

July 29, 2010

HOLD

Price Rs 2,585	Target Price Rs 2,510
Sensex	17,957

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	25	46	87
Rel. to Sensex	8	23	33	59

Source: Bloomberg

Stock Details

Sector	FMCG
Reuters	ASPN.BO
Bloomberg	APNT@IN
Equity Capital (Rs mn)	959
Face Value(Rs)	10
No of shares o/s (mn)	96
52 Week H/L	2,609/1,296
Market Cap (Rs bn/USD mn)	248/5,305
Daily Avg Volume (No of sh)	87499
Daily Avg Turnover (US\$m)	4.4

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	50.6	50.5	50.0
FII/NRI	17.2	17.2	16.8
Institutions	12.3	12.5	13.0
Private Corp	5.8	5.7	6.0
Public	14.0	14.1	14.2

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- Asian Paints (APL) Q1FY11 net profit growth 25.8% yoy to Rs2.2 bn, ahead of estimates. Driven by strong volume growth and stable margins.
- Volume growth in the quarter at 18-20% yoy, partly driven by pipeline filling – positive surprise.
- Pricing action has upped the margin expectations in business and showcased efficacy of brand to sustain onslaught from competition.
- Valuations rolled to FY12E earnings, amid resolving ambiguity on near-term earnings performance. Maintain 'HOLD' rating with revised price-target of Rs2510/Share.

Q1FY11 performance ahead of estimates, driven by strong volume growth and stable operating margins

All-round Q1FY11 performance (1) 25.3% yoy growth in revenues to Rs18.3 bn (2) operating profit grew 25.8% yoy to Rs3.5 bn (3) adjusted net profit grew by 26.2% YoY to Rs2.2 bn and (4) operating margins remain stable at 19%. Strong traction witnessed in both domestic business at 29.1% yoy to Rs14.8 bn and international business at 14.8% yoy to Rs3.4 bn. A better than expected volume growth (approximately 20% versus expectation of 13-15%) and price increase taken on portfolio- triggered strong performance in the quarter.

Positive surprise in volume growth, partly attributed to pipeline filling

Volume growth surpassed our expectations – reporting approximately 18-20% yoy growth in the quarter. This is strongest volume growth in last 8-10 quarter. Improved volume traction is also attributed to higher dealer sales or pipeline filling in anticipation of price increase on product portfolio. This should even-out in Q2FY11- resorting to normalised volume growth. We have maintained our volume growth assumptions of 15% for FY11E and FY12E.

3rd consecutive price increase – gives strong signal

Contrary to our expectations of stable realization amidst tough competition and challenging demand environment- Asian Paints has announced three consecutive price hikes. The price hikes implemented are 4.8% in May 2010, 2.6% in June 2010 and 1.2% effective August 2010 – average price hike for entire portfolio. The price hikes adequately covers 6% yoy rise in material costs – driven by rutile, titanium and acrylics. The recent pricing actions signify (1) confidence to combat inflationary environment and (2) efficacy of brand to sustain onslaught from competition, if any.

Factored average price hike of 8.6%, revised earnings by +19% and +21% for FY11E and FY12E respectively

We have factored the 8.6% price hike in our FY11E and FY12E earnings estimates. But, kept our volume growth assumptions of 15% for FY11E and FY12E unchanged. Our earlier assumption of 220 bps decline in margins is now revised to stable margins in FY11E and FY12E. Consequently, earnings are revised by +19% for FY11E (from Rs76.7/Share to Rs92.2/Share) and +21% for FY12E (from Rs86.9/Share to Rs104.6/Share).

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	54,632	7,001	12.8	4,165	41.2	(4.6)	38.1	50.5	28.3	16.7
FY10	66,809	12,276	18.4	8,830	79.7	93.5	55.8	26.1	15.5	11.7
FY11E	77,099	14,420	18.7	9,355	92.2	15.7	46.2	22.6	13.4	8.6
FY12E	87,841	16,445	18.7	10,600	104.6	13.5	39.5	46.0	11.8	6.6

Factoring 8.6% price hike, rolling valuations to FY12E earnings – Maintain 'HOLD' rating

By implementing an average price hike of 8.6% to offset rise in material price, APL has emerged as clear exception in consumer sector (exception to our sector note 'Hair-pin Bend, Drive Cautiously'). The price actions has upped the margin expectations in the business (from 15-16% earlier to 17-19% now) and showcased efficacy of brand to sustain onslaught from competition, if any. We roll valuations to FY12E earnings (versus FY11E earlier), amid resolving ambiguity on near-term risks and earnings performance. We maintain 'HOLD' rating, but revise price-target from Rs1840/Share to Rs2510/Share.

