

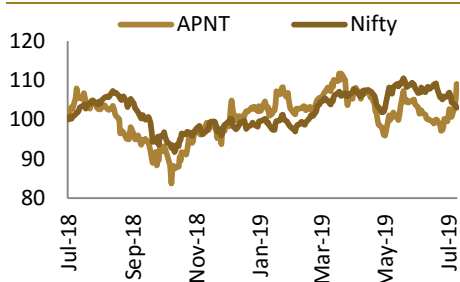
Market statistics

Current stock price (₹)	1,496
Shares O/S (cr.)	95.9
Mcap (₹ cr)	1,42,287
52W H/L (₹)	1,530/ 1,119
6m avg. volume	13,29,024
Bloomberg	APNT IN

Shareholding pattern

Promoters	52.79
Domestic Institution	8.94
Foreign Institution	16.65
Non-institution	21.62
of which > than 1%	
LIC of India	2.92

APNT vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	23.0	24.3	25.1
RoCE (%)	31.9	34.2	35.3
P/B (x)	14.9	12.8	10.8
EV/OCF (x)	60.6	52.3	42.3
EV/EBITDA (x)	39.4	32.8	26.8
P/E (x)	64.4	52.0	42.9

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Asian Paints (APNT) reported strong operating performance with high double digit volume growth, stringent cost curbs and benign RM movement. 1QFY20 consolidated reported PAT grew 18.3% YoY to Rs6.7b better than our est. of Rs6.3b. Standalone revenue grew strong 18.2% YoY to Rs43.8b aided by strong double digit volume growth. APNT has undertaken average price cut of 0.4% during the quarter to pass on benefits of softer RM. Consolidated EBITDA grew strong 31% YoY to Rs11.6b; much better than est. of Rs9.9b while margins improved 247bps YoY to 22.5% led by overall cost control and favourable RM environment. APNT commentary was however cautious on impending near term demand scenario given challenging economy and below average monsoon so far. Maintain HOLD.

High double digit decorative volume growth

Consolidated PAT grew 18.3% YoY to Rs6.7b better than our est. led by strong volume growth, efficient cost control and benign RM environment. APNT had innovative schemes working which helped it in channel filling and there was channel push at dealer level which helped APNT to receive more shelf space. Other expenses grew just 2% YoY (-21% QoQ) despite commissioning of both the new facilities in 2HFY19 as A&P spends moderated post peaking in 4QFY19 (during IPL time). Gross margins improved 20bps to 43.5% while employee costs grew 13% YoY to Rs3.5b. If RM inflation picks up again in near term, APNT will have to take price hike. Management remained cautious about near term demand environment in challenging economy and significantly below average monsoon so far. Management indicated that economy segment is growing much faster than the company average.

New facilities are expected to put APNT on strong growth trajectory

APNT has set up two large capacities adding 11klpa to its capacity which is expected to drive volume growth in medium term. First phase of 3klpa of Mysore was commissioned during 2QFY19 and Vizag was commissioned during 4QFY19. APNT has planned Capex of Rs7b for FY20. 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.

Weak Intl subs continue to drag; home improvement performed well

Industrial Auto JV continues to witness slowdown led by mainly Auto OEM segment as high RM prices and inadequate price increase impacted profitability. The industrial coating JV too was impacted by the general economic slowdown. Sleek and Ess Ess performed well during 1QFY20 however as larger proportion of this Home improvement segment goes in new house construction; their growth rates have been slower than company's expectation. International business performance continued to be a drag on the overall group performance with key units of Egypt and Sri Lanka not doing well. Sri Lankan units faced a period of market shutdown following recent terrorist attacks and subsequent shutdown. Indonesia operation continued to scale up, at a moderate pace, and was impacted by the elections in the country.

Outlook & Valuation

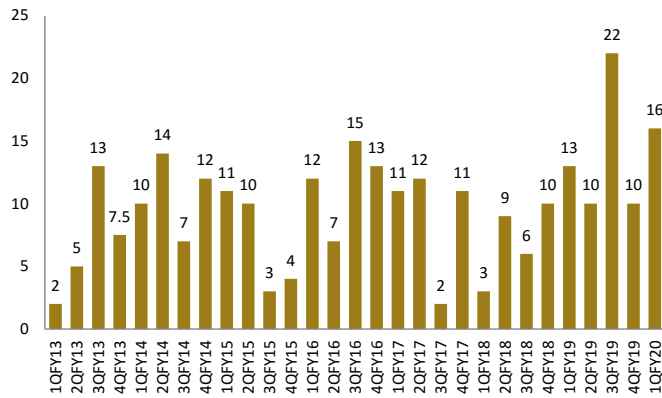
Decorative volume growth trend has improved gradually due to shift from inorganic players on lower GST rate; however input prices can put pressure on near term margins. As Indian economy is going through soft growth phase, APNT volumes can also come under pressure. Key tailwinds to watch for APNT are: 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 3-4% to accommodate near term demand uncertainty. We expect APNT to deliver 23% CAGR over FY19-21E earnings. At CMP, APNT trades at 43x FY21E EPS of ₹34.6. Maintain **HOLD**.



