

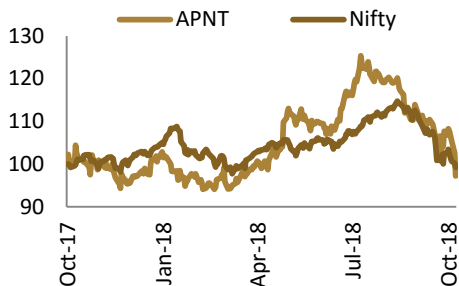
Market statistics

Current stock price (₹)	1,139
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,09,200
52W H/L (₹)	1,491/ 1,082
6m avg. volume	12,19,916
Bloomberg	APNT IN

Shareholding pattern

Promoters	52.79
Domestic Institution	11.19
Foreign Institution	14.93
Non-institution	21.09
of which > than 1%	
Teesta Retail Pvt. Ltd.	4.9

APNT vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	23.6	23.5	27.6
RoCE (%)	33.6	33.1	34.0
P/B (x)	11.4	9.9	8.6
EV/OCF (x)	46.3	41.1	14.6
EV/EBITDA (x)	28.9	25.4	21.7
P/E (x)	47.0	41.3	35.3

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Asian Paints' (APNT) 2QFY19 standalone reported PAT grew 4% YoY to Rs4.8b lower than our est. of Rs5.2b despite double digit volume growth in decorative business. Comparable revenue (ex. excise duties) grew 9% YoY to Rs39.1b. Post GST rate cut on 27th July 2018, distemper proportion improved in product mix which along with consistent increasing input prices has compressed margins. APNT has undertaken ~2.35% price hike in October 2018 and hinted further corrective action in coming quarters. Consolidated EBITDA declined 2% YoY to Rs7.8b; lower than our est. of Rs8.6b. EBITDA margins declined 184bps YoY to 16.9%. Although benefits of GST rate cut are seen in higher volume growth, corrective action on pricing has to be undertaken in near term as margins are under pressure. Reduction in GST rates is expected to benefit in medium term. Maintain HOLD.

Steady demand during spread out festive season but input prices continue to rise

Consolidated PAT declined 4% YoY to Rs5.1b lower than our est. of Rs5.7b led by product mix deterioration and continued uptick in key input prices. Although APNT has taken price hike in October it needs to take further round of price hike to maintain its margins. Volume growth in domestic decorative business seems to be steady post GST rate cut. Consolidated gross margins declined 160bps YoY to 39.8% as input costs continue to rise. EBITDA margins declined 184bps YoY to 16.9% as employee and other expenses increased 11% YoY. APNT has commissioned first phase of capacity expansion at Mysore which would aid volume growth in coming quarters. Management remained optimistic about demand as festive season is spread into 3QFY19 and reduction of GST rate from 28% to 18% will also benefit the organized sector. APNT is contemplating price hikes input costs are further inching up YoY. APNT has undertaken price hike of 2.35% in October 2018.

Upcoming facilities will ensure APNT to remain on strong growth trajectory

APNT is setting up two large capacities adding 11klpa to its capacity which is expected to drive volume growth. First phase of 3klpa of Mysore was commissioned during 2QFY19 and Vizag will be completed in 4QFY19. APNT has planned Capex of Rs12b for FY19 including Rs8b on new facilities. APNT has strong dealer network across India with ~55k retail touch points and it plans to grow it by 3k every year in order to improve its reach.

Good growth in industrial JVs; weak International subs performance continues

Industrial JVs performed well aided by good demand conditions in Auto and General Industrial segments. AP-PPG JV witnessed healthy growth in both protective and powder coatings segments. Automotive JV (PPG-AP) saw good growth however profits declined YoY impacted by higher input costs and lack of commensurate price hikes. International subsidiaries remained impacted by inflationary environment in Egypt, forex issues in Ethiopia and tough weather (SE Asia). Home improvement revenue continued good growth as bath fittings (Ess-Ess) grew significantly better than Kitchen portfolio (Sleek).