Consolidated Quarterly Financials

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY Growth	QoQ Growth
Net Sales	14,602.3	17,239.3	16,200.0	18,767.7	18,302.2	25.3%	13.0%
Expenditure	11844.0	14011.2	13019.1	15659.0	14830.9	25.2%	13.9%
Material Cost	8190.9	9798.0	9126.9	10464.0	10487.4	28.0%	14.9%
% of Sales	56.1%	56.8%	56.3%	55.8%	57.3%	120 bps	100 bps
Employee Expenses	1043.6	964.8	989.9	1364.5	1188.8	13.9%	20.1%
% of Sales	7.1%	5.6%	6.1%	7.3%	6.5%	-70 bps	40 bps
Other Expenses	2609.5	3248.4	2902.3	3830.5	3154.7	20.9%	8.7%
% of Sales	17.9%	18.8%	17.9%	20.4%	17.2%	-60 bps	-70 bps
Operating Profit	2758.3	3228.1	3180.9	3108.7	3471.3	25.8%	9.1%
Other Income	156.1	247.2	166.9	207.7	184.1	17.9%	10.3%
Interest	71.7	64.4	79.2	69.4	42.2	-41.1%	-46.7%
Depreciation	198.1	199.8	196.5	241.2	269.2	35.9%	37.0%
PBT	2644.6	3211.1	3072.1	3005.8	3344.0	26.4%	8.9%
Tax	843.9	1064.8	954.8	867.5	1012.8	20.0%	6.1%
PAT (Before EI)	1800.7	2146.3	2117.3	2138.3	2331.2	29.5%	10.1%
Minority Interest	39.8	89.0	132.6	221.3	109.3	174.6%	-17.6%
PAT (Before EI)	1760.9	2057.3	1984.7	1917.0	2221.9	26.2%	12.0%
PAT (After EI)	1760.8	2683.9	1985.8	1925.8	2221.9	26.2%	11.9%
Adjusted EPS	18.4	21.4	20.7	20.0	23.2	26.2%	12.0%
Reported EPS	18.4	28.0	20.7	20.1	23.2	26.2%	11.9%

Margins (%)						(bps)	(bps)
EBIDTA	18.9%	18.7%	19.6%	16.6%	19.0%	10	240
EBIT	18.6%	19.0%	19.5%	16.4%	18.5%	-10	210
EBT	18.1%	18.6%	19.0%	16.0%	18.3%	20	230
PAT	12.1%	11.9%	12.3%	10.2%	12.1%	10	190
Effective Tax rate	31.9%	33.2%	31.1%	28.9%	30.3%	-160	140

International Business Performance (Including Joint Ventures)

In Rs Mn	3Q08	4Q08	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111
Revenue	2614	2645	2468	3070	3146	3248	2954	3375	3423	5807	3391
YoY Growth	13.8%	14.1%	12.0%	26.9%	20.4%	22.8%	19.7%	9.9%	8.8%	80.1%	14.8%
Operating Profit	312	231	285	284	295	205	317	451	581	828	465
YoY Growth	38.5%	124.0%	50.9%	-5.9%	-5.6%	-11.2%	11.0%	55.6%	94.8%	348.8%	46.7%
Net Profit	109	95	82	92	86	110	156	287	330	156	212
YoY Growth	70.4%	-301.8%	9.5%	75.4%	-21.2%	-25.7%	40.7%	86.1%	12.1%	83.5%	82.5%

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Net Sales	54,632	66,809	77,099	87,841
Growth (%)	24.0	22.3	15.4	13.9
Expenses	47,631	54,533	62,679	71,396
Growth (%)	27.2	14.5	14.9	13.9
Raw Materials	33,706	37,580	42,815	48,936
% Of Sales	61.7	56.2	55.5	55.7
Employee Cost	3,715	4,363	4,832	5,470
% Of Sales	6.8	6.5	6.3	6.2
Other Expenditure	10,209	12,591	15,032	16,991
% Of Sales	18.7	18.8	19.5	19.3
Ebidta	7,001	12,276	14,420	16,445
Growth (%)	6.1	75.3	17.5	14.0
Ebidta%	12.8	18.4	18.7	18.7
Other Income	193	1,405	676	676
Interest	263	285	279	279
Depreciation	744	836	1,021	1,214
PBT	6,138	12,561	13,712	15,544
Tax	1,974	3,731	4,357	4,944
PAT (Before EO Item)	4,165	8,830	9,355	10,600
Growth (%)	-3.8	112.0	6.0	13.3
Net Margin%	7.6	13.2	12.1	12.1
E/O Item	30	9	0	0
Reported PAT	4,195	8,839	9,355	10,600