Exhibit 1: Consolidated Quarter Performance

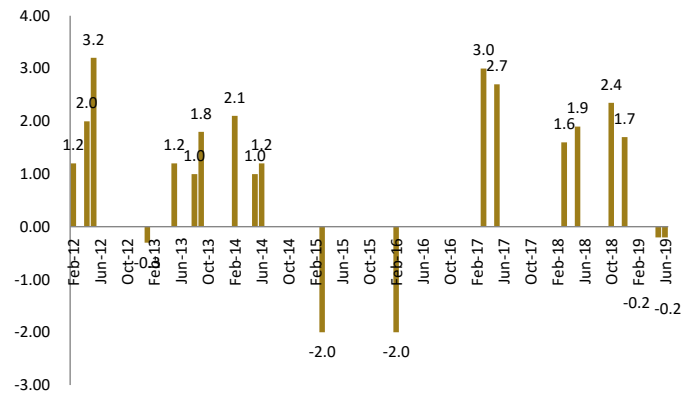
Particulars (₹ mn)	1Q FY19	4Q FY19	1Q FY20	YoY Chg (%)
Total Income	43,986	50,182	51,306	17
Total RM	24,923	29,326	28,970	16
Gross Profit	19,063	20,856	22,337	17
Gross Margin (%)	43.3	41.6	43.5	20bps
Employee Cost	3,064	3,338	3,448	13
% of sales	7.0	6.7	6.7	-20bps
Other Expenditure	7,171	9,288	7,326	2
% of sales	16.3	18.5	14.3	-20bps
EBITDA	8,828	8,230	11,563	31
EBITDA Margin (%)	20.1	16.4	22.5	250bps
Depreciation	905	1,301	1,926	113
Other Income	617	569	736	19
EBIT	8,539	7,498	10,372	21
EBIT Margin (%)	19.4	14.9	20.2	80bps
Interest	87.7	153.2	267.5	205
PBT	8,451	7,344	10,104	20
Total Tax	2,770	2,529	3,505	27
Effective tax rate (%)	32.8	34.4	34.7	190bps
Reported PAT	5,682	4,816	6,599	16
Adjusted PAT (post minority int.)	5,682	4,875	6,721	18

Exhibit 1: Trend in decorative volume growth



Source: Company, Trust

Exhibit 2: Price cuts to pass on benefits of softer RM



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	2,22,187	2,51,753
<i>Change (%)</i>	4.0	6.9	12.1	14.8	13.3
Raw Materials	84,113	96,912	1,13,423	1,21,246	1,35,608
Operating Expenses	47,260	43,735	44,747	58,527	64,235
EBITDA	30,174	31,976	35,329	42,415	51,910
<i>Change (%)</i>	7.4	6.0	10.5	20.1	22.4
<i>Margin (%)</i>	18.7	18.5	18.3	19.1	20.6
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	41,191	49,682
Tax	9,485	10,410	10,988	13,181	15,898
<i>Tax Rate (%)</i>	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	27,343	33,183
<i>Change (%)</i>	8.8	4.8	8.9	23.8	21.4
<i>Margin (%)</i>	12.0	11.7	11.4	12.3	13.2
Exceptional/Prior Period inc	0	0	0	0	0
Reported PAT	19,347	20,275	22,088	27,343	33,183

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	1,11,363	1,31,079
Net Worth	76,039	84,102	96,202	1,12,322	1,32,038
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	30,651	36,466
Other Current Liabilities	12,669	16,466	16,466	16,466	16,466
Short Term Borrowings	5,044	4,924	6,173	7,680	9,472
Total Liabilities	1,24,052	1,37,635	1,54,971	1,78,787	2,06,044
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	37,723	44,880
Account Receivables	14,466	17,306	20,369	24,559	29,218
Cash and Bank Balance	8,012	4,047	5,421	10,494	18,865
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	1,78,787	2,06,044

**Cash Flow**

Cash Flow Statement (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT before EO items	29,116	30,227	32,782	41,191	49,682
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	13,181	15,898
Less: Minority Interest	284	-458	-294	667	601
(Inc)/Decr in WC	10,054	1,201	3,945	5,396	6,001
CF from Op after extra	13,456	23,575	22,960	26,558	32,843
(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	1,506	1,792
Dividend paid	11,559	9,315	9,988	11,223	13,467
CF from fin. activity	-6,220	-12,937	-8,575	-8,755	-11,742
Incr/Decr of Cash	3,770	-3,966	1,375	5,072	8,371
Add: Opening Balance	4,242	8,012	4,047	5,421	10,494
Closing Balance	8,012	4,047	5,421	10,494	18,865

Key Ratios

Y/E Mar (%)	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales	52.1	56.1	58.6	54.6	53.9
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	14.8	13.3
EBITDA Margins	18.7	18.5	18.3	19.1	20.6
Net Income Margins	12.0	11.7	11.4	12.3	13.2
ROCE	36.2	33.9	31.9	34.2	35.3
ROE	25.4	24.1	23.0	24.3	25.1

Valuation Parameters

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹)	20.2	21.1	23.0	28.5	34.6
P/E (x)	53.1	70.2	64.4	52.0	42.9
BV (₹)	76.6	85.1	99.5	116.3	136.9
P/BV (x)	14.0	17.4	14.9	12.8	10.8
EV/EBITDA (x)	33.0	43.5	39.4	32.8	26.8
Fixed assets turnover ratio (x)	7.7	9.8	10.5	12.4	15.8
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/Sales (x)	6.2	8.1	7.2	6.3	5.5

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