Outlook & Valuation

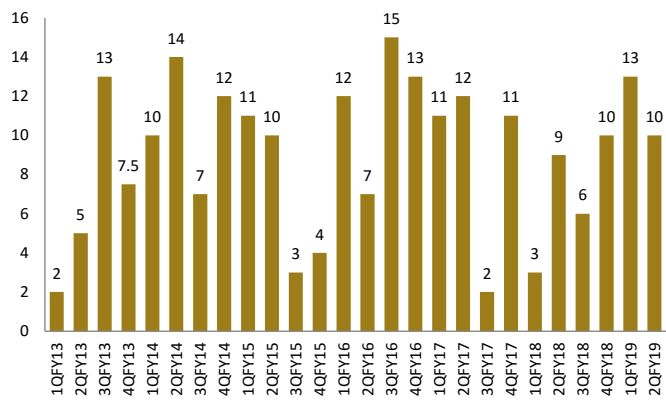
Decorative volumes have improved gradually over last few quarters however input prices have increased which is putting pressure on near term margins. Key tailwinds to watch for APNT are: a) impending festive season, b) good distribution of monsoon except NE India, c) GST rate cut which is expected to benefit organized players over next few years. Rising input costs would warrant judicious pricing post GST rate cut as Government has also laid out anti-profiteering rules. We cut our FY20E EPS by 5% to accommodate recent sharp rise in crude oil and rupee depreciation; although APNT would take corrective actions to maintain its margins over the long term. We expect APNT to deliver 15% CAGR over FY18-21E earnings. At CMP, APNT trades at 35x FY21E EPS of ₹34. Maintain **HOLD**.



Exhibit 1: Consolidated Quarter Performance

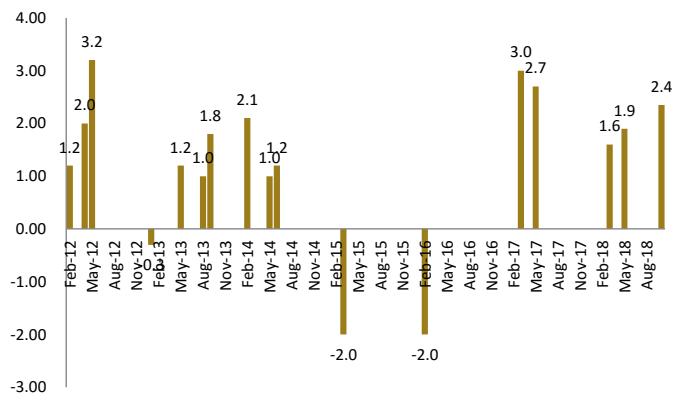
Particulars (₹ mn)	2Q FY18	1Q FY19	2Q FY19	YoY Chg (%)
Total Income	42,742	43,986	46,391	9
Total RM	25,042	24,923	27,924	12
Gross Profit	17,699	19,063	18,467	4
Gross Margin (%)	41.4	43.3	39.8	-160bps
Employee Cost	2,822	3,064	3,073	9
% of sales	6.6	7.0	6.6	2bps
Excise Duty	90	0	0	
% of sales	0.2	0.0	0.0	-21bps
Other Expenditure	6,777	7,171	7,553	11
% of sales	15.9	16.3	16.3	43bps
EBITDA	8,011	8,828	7,842	-2
EBITDA Margin (%)	18.7	20.1	16.9	-184bps
Depreciation	889	905	947	7
Other Income	534	617	633	19
EBIT	7,656	8,539	7,527	-2
EBIT Margin (%)	17.9	19.4	16.2	-169bps
Interest	87.7	87.7	121.2	38
PBT	7,569	8,451	7,406	-2
Total Tax	2,459	2,770	2,427	-1
Effective tax rate (%)	32.5	32.8	32.8	28bps
Reported PAT	5,110	5,682	4,979	-3
Adjusted PAT	5,262	5,682	5,060	-4

Exhibit 1: Decent volume growth but mix deteriorates



Source: Company, Trust

Exhibit 2: Expect price hike in coming months



Source: Company, Trust



Financials – Consolidated

P&L Statement

Y/E Mar (₹mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	1,61,546	1,72,622	1,99,747	2,31,497	2,68,411
Change (%)	4.0	6.9	15.7	15.9	15.9
Raw Materials	84,113	96,912	1,13,193	1,30,797	1,51,220
Operating Expenses	47,260	43,735	49,906	58,980	68,326
EBITDA	30,174	31,976	36,649	41,720	48,866
Change (%)	7.4	6.0	14.6	13.8	17.1
Margin (%)	18.7	18.5	18.3	18.0	18.2
Depreciation	3,379	3,605	4,631	5,467	6,167
Int. and Fin. Charges	304	351	230	230	230
Other Income	2,625	2,206	3,381	3,425	3,473
Profit before Taxes	29,116	30,227	35,168	39,448	45,942
Tax	9,485	10,410	11,254	12,623	14,701
Tax Rate (%)	32.6	34.4	32.0	32.0	32.0
Minority Interest	284	-458	687	390	413
Adjusted PAT	19,347	20,275	23,228	26,435	30,828
Change (%)	8.8	4.8	14.6	13.8	16.6
Margin (%)	12.0	11.7	11.6	11.4	11.5
Exceptional/Prior Period inc	0	0	0	0	0
Reported PAT	19,347	20,275	23,228	26,435	30,828

