



Asian Paints

BSE SENSEX	S&P CNX	Rs2,600	Buy
18,969	5,687		
Bloomberg	APNT IN		
Equity Shares (m)	95.9		
52-Week Range	3,027/1,715		
1,6,12 Rel. Perf. (%)	-4/-2/33		
M.Cap. (Rs b)	249.4		
M.Cap. (US\$ b)	5.5		

YEAR	NET SALES	Adj.PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EYI	EVI
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/10A	66,809	7,720	80.5	92.4	32.3	14.6	45.1	58.5	3.7	19.9
3/11E	80,109	8,912	92.9	15.4	28.0	11.5	40.9	51.7	3.0	17.4
3/12E	95,097	10,684	111.4	19.9	23.3	9.2	39.4	51.2	2.5	14.6
3/13E	112,674	12,777	133.2	19.6	19.5	7.4	38.1	50.5	2.1	12.2

Asian Paints' results were below estimates as consolidated EBITDA margin contracted 320bp YoY to 16.4%. Net sales grew well by 29.6% due to strong growth (up 37%) in the standalone business. Adjusted PAT grew 11% to RsRs2.2b.

- Decorative paint volumes up ~27% amid robust demand:** Standalone sales grew 37% due to a robust decorative paints segment. We estimate volume growth of ~27% and highlight the benefit from Diwali being in 3QFY11 against 2QFY11 a year earlier, and a prolonged monsoon, which impacted demand in 2QFY11. We are strong believers in the volume growth story in decorative paints in India and favor Asian Paints' ability to best capture the opportunity. We upgrade our FY11 volume growth assumptions to 17% (16% earlier).
- Input cost index up; lagged price increase impacts margins temporarily:** The RM index in 3QFY11 was 115.4, up 15.4% YoY. In an environment of volatile input costs, paint companies increased prices with a lag and Asian Paints raised prices by 2.9% in December 2010 (total price increase of 11.4% YTD), which will improve its margin profile henceforth. The price increase has been nearly matched by followers, giving little indication of price-led competition. We are cutting our FY11 margin assumption by 50bp to 17.4% (effective decline of 100bp v/s 130bp decline in 9mFY11) and by 50bp for FY12 (decline of 10bp in FY12).
- Volume growth story intact; margins to stabilize at lower levels:** We believe the volume growth story in the domestic decorative paints segment is intact due to shorter re-painting cycles, increased residential construction and higher growth in tier-II and tier-III cities. Besides, the sales mix will improve, led by rising consumerism. We expect gross margins to revive in the coming quarters and settle at FY08 levels of ~42.5 (44.6% in FY10). EBITDA margins however would be ~18.5% due to higher economies of scale and efficiencies. We expect consolidated EBITDA margins to stabilize at ~17.4 over FY10-13 v/s 17.9% earlier. Increase in input prices is a major risk to our estimates as it could restrict the ability of paint companies to pass on the hike (11% increase YTD). We are downgrading our FY11, FY12 and FY13 estimates by 3-4%. The stock trades at 23.3x FY12 and 19.5x FY13. **Buy.**

QUARTERLY PERFORMANCE									(Rs Million)	
Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q*	1Q	2Q	3Q	4QE		
Volume Growth % *	11.5	17.5	25.0	16.0	24.0	0.0	27.0	17.0	16.4	17.0
Net Sales	14,602	17,239	16,200	18,768	18,302	18,108	20,996	22,703	66,809	80,109
Change (%)	17.6	16.9	22.6	31.7	25.3	5.0	29.6	21.0	22.3	19.9
Raw Material/Packing Material	8,191	9,798	9,127	10,464	10,487	10,197	12,535	13,252	37,580	46,471
Gross Profit	6,411	7,441	7,073	8,304	7,815	7,911	8,461	9,451	29,230	33,638
Gross Margin (%)	43.9	43.2	43.7	44.2	42.7	43.7	40.3	41.6	43.8	42.0
Operating Expenses	3,653	4,213	3,892	5,195	4,344	4,596	5,012	5,759	16,954	19,711
% of Sales	25.0	24.4	24.0	27.7	23.7	25.4	23.9	25.4	25.4	24.6
EBITDA	2,758	3,228	3,181	3,109	3,471	3,315	3,449	3,692	12,276	13,927
Margin (%)	18.9	18.7	19.6	16.6	19.0	18.3	16.4	16.3	18.4	17.4
Change (%)	60.2	54.6	191.0	73.6	25.8	2.7	8.4	18.8	83.2	13.4
Interest	72	64	79	69	42	46	59	115	285	261
Depreciation	198	200	197	241	269	284	286	313	836	1,152
Other Income	156	247	167	208	184	249	194	413	778	1,039
PBT	2,645	3,211	3,072	3,006	3,344	3,234	3,298	3,677	11,934	13,553
Tax	844	1,065	955	868	1,013	984	974	1,230	3,731	4,201
Effective Tax Rate (%)	31.9	33.2	31.1	28.9	30.3	30.4	29.5	33.5	31.3	31.0
PAT before Minority	1,801	2,146	2,117	2,138	2,331	2,250	2,324	2,447	8,203	9,352
Minority Interest	40	89	133	221	109	103	120	107	483	440
Adjusted PAT	1,761	2,057	1,985	1,917	2,222	2,147	2,203	2,340	7,720	8,912
Change (%)	64.9	55.4	232.8	86.8	26.2	4.4	11.0	22.0	92.4	15.4

