

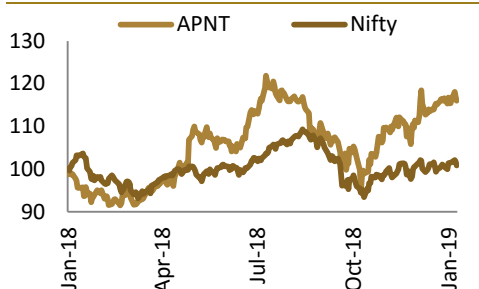
Market statistics

Current stock price (₹)	1,397
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,33,957
52W H/L (₹)	1,491/ 1,082
6m avg. volume	15,20,527
Bloomberg	APNT IN

Shareholding pattern

Promoters	52.79
Domestic Institution	10.37
Foreign Institution	15.67
Non-institution	21.17
of which > than 1%	
Teesta Retail Pvt. Ltd.	4.9

APNT vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	24.1	24.4	26.3
RoCE (%)	33.9	34.4	37.4
P/B (x)	16.4	14.0	11.6
EV/OCF (x)	55.5	54.2	44.6
EV/EBITDA (x)	40.9	35.1	27.5
P/E (x)	66.1	56.2	43.4

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Asian Paints' (APNT) 3QFY19 consolidated reported PAT grew 14% YoY to Rs6.47b in-line with our est. of Rs6.43b on robust higher double digit volume growth in decorative business. Standalone revenue grew 26.4% YoY to Rs45.3b aided by strong volume push post GST rate cut to 18% in July 2018. Management passed on complete benefit to consumers and taken price hike of 1.7% in December to mitigate rising margin pressure as hinted in earlier October. Consolidated EBITDA grew 17% YoY to Rs10.4b; better than our est. of Rs10b. EBITDA margins declined 118bps YoY to 19.7%. Management commentary remained cautiously optimistic despite strong results due to uncertain near term demand environment amidst upcoming elections and volatility in INR & raw material prices. Maintain HOLD.

~22% decorative volume growth aided by GST rate cut and festive season

Consolidated PAT grew 14% YoY to Rs6.47b in-line with our est. led by robust volume growth of ~22% in decorative business while product mix has improved QoQ. Raw material inflation tapered during the quarter which aided margins. EBITDA margins declined 118bps to 19.7% as APNT took price hike in October and December of 2.35% and 1.7% respectively. Although employee cost and other expenses grew YoY, it includes commissioning of first phase of Mysuru plant and Vizag is expected to get commissioning in 4QFY19. If RM inflation picks up again in near term, APNT will have to take price hike. Management remained cautiously optimistic about demand as elections are in 1QFY20 and volatility led by INR/USD and RM inflation can complicate the near term.

New facilities are expected to put APNT 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 commissioned during 4QFY19. APNT has planned Capex of Rs12b for FY19 including Rs8b on new facilities. APNT has strong dealer network across India with ~65k retail touch points and it plans to grow it by 3k every year in order to improve its reach.

Good growth in Sleek and industrial JVs; weak Intl subs drags conso EBITDA

Industrial APNT's subsidiaries revenue grew by 11% YoY to Rs7.6bn. Challenging business conditions in Egypt, Bangladesh and Sri Lanka and unavailability of forex in Ethiopia affected its international operations. Automotive coatings JV (PPG-AP) was affected by muted auto volumes while Protective and Powder coatings witnessed good growth in industrial coatings JV (AP-PPG). Home improvement performance was satisfactory. Sleek business accounts for ~1.5% of revenues now and is growing at a good pace. Management believes that market has improved and performance has been healthy despite weak real estate environment. However Ess-Ess business continued to be muted.