Balance Sheet

Y/E Mar (₹mn)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	959	959	959	959	959
Total Reserves	75,064	85,016	97,374	1,11,438	1,27,839
Net Worth	76,023	85,975	98,333	1,12,397	1,28,798
Minority Interest	3,755	3,012	4,157	3,861	3,883
Long Term Borrowings	483	483	483	483	483
Other LT Liabilities & provisions	528	528	528	528	528
Trade Payables	19,228	21,574	26,212	31,898	38,833
Other Current Liabilities	12,669	12,669	12,669	12,669	12,669
Short Term Borrowings	5,044	6,193	7,590	9,288	11,357
Short Term Provisions	1,460	1,460	1,460	1,460	1,460
Total Liabilities	1,23,196	1,35,901	1,55,438	1,76,589	2,02,017
Net Fixed Assets	33,022	39,417	44,786	49,318	53,151
Capital WIP	2,575	5,075	7,575	10,075	12,575
Non current Investments	13,007	13,007	13,007	13,007	13,007
Long term loans & advances	5,086	5,086	5,086	5,086	5,086
Inventory	26,269	29,474	35,811	43,578	53,053
Account Receivables	14,466	16,231	19,720	23,997	29,215
Cash and Bank Balance	8,012	6,852	8,694	10,769	15,170
Currents Investments	13,513	13,513	13,513	13,513	13,513
Total Assets	1,23,196	1,35,901	1,55,438	1,76,589	2,02,017



Cash Flow

Cash Flow Statement (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT before EO items	29,116	30,227	35,168	39,448	45,942
Add : Depreciation	3,379	3,605	4,631	5,467	6,167
Interest	304	351	230	230	230
Less : Direct taxes paid	9,485	10,410	11,254	12,623	14,701
Less: Minority Interest	284	-458	687	390	413
(Inc)/Dec in WC	15,281	2,624	5,188	6,359	7,758
CF from Op after extra	7,749	21,607	22,901	25,773	29,468
(Incr)/Decr in FA	3,838	12,500	12,500	12,500	12,500
(Pur)/Sale of Investments	5,538	0	0	0	0
Others	1,531	-351	-230	-230	-230
CF from Invest.	-7,845	-12,851	-12,730	-12,730	-12,730
Inc/(Dec) in equity	12,183	0	0	0	0
Inc/(Dec) in debt	2,467	1,149	1,396	1,699	2,068
Dividend paid	11,559	10,323	10,870	12,371	14,427
CF from fin. activity	3,903	-9,916	-8,330	-10,968	-12,336
Incr/Decr of Cash	3,808	-1,160	1,842	2,074	4,402
Add: Opening Balance	4,204	8,012	6,852	8,694	10,769
Closing Balance	8,012	6,852	8,694	10,769	15,170

Key Ratios

Y/E Mar (%)	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales	52.1	56.1	56.7	56.5	56.3
Manpower Cost/Sales	6.7	6.1	6.2	6.2	6.1
Operating & Other Cost/Sales	17.0	18.5	18.8	19.3	19.3
Revenue Growth	4.0	6.9	15.7	15.9	15.9
EBITDA Margins	18.7	18.5	18.3	18.0	18.2
Net Income Margins	12.0	11.7	11.6	11.4	11.5
ROCE	36.2	33.1	33.6	33.1	33.8
ROE	25.4	23.6	23.6	23.5	23.9

Valuation Parameters

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹)	20.2	21.1	24.2	27.6	32.1
P/E (x)	53.1	53.9	47.0	41.3	35.4
BV (₹)	76.6	87.4	100.2	114.9	132.0
P/BV (x)	14.0	13.0	11.4	9.9	8.6
EV/EBITDA (x)	33.0	33.2	28.9	25.4	21.7
Fixed assets turnover ratio (x)	7.7	9.5	11.3	14.1	18.2
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	6.2	6.1	5.3	4.6	3.9

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