

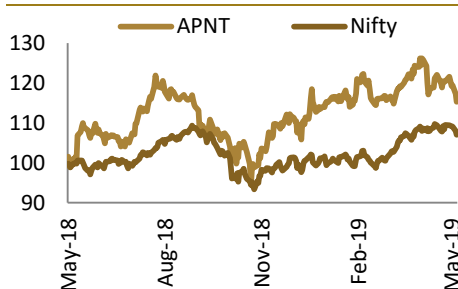
Market statistics

Current stock price (₹)	1,341
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,28,623
52W H/L (₹)	1,529/ 1,119
6m avg. volume	16,34,334
Bloomberg	APNT IN

Shareholding pattern

Promoters	52.79
Domestic Institution	9.50
Foreign Institution	16.33
Non-institution	21.38
of which > than 1%	
LIC of India	3.96

APNT vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	23.0	25.5	25.9
RoCE (%)	31.9	35.8	36.4
P/B (x)	13.5	11.4	9.5
EV/OCF (x)	54.6	45.1	36.0
EV/EBITDA (x)	35.5	27.9	22.8
P/E (x)	58.2	44.2	36.5

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Asian Paints (APNT) reported weaker quarter on lower than expected volume growth, increase in RM costs and overall costs. 4QFY19 consolidated reported PAT declined 2% YoY to Rs4.9b much lower than est. of Rs5.7b. Standalone revenue grew 12.2% YoY to Rs42.3b aided by strong volume growth although mix deteriorated. APNT had increased prices by 1.7% in December 2018 and not taken any hikes due to easing RM scenario however any adverse move from current levels would need price hikes as per management. Consolidated EBITDA declined 2% YoY to Rs8.2b; lower than est. of Rs10b. EBITDA margins declined 230bps YoY to 16.4% led by higher employee (up 21% YoY) and other costs due to commissioning of new facilities. Maintain HOLD.

Double digit decorative volume growth aided by GST rate cut in previous quarter

Consolidated PAT declined 2% YoY to Rs4.8b lower than our est. led by volume mix deterioration, higher RM and other costs. EBITDA margins declined 230bps to 16.4% due to higher employee costs and weaker gross margins. Although employee cost and other expenses grew YoY, it includes commissioning of first phase of Mysuru plant and Vizag. If RM inflation picks up again in near term, APNT will have to take price hike. Management remained cautiously optimistic however near term demand uncertainty prevails as monsoon remains key to improve rural sentiments.

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 Mysore was commissioned during 2QFY19 and Vizag was commissioned during 4QFY19. APNT has planned Capex of Rs12b for FY19 including Rs8b on new facilities. APNT has strong dealer network across India with ~70k retail touch points and it plans to grow it by 3k every year in order to improve its reach.

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

Industrial Auto JV witnessed slowdown led by mainly Auto OEM segment as high RM prices and inadequate price increase impacted profitability. The industrial coatings JV continued to grow well led by good performance in the dealer segment for protective and powder coatings. Ethiopia continued to face challenges due to currency availability for RM imports; Egypt, Sri Lanka and Bangladesh markets continued to be weak partly due to a sluggish economy. Indonesia grew well aided by distribution expansion. Indonesia reported revenues of Rs700m in FY2019 and EBITDA loss of Rs450m largely due to investments in distribution expansion. Overall profitability of the international business was under pressure as APNT could not pass on RM increase in a few markets not being the leader. Sleek and ESS ESS reported strong revenue growth of 24% and 27% YoY in FY2019 respectively. APNT believes that its understanding about the business and market has improved and performance has been healthy notwithstanding a weak real estate environment. Ess Ess revenues growth was led by the premium and luxury range.