E: MOSL Estimates; * 4QFY10 Numbers include 6months consolifation of International operations

Key takeaways from the concall

- Volume growth is strong in most parts of India with tier-II and tier-III cities growing faster than metros and tier-I cities.
- The company increased prices by 2.9% on 1 December 2010, the full benefit of which will be reflected in 4QFY11. Cumulative price increases so far have been 11.4%.
- The raw material index in 3QFY11 was 115.4 (FY10=100). The management doesn't expect respite in the near term due to the demand supply equation in titanium dioxide and the trend in crude prices. However, input costs have been fairly stable since November.
- The management indicated that the paint industry had historically been able to increase prices in line with inflation without having to take a big dent in volumes and the YTD price increase has been in line with inflation.
- The company formed a JV with PPG to make non-automobile industrial paint. The management expects the combined entity to leverage PPG's inherent technological strength and reach and Asian Paints' clientele to capture the opportunity offered by the fast growing industrial paints segment.
- The management indicated the company may have gained some market share in the decorative paints segment during the year and that the organized paints market grew faster than the unorganized sector.

Results below estimates; sales growth strong; lagged price hike hits margins temporarily

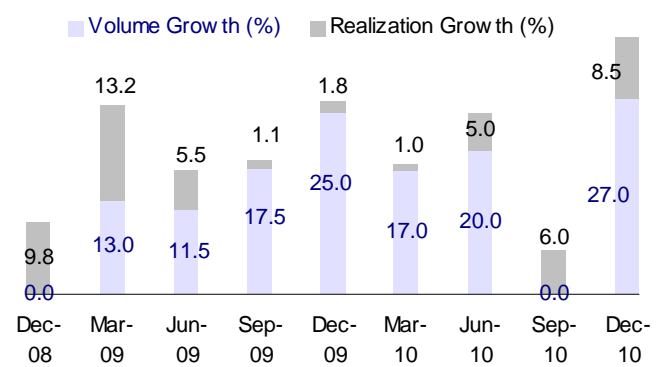
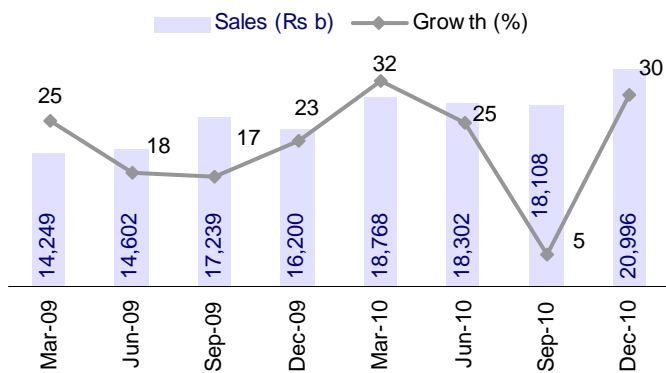
- Net sales grew 29.6% to Rs21b (against our estimate of Rs20.4b). We estimated decorative paint volume growth of ~27%.
- Gross margins contracted 340bp YoY to 40.3% due to intense input cost pressure and delay in taking price increases.
- EBITDA margin contracted 320bp YoY to 16.4%. Lower staff costs (down 80bp) were offset by higher other expenditure (up 60bp). Adjusted PAT grew 11% to Rs2.2b.
- Standalone sales grew 37% to Rs17.5b, EBITDA margins contracted 320bp to 17.2% while standalone adjusted PAT grew 15.6% to Rs2b.

