



Asian Paints

STOCK INFO.	BLOOMBERG
BSE SENSEX: 8,701	APNT IN
	REUTERS CODE
S&P CNX: 2,584	ASPN.BO

25 October 2008

Buy

Previous Recommendation: Buy

Rs951

Equity Shares (m)	95.9
52-Week Range	1,320/875
1,6,12 Rel. Perf. (%)	17/26/42
M.Cap. (Rs b)	91.2
M.Cap. (US\$ b)	1.8

YEAR	NET SALES	Adj.PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	36,700	2,864	29.9	30.1	31.8	11.7	36.8	49.2	2.5	19.1
3/08A	44,043	4,175	43.5	45.8	21.8	9.3	42.5	57.6	2.0	13.7
3/09E	54,229	4,785	49.9	14.6	19.1	7.3	38.5	55.1	1.7	11.7
3/10E	64,063	5,978	62.3	24.9	15.3	5.8	38.2	56.0	1.4	9.1

- Asian Paints' 2QFY09 results were in line. Consolidated net sales were Rs14.7b (up 30%), against our estimate of Rs13.4b. Gross margin declined 240bp due to increase in crude prices. EBITDA margin decline was curtailed to 180bp on account of operating leverage. Adj PAT grew 14.1% YoY. Standalone net sales stood at Rs11.7b (up 31%).
- Net sales grew 30% on the back of weighted price increase of ~11% and implicit volume growth of ~19%. Paints business reported impressive performance on the back of early Diwali, while chemicals business reported negative growth on account of plant shutdown (Phthalic Anhydride).
- International operations grew 25% in 1HFY09. The company reported strong performance in Middle East and South Africa. Volume growth has been in excess of 25%. Automotive JV (APPG) reported muted performance on account of slackening demand from auto sector.
- Asian Paints witnessed 19% increase in material cost over last year during 1HFY09 (25% in Q2FY09). The major increase has been in prices of solvents, monomer and mineral turpentine oil. Further, the company has also been impacted by the rupee depreciation. The management expects the raw material pressures to retreat as most inputs are crude-based and are expected to fall in line with crude, though with a lag.
- Management has given cautious outlook on volume growth due to likely slowdown in the economy. We are lowering FY09 volume growth estimate from 14.5% to 13.5%. Our volume growth estimate remains unchanged at 15% for FY10. We are raising our FY09 realization increase to 11%. Our EPS estimates are Rs49.9 and 62.3 for FY09 and FY10 respectively as against Rs50.3 and Rs62.8. The stock trades at 19.1x FY09E and 15.3x FY10E earnings. **Buy**.