Outlook & Valuation

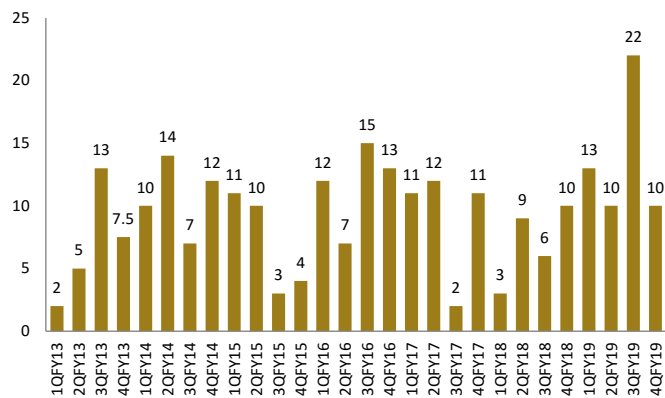
Decorative volume growth trend has improved gradually over last few quarters however input prices have also increased which is putting pressure on near term margins. Key tailwinds to watch for APNT are: a) monsoon trend, b) state of rural economy, c) any softening of crude and raw materials, d) addition 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 cut our FY20-21E EPS by 3-6% to accommodate weak near term performance. We expect APNT to deliver 26% CAGR over FY19-21E earnings. At CMP, APNT trades at 36x FY21E EPS of ₹36. Maintain HOLD.



Exhibit 1: Consolidated Quarter Performance

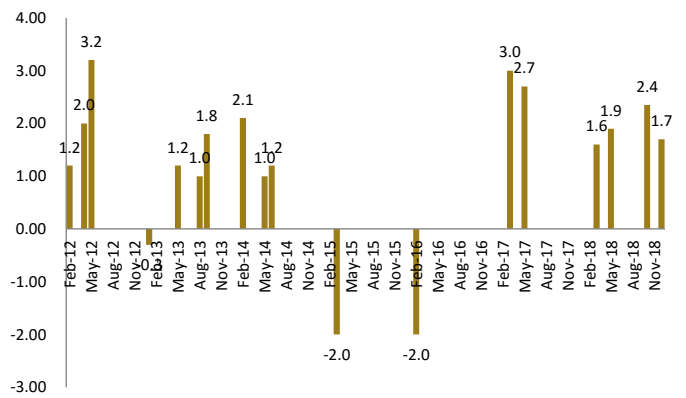
Particulars (₹ mn)	4Q FY18	3Q FY19	4Q FY19	YoY Chg (%)
Total Income	44,923	52,940	50,182	12
Total RM	25,447	31,250	29,326	15
Gross Profit	19,476	21,690	20,856	7
Gross Margin (%)	43.4	41.0	41.6	-179bps
Employee Cost	2,761	3,226	3,338	21
% of sales	6.1	6.1	6.7	51bps
Excise Duty	87	0	0	
% of sales	0.2	0.0	0.0	-19bps
Other Expenditure	8,229	8,034	9,288	13
% of sales	18.3	15.2	18.5	19bps
EBITDA	8,399	10,430	8,230	-2
EBITDA Margin (%)	18.7	19.7	16.4	-230bps
Depreciation	914	1,154	1,301	42
Other Income	392	452	569	45
EBIT	7,877	9,728	7,498	-5
EBIT Margin (%)	17.5	18.4	14.9	-259bps
Interest	91.3	147.9	153.2	68
PBT	7,786	9,580	7,344	-6
Total Tax	2,877	3,263	2,529	-12
Effective tax rate (%)	37.0	34.1	34.4	-252bps
Reported PAT	4,909	6,317	4,816	-2
Adjusted PAT	4,959	6,472	4,875	-2