Decorative paints volume up ~27% amid robust demand

Standalone sales grew 37% due to a robust decorative paints segment. We estimate volume growth of 27% partly helped by the benefit from Diwali being in 3QFY11 against being in the second quarter a year earlier, and the impact of a prolonged monsoon on demand in 2QFY11. The management indicated that demand for decorative paints was robust with tier-II and tier-III cities growing faster than metros.

Decorative volumes strong at 27% ...

... enabling standalone sales growth of 37%



Source: Company/MOSL

We believe in the volume growth story in decorative paints in India and favor Asian Paints' ability to best capture the opportunity. Strong volume visibility has resulted in Asian Paints continuing its streak of capacity addition. In addition to the 150,000KL augmentation at the Rohtak plant, Asian Paints bought land in Maharashtra for greenfield capacity of 3,00,000KL (all in the emulsion range), which is likely to become operational in 4QFY13. We upgrade our FY11 volume growth assumptions to 17% (16% earlier).

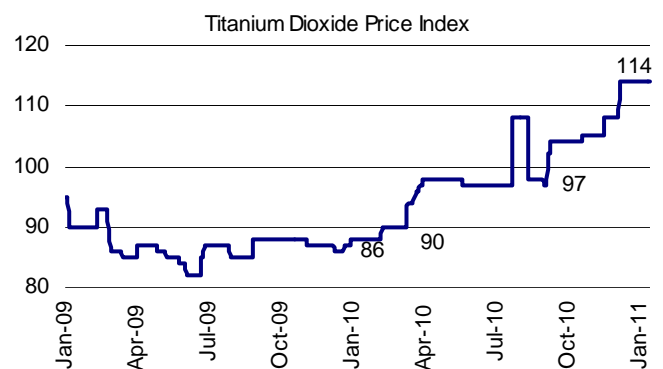
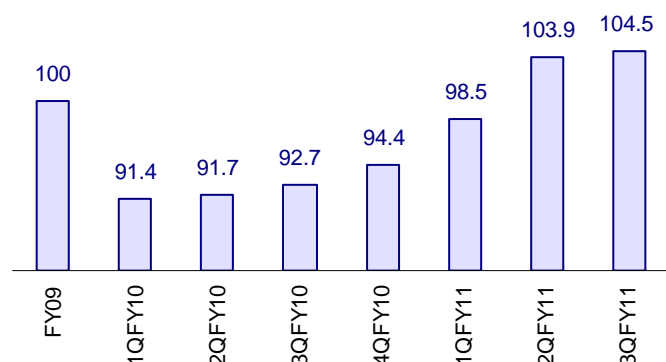
Asian Paints formed a JV (50:50) with PPG Industries to develop its non-decorative industrial coating business (besides its JV for automobile coating). Industrial coating accounts for ~25% of the ~Rs170b paints segment and has a high presence of unorganized players. Major organized players in the segment include Kansai Nerolac, ICI and Jotun Paints, apart from Asian Paints Industrial Coating (APICL), a 100% subsidiary of Asian Paints. We understand the new JV will use APICL's existing plant though ownership will remain with Asian Paints.

Input cost index up; lagged price increase impacts margins

Asian Paints has been at the receiving end of an input cost surge over the past 6-8 months. Prices of major raw material like titanium dioxide, solvents and other crude-linked inputs have increased 15-30% over the past 6-8 months and near-term respite seems unlikely given the trend in crude prices. The input cost index for the quarter was 115.4 (FY10=100). The management doesn't expect the input cost scenario to turn benign in the near term given the demand-supply mismatch and trend in crude prices.

Input cost index up 15%

led mainly by titanium dioxide prices



Source: Company/MOSL

In an environment of volatile input costs, paint companies have increased prices with a lag. Asian Paints increased prices by 2.9% in December (YTD price increase of 11.4%). The full benefit of the price increase will improve margin profile henceforth. The price increase was nearly matched by followers, giving little indication of price-led competition. The management also indicated that input costs had been stable since November. We are cutting our FY11 margin assumption by 50bp to 17.4% (effective decline of 100bp v/s 130bp decline in 9mFY11) and by 50bp for FY12 (decline of 10bp in FY12).

Volume growth story intact; margins to rebound; maintain Buy

We believe the volume growth story in domestic decorative paints is intact due to shorter re-painting cycles, increased residential construction and higher growth in tier-II and tier-III cities. Besides, we believe the sales mix will improve, led by rising consumerism. We see margins reviving in the coming quarters as the benefit of price increases get factored in. An increase in input prices from these levels is a major risk to our estimates as it could restrict the ability of paint players to pass on the hike (11% increase YTD). We are downgrading our estimates by 3-4% for FY11, FY12 and FY13. The stock trades at 23.3x FY12 and 19.5x FY13. Maintain **Buy**.

