5119

tushar.chaudhari@trustgroup.in

Asian Paints' (APNT) 3QFY18 standalone operating performance improved sharply led by reduction in other expenses however decorative volume growth disappointed. Volumes grew ~6% on weak base of demo quarter due to extended monsoon in stronger Southern India and early festive season. EBITDA grew 15% YoY to ₹8.9b; in line with est. led by cut in other expenses. Consolidated revenues grew 8% YoY to ₹42.7b while EBITDA margins improved to 21% despite pressure on gross margins led by hardening of certain raw material prices. Maintain Buy.

Strong operating performance on consistent reduction in other expenses

Consolidated PAT grew 22% YoY to ₹5.7b in line with our est. of ₹5.6b led by strong operating performance despite weak volume growth in decorative business. Management remained cautiously optimistic about demand conditions as demand has not reached to pre GST levels yet. Decorative business witnessed mid-single digit (~6% volume Vs est. of 10%) in this quarter as it was impacted by extended monsoon in Southern India and early festive season. We had expected lower double digit volume growth on a lower base of 2% in the demonetization quarter. While management observed uptick in demand in later half of 3QFY18, it has not recovered fully to pre-GST levels. Standalone revenue grew 11% YoY to ₹35.9b. Gross margins declined 90bps YoY to 43.5% in 3QFY18, as raw material prices (MMA and other crude derivatives) inched up however APNT has not yet initiated pricing actions which suggests near term volume pressure.

Consolidated EBITDA grew 15% to ₹8.9b in line with est. led by reduction in other expenditure across business segments. Standalone EBITDA margins improved 210bps to 22.8% while consolidated margins improved 116bps to 20.9%. APNT has not taken any price hike post 2.68% in May 2017.

APNT has planned a capex of ₹12b in FY18, of which ₹10b will be utilised towards setting up of two new manufacturing facilities at Mysuru and Vizag. APNT is on track to commission the first phase of both the plants in FY19.

Strong growth in industrial JVs; mixed International business performance

PPG-AP (automotive coatings business) witnessed good growth in the Auto OEM and general industrial business segments. The auto-refinish market saw sequential uptick in demand. AP-PPG (industrial coatings JV) witnessed good demand growth led by powder coating segment. International business remained impacted by currency devaluation in Egypt and forex unavailability in Ethiopia. However, APNT witnessed good revenue growth in Nepal, Bangladesh, Bahrain and Oman.

Consistent growth in home improvement; acquired remaining Sleek stake

APNT witnessed sustained acceleration in home improvement business with both the segments in home décor – *Sleek* and *Ess Ess* delivered another quarter of decent growth. During the quarter, APNT also purchased balance stake (49%) in Sleek International Private Limited (*Sleek*) from the Ahuja Family for a cash consideration of ₹500m. Sleek has now become a wholly owned subsidiary of APNT.

Outlook & Valuation

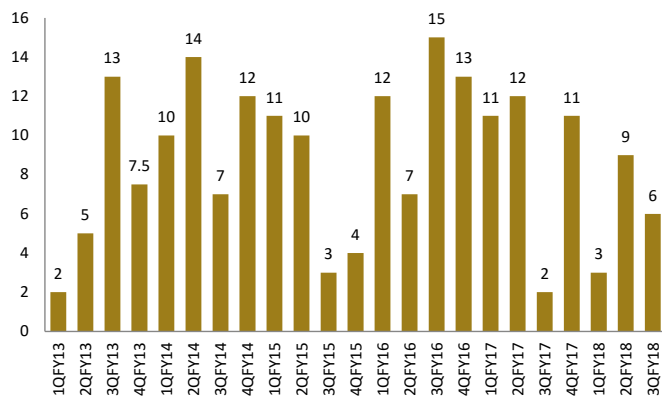
With lower than expected volume growth in FY18 and weaker overseas operations, we cut our FY19 EPS estimates by 3-4% to ₹27.2. Over last few quarters, APNT has undertaken stringent cuts in other operating expenses which have aided margins. Once demand scenario improves over next two quarters, efficient pricing actions will bring strong delta for earnings growth. Decorative volume growth is expected to improve on relatively better monsoon, successful GST transition, Govt's increasing focus on improving rural income and housing. APNT trades at 37x FY20E EPS of ₹31 however with its capability of adding capacities and distribution, demonstrated operating efficiencies and innovative capabilities, it has always remained ahead of competition. We expect APNT to deliver 14%, 16% and 15% CAGR growth over FY17-20E in revenue, EBITDA & PAT respectively. Maintain Buy.