Exhibit 1: Trend in decorative volume growth



Source: Company, Trust

Exhibit 2: No price hikes 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	1,93,498	2,25,815	2,55,866
Change (%)	4.0	6.9	12.1	16.7	13.3
Raw Materials	84,113	96,912	1,13,423	1,21,389	1,35,724
Operating Expenses	47,260	43,735	44,747	59,454	65,245
EBITDA	30,174	31,976	35,329	44,972	54,898
Change (%)	7.4	6.0	10.5	27.3	22.1
Margin (%)	18.7	18.5	18.3	19.9	21.5
Depreciation	3,379	3,605	4,307	4,380	5,430
Int. and Fin. Charges	304	351	510	230	230
Other Income	2,625	2,206	2,271	3,387	3,433
Profit before Taxes	29,116	30,227	32,782	43,749	52,670
Tax	9,485	10,410	10,988	13,999	16,854
Tax Rate (%)	32.6	34.4	33.5	32.0	32.0
Minority Interest	284	-458	-294	667	601
Adjusted PAT	19,347	20,275	22,088	29,082	35,215
Change (%)	8.8	4.8	8.9	31.7	21.1
Margin (%)	12.0	11.7	11.4	12.9	13.8
Exceptional/Prior Period inc	0	0	0	0	0
Reported PAT	19,347	20,275	22,088	29,082	35,215

Balance Sheet

Y/E Mar (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	959	959	959	959	959
Total Reserves	75,080	83,143	95,243	1,13,102	1,34,850
Net Worth	76,039	84,102	96,202	1,14,061	1,35,809
Minority Interest	3,755	3,277	3,441	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	25,422	31,152	37,062
Other Current Liabilities	12,669	16,466	16,466	16,466	16,466
Short Term Borrowings	5,044	4,924	6,173	7,704	9,526
Total Liabilities	1,24,052	1,37,635	1,54,971	1,81,051	2,10,464
Net Fixed Assets	33,037	37,322	43,016	48,635	53,205
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	31,288	38,339	45,613
Account Receivables	14,466	17,306	20,369	24,960	29,695
Cash and Bank Balance	8,012	4,047	5,421	11,741	22,074
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	1,54,971	1,81,051	2,10,464

**Cash Flow**

Cash Flow Statement (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT before EO items	29,116	30,227	32,782	43,749	52,670
Add : Depreciation	3,860	4,150	4,307	4,380	5,430
Interest	304	351	510	230	230
Less : Direct taxes paid	9,485	10,410	10,988	13,999	16,854
Less: Minority Interest	284	-458	-294	667	601
(Inc)/Decr in WC	10,054	1,201	3,945	5,912	6,099
CF from Op after extra	13,456	23,575	22,960	27,780	34,776
(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	-510	-230	-230
CF from Invest.	-3,465	-14,603	-13,010	-12,730	-12,730
Inc/(Dec) in equity	3,003	-2,897	0	0	0
Inc/(Dec) in debt	2,418	-248	1,249	1,531	1,821
Dividend paid	-246	-742	164	961	-67
CF from fin. activity	11,559	9,315	9,988	11,223	13,467
Incr/Decr of Cash	-6,220	-12,937	-8,575	-8,731	-11,713
Add: Opening Balance	3,770	-3,966	1,375	6,320	10,333
Closing Balance	4,242	8,012	4,047	5,421	11,741

Key Ratios

Y/E Mar (%)	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales	52.1	56.1	58.6	53.8	53.0
Manpower Cost/Sales	6.7	5.9	6.2	6.2	6.2
Operating & Other Cost/Sales	17.0	17.9	19.1	20.1	19.3
Revenue Growth	4.0	6.9	12.1	16.7	13.3
EBITDA Margins	18.7	18.5	18.3	19.9	21.5
Net Income Margins	12.0	11.7	11.4	12.9	13.8
ROCE	36.2	33.9	31.9	35.8	36.4
ROE	25.4	24.1	23.0	25.5	25.9

Valuation Parameters

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹)	20.2	21.1	23.0	30.3	36.7
P/E (x)	53.1	63.4	58.2	44.2	36.5
BV (₹)	76.6	85.1	99.5	118.1	140.8
P/BV (x)	14.0	15.8	13.5	11.4	9.5
EV/EBITDA (x)	33.0	39.3	35.5	27.9	22.8
Fixed assets turnover ratio (x)	7.7	9.8	10.5	12.0	15.1
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	6.2	7.3	6.5	5.6	4.9

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