Asian Paints: an investment profile

Company description

Asian Paints is India's largest paint manufacturer and marketer with a dominant share in the decorative paints segment. For industrial and automobile paints, the company has a JV with PPG of the US. Asian Paints acquired Berger International of Singapore to expand its operations in other markets in Asia, the Middle East and the Caribbean.

Key investment arguments

- Expansion in housing and construction will drive demand for decorative paints over 3-5 years.
- International operations, which have turned around, will contribute to the company's earnings.

Key investment risks

- Demand for decorative paints is heavily dependent on a normal monsoon.
- Input costs are trending upwards and a higher-than-expected increase in input costs is a key risk to our EPS estimates.

Recent developments

- Asian Paints increased prices by 2.9% from 1 December 2010, taking the total price increase YTD to 11.4%.
- Asian Paints entered into a new JV with PPG to capture the non-automobile industrial paint opportunity.

Valuation and view

- We are downgrading our estimates for FY11, FY12 and FY13 by 3-4% and our EPS has been revised to Rs92.9, Rs11.4 and Rs133.2 respectively.
- The stock trades at 23.3x FY12 and 19.5x FY13. Maintain **Buy**.

Sector view

- We are positive about the long-term demand potential in the sector. Near term concerns due to the monsoons notwithstanding, Asian Paints is the best play on the structural growth story in decorative paints.
- Longer term prospects are bright, given rising incomes and low penetration and booming construction and infrastructure development.

Comparative valuations

		Asian Paints	ITC	HLL
P/E (x)	FY11E	28.0	26.9	28.3
	FY12E	23.3	22.9	25.1
EV/EBITDA (x)	FY11E	17.4	16.8	21.1
	FY12E	14.6	14.1	18.3
EV/Sales (x)	FY11E	3.0	5.9	3.0
	FY12E	2.5	5.1	2.6
P/BV (x)	FY11E	11.5	7.9	20.3
	FY12E	9.2	6.7	17.3

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	52.3	52.0	50.0
Domestic Inst	11.4	11.0	13.0
Foreign	16.4	16.7	16.8
Others	19.9	20.3	20.3

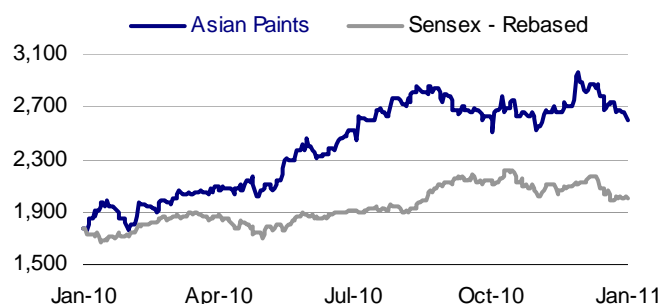
EPS: most forecast v/s Consensus (Rs)

	MOST Forecast	Consensus Forecast	Variation (%)
FY11	92.9	94.4	-1.5
FY12	111.4	113.9	-2.2