Exhibit 1: Consolidated Quarter Performance

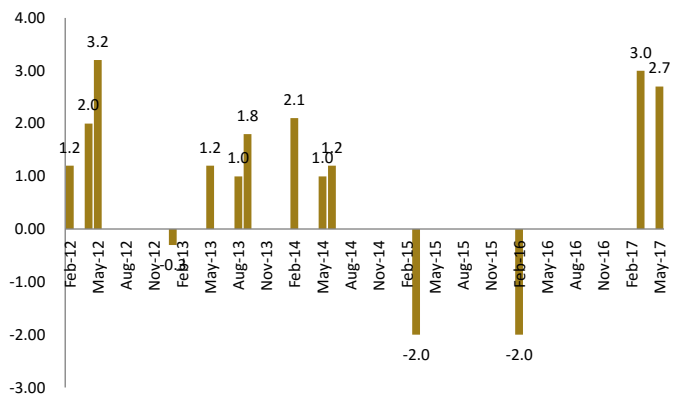
Particulars (₹ mn)	3Q FY17	2Q FY18	3Q FY18	YoY Chg (%)
Total Income	39,370	42,742	42,675	8
Total RM	22,045	25,042	24,610	12
Gross Profit	17,325	17,699	18,065	4
Gross Margin (%)	44.0	41.4	42.3	-167bps
Employee Cost	2,643	2,822	2,711	3
% of sales	6.7	6.6	6.4	-36bps
ASP	0	90	70	
% of sales	0.0	0.2	0.2	16bps
Other Expenditure	6,918	6,777	6,373	-8
% of sales	17.6	15.9	14.9	-264bps
EBITDA	7,763	8,011	8,912	15
EBITDA Margin (%)	19.7	18.7	20.9	116bps
Depreciation	855	889	896	5
Other Income	415	534	497	20
EBIT	7,323	7,656	8,512	16
EBIT Margin (%)	18.6	17.9	19.9	135bps
Interest	91.7	87.7	92.1	0
PBT	7,231	7,569	8,420	16
Total Tax	2,465	2,459	2,913	18
Effective tax rate (%)	34.1	32.5	34.6	51bps
Reported PAT	4,766	5,110	5,507	16
Adjusted PAT	4,639	5,262	5,672	22

Exhibit 1: Weak volume growth



Source: Company, Trust

Exhibit 2: Expect price hikes in coming quarters



Source: Company, Trust



Financials – Consolidated

P&L Statement

Y/E Mar (₹mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,55,341	1,61,546	1,77,867	2,06,672	2,39,536
Change (%)	9.5	4.0	10.1	16.2	15.9
Raw Materials	82,056	84,113	98,327	1,13,993	1,31,719
Operating Expenses	45,200	47,260	44,460	51,649	61,063
EBITDA	28,086	30,174	35,080	41,030	46,754
Change (%)	25.6	7.4	16.3	17.0	14.0
Margin (%)	18.1	18.7	19.7	19.9	19.5
Depreciation	2,880	3,379	3,777	4,631	5,467
Int. and Fin. Charges	405	304	268	230	230
Other Income	2,007	2,625	3,340	3,381	3,425
Profit before Taxes	26,808	29,116	34,374	39,550	44,482
Tax	8,491	9,485	10,999	12,656	14,234
Tax Rate (%)	31.7	32.6	32.0	32.0	32.0
Minority Interest	531	284	744	758	457
Adjusted PAT	17,786	19,347	22,631	26,136	29,792
Change (%)	25.0	8.8	17.0	15.5	14.0
Margin (%)	11.4	12.0	12.7	12.6	12.4
Exceptional/Prior Period inc	-525	0	0	0	0
Reported PAT	17,262	19,347	22,631	26,136	29,792