QUARTERLY PERFORMANCE

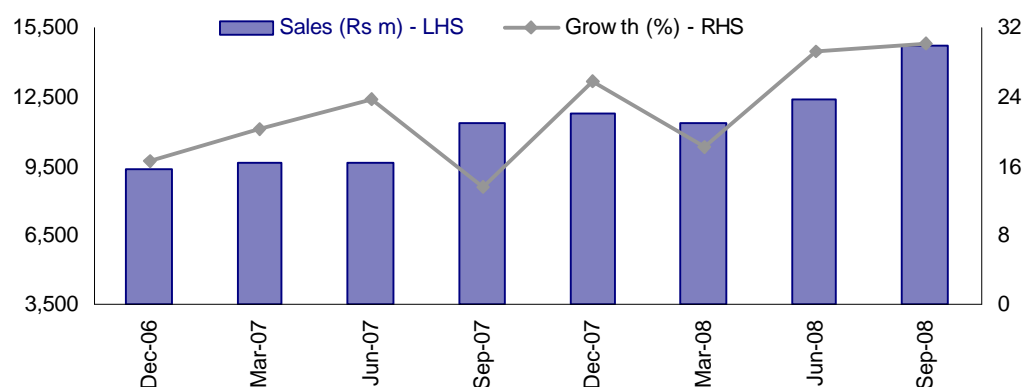
(Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	9,605	11,332	11,776	11,330	12,420	14,753	13,600	13,456	44,043	54,229
Change (%)	23.6	13.5	25.9	18.2	29.3	30.2	15.5	18.8	20.0	23.1
Total Expenditure	8,251	9,516	9,921	9,773	10,698	12,665	11,525	11,517	37,461	46,404
EBITDA	1,354	1,816	1,856	1,557	1,722	2,088	2,075	1,939	6,582	7,825
Margin (%)	14.1	16.0	15.8	13.7	13.9	14.2	15.3	14.4	14.9	14.4
Change (%)	30.8	35.3	50.3	33.1	27.2	15.0	11.8	24.5	37.7	18.9
Interest	49	69	54	39	55	68	58	35	212	216
Depreciation	141	146	150	154	154	186	186	189	592	716
Other Income	89	265	132	134	103	179	125	127	620	534
Operational PBT	1,252	1,866	1,783	1,497	1,616	2,014	1,956	1,842	6,399	7,427
Non Recurring Income	4	-67	-1	-21	-6	-9	45	100	-84	131
PBT	1,256	1,798	1,783	1,476	1,610	2,005	2,001	1,942	6,314	7,558
Tax	422	597	537	477	519	634	610	650	2,034	2,414
Effective Tax Rate (%)	33.6	33.2	30.1	32.3	32.2	31.6	30.5	33.5	32.2	31.9
PAT	834	1,202	1,246	999	1,091	1,370	1,391	1,292	4,281	5,144
Minority Interest	15	63	58	54	29	55	69	75	189	228
Adjusted PAT	815	1,206	1,189	966	1,068	1,324	1,277	1,117	4,176	4,785
Change (%)	34.8	45.1	66.9	57.2	31.0	9.8	7.4	15.6	45.7	14.6

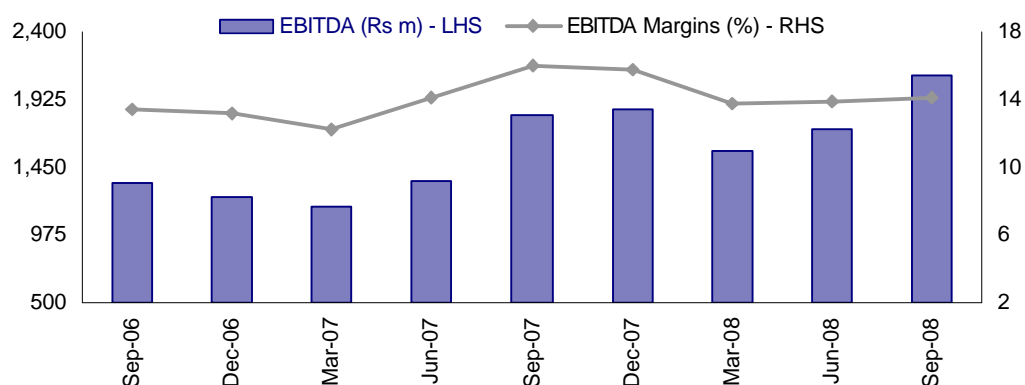
E: MOST Estimates

Asian Paints' consolidated net sales at Rs14.7b were up 30.2%. Gross margin declined 237bp on account of rising crude price. Raw material cost increased 35.4% YoY. EBITDA at Rs2b was up 15% as margin declined 187bp. EBITDA margin decline was curtailed due to lower growth in employee and other cost. Higher depreciation and lower other income resulted in a PAT growth of 14.1% at Rs1.37b.

