

Asian Paints

CMP: Rs 701
Buy
**Target Price: Rs 800
(12 Months)**
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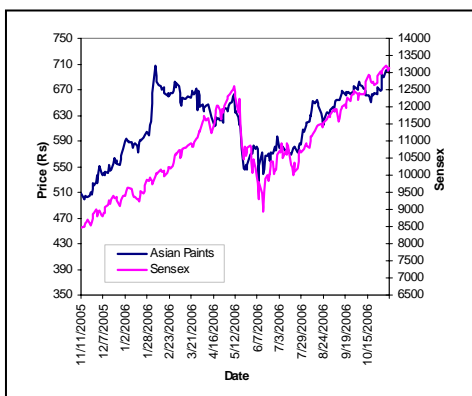
Market Cap (Rs cr)	6,682
Market Cap (US\$ mn)	148
52 WK High / Low	790 / 495
Avg Daily Volume	30937
Face Value (Rs)	10

BSE Sensex	13,138
Nifty	3,796

BSE Code	500820
NSE Code	ASIANPAINT
Reuters Code	ASPN.BO
Bloomberg Code	APNT@IN

Shareholding Pattern (%)

Promoters	47.8
MF/Banks/Indian FIs	12.6
FII/NRIs/OCBs	18.9
Indian Public	20.7

Share Price Vs Sensex


Q2FY2007 Results Update

Performance Highlights

- Stupendous sales growth:** Asian Paints clocked sales of Rs 785cr, up 26.8% and net profit of Rs 57cr, up 36.3% in Q2FY2007. Growth is witnessed on the back of volume growth in paints, also due to Diwali and price hike effected from October. Decorative, Industrial and International businesses increased by over 20% in the quarter.
- Decorative and industrial lead the expansion path:** Decorative coatings that comprise 70% of the total company's sales reported impressive growth in almost all categories of Emulsion paints in India. The industrial business reported growth of over 20% in H1FY2007 followed by good growth in automotive, powder and road marking segment.
- International operations:** The international business increased by 18.1% for the first half of the year FY2007. Strong growth is coming from Middle East and South Asia. Middle East grew in excess of 30% where as SCIB, Egypt reported growth in excess of 50%. The company continues to focus on regions which will enable growth.
- Operating margins under pressure:** Operating margins continued to remain under pressure due to rising raw material prices which were partially offset by the price hike of about 3% taken by the company. Where solvent prices increased by 10%, prices of oils and monomers too saw an increase thus impacting the margins. Operating margins stood at 15.3% in Q2FY2007 vis-à-vis 16.2% in Q2FY2006.
- Asian Paints declared an interim dividend of 55% of Rs 5.5 for the quarter.**

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2005	FY2006	FY2007E	FY2008E
Net Sales	1955	2319	2713	3120
% chg	(88.5)	18.7	17.0	15.0
Net Profit	173	187	256	312
% chg	(88.3)	7.7	36.8	22.0
EPS (Rs)	18.1	19.5	26.6	32.5
EBITDA Margin (%)	15.0	15.2	15.5	16.1
P/E (x)	38.7	36.0	26.3	21.5
P/CEPS (x)	30.4	28.9	22.1	18.6
ROE (%)	30.3	30.0	35.1	36.5
ROCE (%)	42.1	48.0	46.7	47.9
P/BV (x)	11.7	10.8	9.2	7.8
EV/Sales (x)	3.3	2.8	2.4	2.1
EV/EBITDA (x)	22.2	18.5	15.7	13.2

Source: Company, Angel Research
Large Cap – FMCG

Outlook

With demand expected to be good in H2FY2007 as well, both Domestic and International Businesses are expected to grow by 15% for FY2007. Decorative segment will continue to drive topline growth. Raw material prices are expected to stabilise thus enabling margin expansion. For the industrial segment automotive and non-automotive categories continue to project robust growth. The company will continue focusing on increasing market share through initiatives like new product introductions and dealer tinting systems. The company now has about 8000 Colour Worlds in the country. In International regions the company will concentrate on regions where it sees huge growth potential and defocus on other areas.

Valuation

We expect the company to report sales of Rs 2713cr and Rs 3120cr recording growth of 17% and 15% for FY2007E and FY2008E respectively. Operating margins are expected to expand by 90 bps by FY2008E. We expect Net profit of Rs 256cr and Rs 312cr, projecting a growth of 36% and 22% for FY2007E and FY2008E respectively.

The stock currently discounts its earnings of Rs 26.1 and Rs 32.5 at 26.3x and 21.5x for FY2007E and FY2008E respectively. **We recommend a Buy on the stock with a target price of Rs 800 over a period of 12 months.**

Exhibit 2: Q2FY 2007 Performance Highlights

Y/E March (Rs cr)	Q2FY2007	Q2FY2006	% chg	H1FY2007	H1FY2006	% chg
Net Sales	785	619	26.8	1388	1129	22.9
- Cons. of Raw and Pack Mat.	462	354	30.5	802	657	22.2
(% of Net Sales)	58.9	57.2		57.8	58.2	
- Staff Cost	41	34	20.8	77	67	
(% of Net Sales)	5.3	5.5		5.6	6.0	
- Other Expenditure	161	130	23.5	295	232	27.2
(% of Net Sales)	20.5	21.0		21.2	20.5	
Total Expenditure	665	519	28.1	1,174	956	22.8
Operating Profits	120	101	19.6	214	173	23.6
OPM (%)	15.3	16.2		15.4	15.4	
Interest	2	1	99.9	3	1	114.3
PBDT	119	100		211	172	
(% of Net Sales)	15.1	16.1		15.2	15.2	
Depreciation	11	11	0.0	22	22	0.3
Other Income	10	10	0.0	16	13	24.6
PBT (excluding extraordinary items)	117	98	19.2	205	163	26.0
Extraordinary Income/(Expense)	0	(2)		0	(2)	
PBT (including extraordinary items)	117	97	21.5	205	161	27.4
(% of Net Sales)	14.9	15.6		14.8	14.3	
Taxes	39	39	0.0	69	54	27.9
(% of PBT)	33.6	40.8		33.8	33.7	
Profit After Tax	78	57	36.3	136	107	27.1
(% of Net Sales)	9.9	9.2		9.8	9.5	
Equity shares (crores)	96	96		96	96	
EPS (Rs)	8.1	6.0		14.2	11.1	

Source: Company; Angel Research



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