Outlook & Valuation

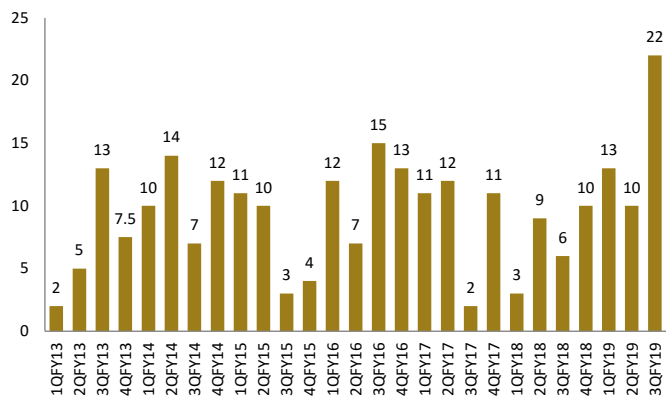
Decorative volume growth trend has improved gradually over last few quarters however input prices have also increased which is putting pressure on near term margins. Key tailwinds to watch for APNT are: a) higher cash flow in rural segment, b) softening of crude and raw materials, c) GST rate cut which is expected to benefit organized players over next few years, d) addition of ~3,000 dealers' per annum to its distribution network. Rising input costs warranted judicious pricing post GST rate cut as Government had laid out anti-profiteering rules and by passing off entire benefit of GST cut, APNT has played very safe and received robust volume growth at the same time. While competition is expected to follow, APNT has pricing power to protect its margins in inflationary environment. We have raised our FY19-20E EPS by 3-8% to accommodate robust performance. We expect APNT to deliver 21% CAGR over FY18-21E earnings. At CMP, APNT trades at 37x FY21E EPS of ₹37. Maintain HOLD.



Exhibit 1: Consolidated Quarter Performance

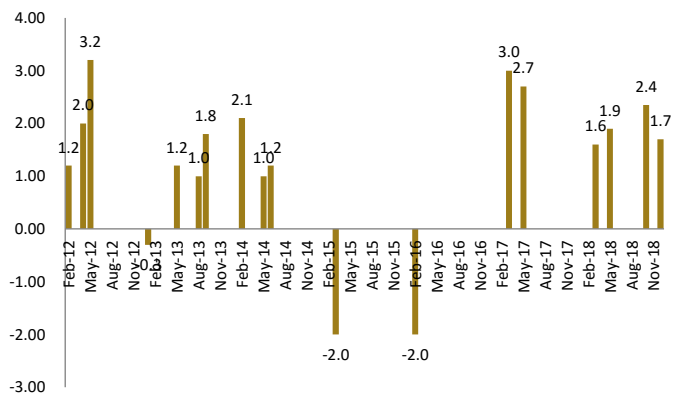
Particulars (₹ mn)	3Q FY18	2Q FY19	3Q FY19	YoY Chg (%)
Total Income	42,675	46,391	52,940	24
Total RM	24,610	27,924	31,250	27
Gross Profit	18,065	18,467	21,690	20
Gross Margin (%)	42.3	39.8	41.0	-136bps
Employee Cost	2,711	3,073	3,226	19
% of sales	6.4	6.6	6.1	-26bps
Excise Duty	70	0	0	
% of sales	0.2	0.0	0.0	-16bps
Other Expenditure	6,373	7,553	8,034	26
% of sales	14.9	16.3	15.2	24bps
EBITDA	8,912	7,842	10,430	17
EBITDA Margin (%)	20.9	16.9	19.7	-118bps
Depreciation	896	947	1,154	29
Other Income	497	633	452	-9
EBIT	8,512	7,527	9,728	14
EBIT Margin (%)	19.9	16.2	18.4	-157bps
Interest	92.1	121.2	147.9	61
PBT	8,420	7,406	9,580	14
Total Tax	2,913	2,427	3,263	12
Effective tax rate (%)	34.6	32.8	34.1	-54bps
Reported PAT	5,507	4,979	6,317	15
Adjusted PAT	5,672	5,060	6,472	14

Exhibit 1: All time high volume growth



Source: Company, Trust

Exhibit 2: Pricing actions to mitigate pressure on GM



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	1,95,224	2,29,305	2,59,825
Change (%)	4.0	6.9	13.1	17.5	13.3
Raw Materials	84,113	96,912	1,09,214	1,23,241	1,37,790
Operating Expenses	47,260	43,735	48,730	58,442	66,217
EBITDA	30,174	31,976	37,280	47,622	55,818
Change (%)	7.4	6.0	16.6	27.7	17.2
Margin (%)	18.7	18.5	19.1	20.8	21.5
Depreciation	3,379	3,605	4,206	4,380	5,430
Int. and Fin. Charges	304	351	230	230	230
Other Income	2,625	2,206	2,784	3,387	3,433
Profit before Taxes	29,116	30,227	35,627	46,399	53,590
Tax	9,485	10,410	11,400	14,847	17,148
Tax Rate (%)	32.6	34.4	32.0	32.0	32.0
Minority Interest	284	-458	366	667	601
Adjusted PAT	19,347	20,275	23,860	30,884	35,841
Change (%)	8.8	4.8	17.7	29.4	16.0
Margin (%)	12.0	11.7	12.2	13.5	13.8
Exceptional/Prior Period inc	0	0	0	0	0
Reported PAT	19,347	20,275	23,860	30,884	35,841