STRONG TRACTION IN REVENUE GROWTH CONTINUES



INCREASE IN RAW MATERIAL PRICE IMPACTS MARGINS



Source: Company/Motilal Oswal Securities

SALES SEGMENT (RS M)

	1HFY08	1HFY09	GROWTH (%)
APL	15,747	21,118	34
Chemicals	537	474	-12
APPG + APICL	1,250	1,324	6
International	3,402	4,257	25
Total	20937	27173	30

*50% Sales of APPG are included

Source: Company/Motilal Oswal Securities

Domestic market continues to post strong volume growth

Standalone net sales reported a growth of 31% YoY to Rs1.16b on the back of a 19% volume growth and 11% value growth. Higher sales growth was on account of Diwali falling in October as against November last year. Paints business reported impressive performance (up 31% YoY), while chemicals business reported negative growth on account of plant shutdown (Phthalic Anhydride).

Demand has been robust in South, North and East, while extended monsoons dampened demand in the West. The company had launched Exterior textures, Premium Semi-Gloss and Apex Tile Guard, the response for which have been encouraging. The sampler campaign and foresites (as a service) has been well received.

Powder coatings grew 12% YoY, with good demand observed in road markings and floor coatings. Automotive JV (APPG) reports muted performance as demand slackens to performance in automotives. We expect the sluggish performance of business unit to continue on the back of the expected slowdown in industrial and infrastructure activity.

SEGMENTAL REPORTING (RS M)

	2QFY09	2QFY08	GROWTH (%)
Segment Revenue			
Paints	11,470	8,748	31.1%
Chemicals	516	530	-2.6%
Segment PBIT			
Paints	1,847	1,566	17.9%
Chemicals	85	68	25.6%
Margins (%)			
Paints	16.1	17.9	
Chemicals	16.4	12.8	

Source: Company/Motilal Oswal Securities

Sharp increase in raw material prices contract margins by 240bp

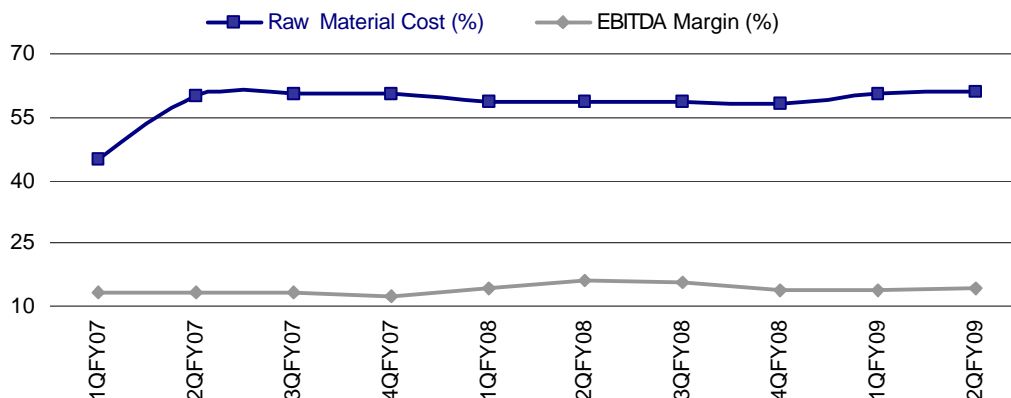
Asian Paints witnessed a 19% increase in material cost over last year during 1HFY09 (25% in Q2FY09). The major increase has been in prices of solvents, monomer and mineral turpentine oil. Further, the company has also been impacted by the rupee depreciation. The management expects the raw material pressures to retreat as most inputs are crude-based and are expected to fall in line with crude. Gross margin during the quarter declined 240bp YoY. We expect price decrease to follow as the company is witnessing concerns on demand front.