Balance Sheet

Y/E Mar (₹mn)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	959	959	959	959	959
Total Reserves	55,093	75,064	86,389	1,00,294	1,16,144
Net Worth	56,053	76,023	87,348	1,01,253	1,17,103
Minority Interest	2,942	3,755	4,214	4,228	3,927
Long Term Borrowings	749	483	483	483	483
Other LT Liabilities & provisions	1,349	528	528	528	528
Trade Payables	15,901	19,228	22,229	27,121	33,005
Other Current Liabilities	12,320	12,669	12,669	12,669	12,669
Short Term Borrowings	2,311	5,044	6,228	7,673	9,431
Short Term Provisions	7,633	1,460	1,460	1,460	1,460
Total Liabilities	1,01,428	1,23,196	1,39,166	1,59,421	1,82,612
Net Fixed Assets	34,031	33,022	39,245	44,614	49,146
Capital WIP	1,108	2,575	5,075	7,575	10,075
Non current Investments	5,393	13,007	13,007	13,007	13,007
Long term loans & advances	2,291	5,086	5,086	5,086	5,086
Inventory	20,640	26,269	30,369	37,052	45,091
Account Receivables	12,483	14,466	16,724	20,404	24,831
Cash and Bank Balance	4,204	8,012	8,901	10,925	14,616
Currents Investments	15,589	13,513	13,513	13,513	13,513
Total Assets	1,01,428	1,23,196	1,39,166	1,59,421	1,82,612

**Cash Flow**

Cash Flow Statement (₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT before EO items	26,808	29,116	34,374	39,550	44,482
Add : Depreciation	2,880	3,379	3,777	4,631	5,467
Interest	405	304	268	230	230
Less : Direct taxes paid	8,491	9,485	10,999	12,656	14,234
Less: Minority Interest	531	284	744	758	457
(Inc)/Dec in WC	-5,576	15,281	3,357	5,471	6,582
CF from Op after extra	26,123	7,749	23,320	25,526	28,907
(Incr)/Decr in FA	9,458	3,838	12,500	12,500	12,500
(Pur)/Sale of Investments	5,104	5,538	0	0	0
Others	-34	1,531	-268	-230	-230
CF from Invest.	-14,596	-7,845	-12,768	-12,730	-12,730
Inc/(Dec) in equity	-216	12,183	0	0	0
Inc/(Dec) in debt	-1,039	2,467	1,184	1,445	1,758
Dividend paid	8,417	11,559	11,306	12,231	13,942
CF from fin. activity	-9,367	3,903	-9,662	-10,773	-12,486
Incr/Decr of Cash	2,160	3,808	889	2,024	3,692
Add: Opening Balance	2,044	4,204	8,012	8,901	10,925
Closing Balance	4,204	8,012	8,901	10,925	14,616

Key Ratios

Y/E Mar (%)	FY16	FY17	FY18E	FY19E	FY20E
Raw Material Cost/Sales	52.8	52.1	55.3	55.2	55.0
Manpower Cost/Sales	6.6	6.7	6.2	6.2	6.2
Operating & Other Cost/Sales	22.5	17.0	18.8	18.8	19.3
Revenue Growth	9.5	4.0	10.1	16.2	15.9
EBITDA Margins	18.1	18.7	19.7	19.9	19.5
Net Income Margins	11.4	12.0	12.7	12.6	12.4
ROCE	42.4	36.2	37.1	36.8	36.0
ROE	31.7	25.4	25.9	25.8	25.4

Valuation Parameters

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
EPS (₹)	18.5	20.2	23.6	27.2	31.1
P/E (x)	46.8	53.1	49.4	42.8	37.5
BV (₹)	59.0	76.6	88.4	102.9	119.4
P/BV (x)	14.7	14.0	13.2	11.3	9.8
EV/EBITDA (x)	28.5	33.0	31.0	26.5	23.2
Fixed assets turnover ratio (x)	6.4	7.7	9.3	11.1	13.7
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	5.2	6.2	6.1	5.3	4.5

Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

DISCLAIMER

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :-Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.