CashFlow

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Pre-Tax Profit	6,191	12,572	13,712	15,544
Depreciation	744	836	1,021	1,214
Non Cash	351	-882	0	0
Chg in Working Cap	-1,431	1,338	-3,948	-854
Tax Paid	-1,919	-3,169	-4,357	-4,944
Operating Cash Flow	3,936	10,695	6,428	10,960
Capex	-2,883	-3,833	-3,290	-1,500
Free Cash Flow	1,053	6,862	3,138	9,460
Investments	1,984	443	768	0
Equity Capital	0	0	0	0
Loans	-41	-675	735	0
Dividend	-1,999	-2,359	-2,738	-3,116
Others	0	0	0	0
Net Change in Cash	997	4,271	1,902	6,344
Opening Cash Position	1,107	2,104	1,058	3,761
Closing Cash Position	2,104	6,375	2,961	10,105

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	959	959	959	959
Reserves	11,073	16,141	22,414	29,332
Networth	12,032	17,100	23,373	30,292
Secured Loans	1,254	637	1,264	1,264
Unsecured Loans	1,833	1,655	1,763	1,763
Loan Funds	3,086	2,292	3,027	3,027
Net Deferred Tax	533	562	533	533
Minority interest	756	945	1,754	2,318
Capital Employed	16,407	20,899	28,686	36,170
Gross Block	14,614	15,004	20,889	22,389
Less: Depreciation	6,484	6,276	7,662	8,876
Net Block	8,130	8,728	13,227	13,513
Capital Work In Progress	921	4,072	1,340	1,340
Goodwill	506	367	506	506
Investments	784	6,241	5,473	5,473
Current Assets	17,987	18,437	25,834	35,092
Inventories	7,690	9,559	11,326	12,890
Debtors	5,719	5,425	7,340	8,291
Cash & Bank	2,104	1,058	3,761	10,105
Loans & Advances	1,978	1,746	2,728	3,127
Other Current Assets	497	648	679	679
Current Liabilities & Prov	11,921	16,947	17,693	19,753
Net Current Assets	6,066	1,490	8,141	15,339
Miscellaneous Expenditure	-	-	-	-
Capital Deployed	16,407	20,899	28,686	36,170

Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability %				
Ebidta Mgn	12.8	18.6	18.7	18.7
PAT Mgn	7.6	12.2	12.1	12.1
ROCE	42.8	65.1	56.4	48.8
ROE	38.1	55.8	46.2	39.5
Per Share Data				
EPS	41.2	79.7	92.2	104.6
BVPS	124.5	177.4	242.8	314.9
DPS	17.5	27.0	28.5	32.5
Valuations (X)				
PER	50.5	26.1	22.6	19.9
P/BV	16.7	11.7	8.6	6.6
Ev/Sales	3.7	3.0	2.6	2.3
Ev/Ebidta	28.3	15.5	13.4	11.8
Dividend Yield (%)	0.8	1.3	1.4	1.6
Turnover (X Days)				
Debtor TO Days	34.5	30.4	30.2	32.5
Inventory TO Days	49.5	47.1	49.4	50.3
Gearing Ratio				
Net Debt/Equity (X)	0.1	0.1	0.0	-0.2
Total Debt/Equity (X)	0.3	0.1	0.1	0.1

Recommendation History: Asian Paints Ltd – APNT IN

Date	Reports	Reco	CMP	Target
01.06.2010	Asian Paints Q4FY10 Result Update	Hold	2,060	1,840
27.01.2010	Asian Paints Q3FY10 Result Update	Hold	1,775	1,651
26.10.2009	Asian Paints Q2FY10 Result Update	Accumulate	1,676	1,414
28.07.2009	Asian Paints Q1FY10 Result Update	Accumulate	1,386	1,414

Recent Research Reports

Date	Reports	Reco	CMP	Target
26.07.2010	GCPL Q1FY11 Result Update	Accumulate	341	371
03.06.2010	GCPL Company Update	Accumulate	327	371
02.06.2010	Himadri Chemicals Q4FY10 Result Update	Not Rated	505	NR
01.06.2010	Asian Paints Q4FY10 Result Update	Hold	2,060	1,840

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