RAW MATERIAL PRICE INCREASE INDEXED

PRICE INDICES	RAW MATERIAL	PACKG MATERIAL	RM+PM
FY08	100	100	100
1QFY09	113	105	111
2QFY09	126	124	126
1HFY09	120	115	119

Source: Company/Motilal Oswal Securities

HIGHER RAW MATERIAL COST IMPACTING EBITDA MARGIN



Source: Company/Motilal Oswal Securities

Middle East and South Asia boost International business sales

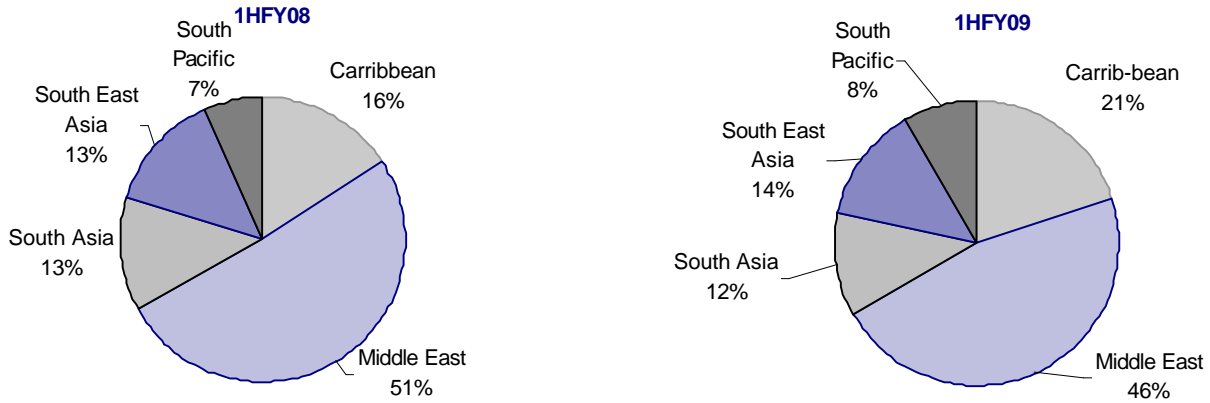
International operations grew 25% in 1HFY09. The company reported strong performance in Middle East (up 39%) and South Asia (up 38%). EBIT for international operations has grown by 30% YoY. Volume growth has been in excess of 25%. However, the company has signaled lower demand going forward as the fall in crude prices has affected the real estate activity in the Middle-east market.

INTERNATIONAL BUSINESS

PAINTS	1HFY09	1HFY08	CHANGE (%)
Revenue (Rs m)			
Carribbean	640	630	1.6
Middle East	2,050	1,480	38.5
South Asia	510	370	37.8
South East Asia	540	430	25.6
South Pacific	270	260	3.8
Total	4,010	3,170	26.5
EBIT (Rs m)			
Carribbean	-8	6	-233.3
Middle East	253	191	32.5
South Asia	45	27	67
South East Asia	-7	-18	-61
South Pacific	21	28	-25.0
Total	304	234	29.9
EBIT (%)			
Carribbean	-1.3	1.0	
Middle East	12.3	12.9	
South Asia	8.8	7.3	
South East Asia	-1.3	-4.2	
South Pacific	7.8	10.8	
EBIT Margin	7.6	7.4	

Source: Company/Motilal Oswal Securities

REGION-WISE BREAKUP OF INTERNATIONAL REVENUE



Source: Company/Motilal Oswal Securities

Valuation and view

Management has given cautious outlook on volume growth due to likely slowdown in the economy. Construction activity has been impacted in Bangalore, Pune and Mumbai and tight credit situation might result in slow down in construction activity in other places also. We are lowering FY09 volume growth estimate from 14.5% to 13.5%. Our volume growth estimate remains unchanged at 15% for FY10. We are raising our FY09 realization increase to 11%. Our EPS estimates are Rs49.9 and 62.3 for FY09 and FY10 respectively as against Rs50.3 and Rs62.8. The stock trades at 19.1x FY09E and 15.3x FY10E earnings. We maintain **Buy**.

Asian Paints: an investment profile

Company description

Asian Paints is the largest paint manufacturer and marketer in India with 45% share in the decorative paints. The company has a presence in automotive segment via a JV with PPG of the US. Asian Paints acquired Berger International of Singapore to enter the league of top ten paint companies in the world.