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
2,600	2,930	12.7	Buy

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT						RATIOS					
(RS MILLION)											
Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E	Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	54,639	66,809	80,109	95,097	112,674	Basic (Rs)					
<i>Change (%)</i>	24.0	22.3	19.9	18.7	18.5	EPS	41.8	80.5	92.9	111.4	133.2
Raw Materials	33706	37580	46471	55349	65649	Cash EPS	49.6	89.2	104.9	124.1	146.8
Gross Profit	20933	29230	33638	39748	47025	BV/Share	125.4	178.3	227.0	282.8	349.4
<i>Margin (%)</i>	38.3	43.8	42.0	41.8	41.7	DPS	20.5	31.5	45.7	55.6	66.5
Operating Expenses	14232	16954	19711	23250	27339	Payout %	41.8	33.9	42.0	42.7	42.7
EBITDA	6,701	12,276	13,927	16,498	19,686	Valuation (x)					
<i>Change (%)</i>	1.4	83.2	13.4	18.5	19.3	P/E	62.1	32.3	28.0	23.3	19.5
<i>Margin (%)</i>	12.3	18.4	17.4	17.3	17.5	Cash P/E	52.4	29.1	24.8	21.0	17.7
Depreciation	744	836	1,152	1,216	1,301	EV/Sales	4.6	3.7	3.0	2.5	2.1
Int. and Fin. Charges	263	285	261	205	130	EV/EBITDA	37.2	19.9	17.4	14.6	12.2
Other Income	510	778	1,039	1,177	1,212	P/BV	20.7	14.6	11.5	9.2	7.4
Profit before Taxes	6,204	11,934	13,553	16,254	19,466	Dividend Yield (%)	0.8	1.2	1.8	2.1	2.6
<i>Change (%)</i>	-3.0	92.4	13.6	19.9	19.8	Return Ratios (%)					
<i>Margin (%)</i>	11.4	17.9	16.9	17.1	17.3	RoE	33.4	45.1	40.9	39.4	38.1
Tax	1,811	3,731	3,971	4,762	5,704	RoCE	39.4	58.5	51.7	51.2	50.5
Deferred Tax	163		230	325	389	Working Capital Ratios					
<i>Tax Rate (%)</i>	31.8	31.3	31.0	31.3	31.3	Debtor (Days)	10	8	9	9	9
PBT Before Minority	4230	8203	9352	11167	13373	Asset Turnover (x)	3.8	6.5	4.4	4.9	5.4
Minority Interest	216	483	440	482	597	Leverage Ratio					
Adjusted PAT	4,014	7,720	8,912	10,684	12,777	Debt/Equity (x)	0.3	0.1	0.1	0.1	0.0
<i>Change (%)</i>	-3.9	92.4	15.4	19.9	19.6						
<i>Margin (%)</i>	7.3	11.6	11.1	11.2	11.3						
Exceptional/Prior Period ir	-35	636	0	0	0						
Reported PAT	3,978	8,356	8,912	10,684	12,777						

BALANCE SHEET						CASH FLOW STATEMENT					
(RS MILLION)						(RS MILLION)					
Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E	Y/E MARCH	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	959	959	959	959	959	OP/(loss) before Tax	6,701	12,276	13,927	16,498	19,686
Reserves	11,073	16,141	20,816	26,163	32,558	Int./Div. Received	510	778	1,039	1,177	1,212
Net Worth	12,032	17,100	21,775	27,122	33,517	Interest Paid	-263	-285	-261	-205	-130
Loans	3,086	2,292	2,750	2,050	1,300	Direct Taxes Paid	-1,811	-3,731	-3,971	-4,762	-5,704
Deferred Liability	533	562	793	1,118	1,507	(Incr)/Decr in WC	-1,856	3,530	-1,747	-779	-1,126
Minority Interest	756	945	1,384	1,866	2,463	CF from Operations	3,481	12,569	8,987	11,928	13,938
Capital Employed	16,407	20,899	26,702	32,156	38,788	Incr in FA	-2,281	-3,541	-2,500	-5,500	-6,500
Gross Block	14,614	15,004	20,576	22,076	23,576	Pur of Investments	1,983	-5,457	-1,036	-323	100
Less: Accum. Depn.	6,484	6,276	7,428	8,644	9,945	CF from Invest.	-299	-8,998	-3,536	-5,823	-6,400
Net Fixed Assets	8,130	8,728	13,148	13,432	13,631	Issue of Shares	0	0	0	0	0
Capital WIP	921	4,072	1,000	5,000	10,000	Incr in Debt	334	-794	458	-700	-750
Investments	784	6,241	7,277	7,600	7,500	Dividend Paid	-1,967	-3,023	-4,379	-5,338	-6,383
Curr. Assets, L&A	17,987	18,437	24,232	28,521	33,746	Others	-552	-799	173	26	-54
Inventory	7,690	9,559	11,632	14,069	16,670	CF from Fin. Activity	-2,185	-4,616	-3,749	-6,012	-7,187
Account Receivables	5,719	5,425	7,023	8,337	10,187	Incr/Decr of Cash	997	-1,045	1,703	93	351
Cash and Bank Balance	2,104	1,058	2,762	2,855	3,206	Add: Opening Balance	1,107	2,104	1,058	2,762	2,855
Others	2,475	2,395	2,815	3,259	3,683	Closing Balance	2,104	1,058	2,762	2,855	3,206
Curr. Liab. and Prov.	11,921	16,947	19,292	22,708	26,456						
Account Payables	5,542	7,183	8,276	10,008	11,871						
Other Liabilities	4,605	6,613	7,459	8,418	9,506						
Provisions	1,775	3,150	3,557	4,281	5,080						
Net Current Assets	6,066	1,490	4,940	5,813	7,289						
Goodwill on Cons.	506	367	367	367	367						
Application of Funds	16,407	20,899	26,703	32,156	38,788						

E: MOSL Estimates

N O T E S



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Asian Paints

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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