Balance Sheet

Y/E Mar (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	959	959	959	959	959
Total Reserves	75,080	83,143	97,015	1,16,677	1,39,051
Net Worth	76,039	84,102	97,975	1,17,636	1,40,010
Minority Interest	3,755	3,277	4,101	4,402	4,335
Deferred Tax Liability	3,430	3,975	3,975	3,975	3,975
Other LT Liabilities & provisions	1,569	1,487	1,487	1,487	1,487
Trade Payables	19,228	21,600	25,649	31,633	37,635
Other Current Liabilities	12,669	16,466	16,466	16,466	16,466
Short Term Borrowings	5,044	4,924	6,185	7,739	9,589
Total Liabilities	1,24,052	1,37,635	1,57,641	1,85,142	2,15,301
Net Fixed Assets	33,037	37,322	43,116	48,736	53,305
Capital WIP	2,575	14,051	16,551	19,051	21,551
Non current Investments	13,007	10,840	10,840	10,840	10,840
Long term loans & advances	5,776	6,280	6,280	6,280	6,280
Inventory	26,269	26,583	31,567	38,932	46,319
Account Receivables	14,466	17,306	20,551	25,345	30,155
Cash and Bank Balance	8,012	4,047	7,531	14,753	25,646
Short term loan & advances	1,882	4,134	4,134	4,134	4,134
Currents Investments	13,513	10,567	10,567	10,567	10,567
Total Assets	1,24,052	1,37,635	1,57,641	1,85,142	2,15,301

**Cash Flow**

Cash Flow Statement (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT before EO items	29,116	30,227	35,627	46,399	53,590
Add : Depreciation	3,860	4,150	4,206	4,380	5,430
Interest	304	351	230	230	230
Less : Direct taxes paid	9,485	10,410	11,400	14,847	17,148
Less: Minority Interest	284	-458	366	667	601
(Inc)/Dec in WC	10,054	1,201	4,179	6,175	6,194
CF from Op after extra	13,456	23,575	24,118	29,320	35,307
(Incr)/Decr in FA	3,763	19,365	12,500	12,500	12,500
(Pur)/Sale of Investments	-601	-5,113	0	0	0
Others	-304	-351	-230	-230	-230
CF from Invest.	-3,465	-14,603	-12,730	-12,730	-12,730
Inc/(Dec) in equity	3,003	-2,897	0	0	0
Inc/(Dec) in debt	2,418	-248	1,260	1,554	1,849
Dividend paid	-246	-742	824	301	-67
CF from fin. activity	11,559	9,315	9,988	11,223	13,467
Incr/Decr of Cash	-6,220	-12,937	-7,903	-9,367	-11,685
Add: Opening Balance	3,770	-3,966	3,484	7,222	10,892
Closing Balance	4,242	8,012	4,047	7,531	14,753

Key Ratios

Y/E Mar (%)	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales	52.1	56.1	55.9	53.7	53.0
Manpower Cost/Sales	6.7	5.9	6.1	6.2	6.2
Operating & Other Cost/Sales	17.0	17.9	18.9	19.3	19.3
Revenue Growth	4.0	6.9	13.1	17.5	13.3
EBITDA Margins	18.7	18.5	19.1	20.8	21.5
Net Income Margins	12.0	11.7	12.2	13.5	13.8
ROCE	36.2	33.9	34.4	37.4	36.5
ROE	25.4	24.1	24.4	26.3	25.6

Valuation Parameters

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹)	20.2	21.1	24.9	32.2	37.4
P/E (x)	53.1	66.1	56.2	43.4	37.4
BV (₹)	76.6	85.1	99.5	120.0	143.3
P/BV (x)	14.0	16.4	14.0	11.6	9.7
EV/EBITDA (x)	33.0	40.9	35.1	27.5	23.4
Fixed assets turnover ratio (x)	7.7	9.8	10.6	11.8	14.7
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	6.2	7.6	6.7	5.7	5.0

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