Key investment arguments

- Growing investment in housing and construction will likely drive demand for decorative paints by 13%-15% over the next 1-2 years.
- New powder coating unit will boost income and profits for the high-growth industrial segment.

Key investment risks

- High spread and geographical diversification increases execution risk.
- Raw material prices can impact profit margins due to limited pricing power as a result of presence of the unorganized sector and intense competition.

Recent developments

- Nil.

Valuation and view

- We have an EPS forecasts of Rs49.9 for FY09 and Rs62.3 for FY10.
- The stock trades at 19.1x FY09E and 15.3x FY10E earnings. We maintain **Buy**.

Sector view

- We are positive on the sector. Volume growth remains strong.
- Longer term prospects bright, given rising incomes and low penetration and booming construction and infrastructure development.

COMPARATIVE VALUATIONS

		ASIAN PAINTS	ITC	HLL
P/E (x)	FY09E	19.1	17.7	24.6
	FY10E	15.3	15.2	20.9
EV/EBITDA (x)	FY09E	11.7	11.3	21.9
	FY10E	9.1	9.6	18.1
EV/Sales (x)	FY09E	1.7	3.3	2.8
	FY10E	1.4	2.7	2.5
P/BV (x)	FY09E	7.3	4.4	26.1
	FY10E	5.8	3.8	21.5

SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	50.2	49.5	49.0
Domestic Inst	12.1	12.0	11.4
Foreign	17.2	17.1	21.0
Others	20.6	21.4	18.6

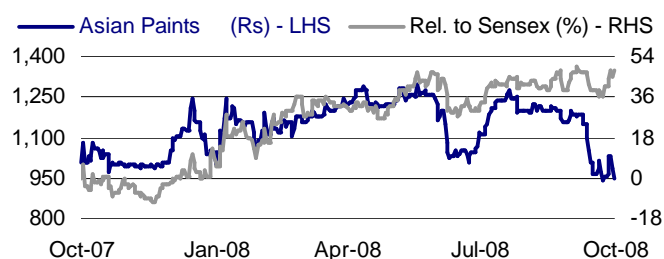
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	49.9	49.9	0.0
FY10	62.3	60.7	2.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
951	1,371	44.2	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(RS MILLION)				
Y/E MARCH	2006	2007	2008	2009E	2010E					
Net Sales	30,210	36,700	44,043	54,229	64,063					
Change (%)	8.0	21.5	20.0	23.1	8.1					
Total Expenditure	26,294	31,920	37,462	46,404	54,272					
EBITDA	3,915	4,780	6,581	7,825	9,791					
Change (%)	16.9	22.1	37.7	18.9	25.1					
Margin (%)	13.0	13.0	14.9	14.4	15.3					
Depreciation	606	611	592	716	815					
Int. and Fin. Charges	114	189	212	216	200					
Other Income	320	373	620	534	558					
Profit before Taxes	3,515	4,352	6,398	7,427	9,334					
Change (%)	19.1	23.8	47.0	16.1	25.7					
Margin (%)	11.6	11.9	14.5	13.7	14.6					
Tax	1,345	1,496	1,928	2,265	2,894					
Deferred Tax	-8	-29	106	149	187					
Tax Rate (%)	37.8	33.7	31.8	32.5	33.0					
Minority Interest	-23	21	189	228	276					
Adjusted PAT	2,211	2,864	4,175	4,785	5,978					
Change (%)	21.5	29.5	45.8	14.6	24.9					
Margin (%)	7.3	7.8	9.5	8.8	9.3					
Non-rec. (Exp)/Income	0	0								
Prior adj./Extraordinary	-10.3	-51.1	-84.3	131.0	43.8					
Reported PAT	2,201	2,813	4,091	4,916	6,021					

BALANCE SHEET						(RS MILLION)				
Y/E MARCH	2006	2007	2008	2009E	2010E					
Share Capital	959	959	959	959	959					
Reserves	5,503	6,819	8,865	11,480	14,683					
Net Worth	6,463	7,778	9,824	12,439	15,643					
Loans	2,613	3,062	2,752	2,700	2,500					
Deferred Liability	341	268	391	539	726					
Minority Interest	600	601	574	801	1,078					
Capital Employed	10,016	11,708	13,540	16,480	19,946					
Gross Block	9,766	10,831	12,112	13,012	17,512					
Less: Accum. Deprn.	5,584	6,038	6,337	7,052	7,867					
Net Fixed Assets	4,181	4,794	5,776	5,960	9,645					
Capital WIP	337	137	1,142	3,800	1,200					
Investments	1,641	1,927	2,767	1,635	3,217					
Curr. Assets, L&A	10,454	12,913	15,115	18,117	21,061					
Inventory	4,889	5,980	7,140	8,766	10,355					
Account Receivables	3,475	4,206	4,603	5,646	6,318					
Cash and Bank Balance	734	1,054	1,107	1,074	1,327					
Others	1,356	1,673	2,264	2,632	3,061					
Curr. Liab. and Prov.	7,046	8,532	11,702	13,476	15,620					
Account Payables	3,296	4,485	5,778	6,587	7,651					
Other Liabilities	2,491	3,385	4,145	4,770	5,490					
Provisions	1,258	662	1,779	2,119	2,478					
Net Current Assets	3,409	4,381	3,413	4,641	5,441					
Goodwill on Cons.	449	469	444	444	444					
Application of Funds	10,016	11,708	13,540	16,480	19,946					

E: MOSSt Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	22.9	29.9	43.5	49.9	62.3
Cash EPS	29.4	36.2	49.7	57.4	70.8
BV/Share	67.4	81.1	102.4	129.7	163.1
DPS	12.5	13.0	17.0	20.5	25.1
Payout %	56.6	44.4	39.9	40.0	40.0
Valuation (x)					
P/E		318	218	19.1	15.3
Cash P/E		26.2	19.1	16.6	13.4
EV/Sales		2.5	2.0	1.7	1.4
EV/EBITDA		19.1	13.7	11.7	9.1
P/BV		11.7	9.3	7.3	5.8
Dividend Yield (%)		14	18	2.2	2.6
Return Ratios (%)					
RoE	34.2	36.8	42.5	38.5	38.2
RoCE	48.3	49.2	57.6	55.1	56.0
Working Capital Ratios					
Debtor (Days)	12	11	10	10	10
Asset Turnover (x)	4.0	4.0	4.8	5.1	4.2
Leverage Ratio					
Debt/Equity (x)	0.40	0.39	0.3	0.2	0.2

CASH FLOW STATEMENT						(RS MILLION)				
Y/E MARCH	2006	2007	2008	2009E	2010E					
OP/(loss) before Tax	3,309	4,168	5,990	7,109	8,976					
Int./Div. Received	320	373	620	534	558					
Interest Paid	114	189	212	216	200					
Direct Taxes Paid	1,327	1,467	2,034	2,414	3,080					
(Incr)/Decr in WC	232	652	-1,021	1,262	547					
CF from Operations	1,956	2,233	5,385	3,751	5,707					
Incr in FA	642	866	2,285	3,558	1,900					
Pur of Investments	502	287	839	-1,131	1,581					
CF from Invest.	1,145	1,153	3,124	2,427	3,481					
Issue of Shares	0	0	0	0	0					
Incr in Debt	218	449	-310	-52	-200					
Dividend Paid	1,370	1,428	1,908	2,301	2,818					
Min Int/ Dt	-51	-72	96	376	463					
Others	518	291	-86	554	517					
CF from Fin. Activity	-685	-760	-2,207	-1,423	-2,038					
Incr/Decr of Cash	126	320	53	-98	187					
Add: Opening Balance	608	734	1,054	1,107	1,074					
Closing Balance	734	1,054	1,107	1,009	1,261					

E: MOSSt Estimates



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Asian Paints

- | | |
|---|----|
| 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 |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.