

Asian Paints

Performance Highlights

We highlight that the current quarter results are not comparable yoy/qoq, as the company has aligned the accounting year of all its overseas subsidiaries in line with that of the parent company. Asian Paints (APL) delivered another stellar set of results, posting a steady 16% yoy growth in the Top-line (largely volume driven), ahead of our expectations of a 13.5% yoy growth, and a robust 76% yoy growth in adjusted Earnings, beating our estimates by 14%, driven by Gross Margin expansion and improved profitability in the International business. We have marginally tweaked our Estimates, factoring in a steady improvement in Margins (driven by a better product-mix and improved profitability in the International business), coupled with sustained Top-line growth. **We upgrade the stock from Neutral to Accumulate.**

Volume growth robust; Earnings beat estimates: Due to the consolidation of the 15-month results of International operations (6 months in the current quarter), the Sales, PBT and PAT are higher by Rs225.9cr, Rs30.9cr and Rs14.4cr, respectively. Adjusted for the same, Asian Paints (APL) posted a Top-line growth of 16% yoy to Rs1,650.9cr, driven by a 18% yoy growth in its domestic business, on account of healthy volume growth (in mid-teens) and product-mix gains (emulsions continue to do well). For the full year FY2010, APL posted a volume growth of ~16% yoy. In terms of Earnings, the company reported a growth of 76.1% yoy to Rs178.2cr, driven by Margin expansion (largely Gross Margin gains), higher Other Income (up 51.5% yoy) and a lower Tax rate (down 367bp yoy). A benign input cost environment, significant improvement in the profitability of its International operations and Rupee appreciation helped Asian Paints post a strong Gross Margin expansion of 567bp yoy.

Outlook and Valuation: We believe that Asian Paints is well poised to benefit from an uptick in consumer demand, aided by the strong economic recovery. In terms of revenue, we have maintained our estimates, factoring in a 13-14% volume growth, aided by gains in market share (particularly in South India) and an improvement in the product-mix (emulsions showing strong growth). At Rs2,104, the stock is trading at 20.6x FY2012E revised EPS of Rs102.2. We upgrade the stock from Neutral to Accumulate, with a revised Target Price of Rs2,351, driven by a sustained Earnings momentum and by a better visibility regarding revenue growth.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	5,463	6,681	7,532	8,731
% chg	24.0	22.3	12.7	15.9
Net Profit (Adj)	401.4	771.6	829.2	980.0
% chg	(3.9)	92.2	7.5	18.2
OPM (%)	12.3	18.4	17.5	17.7
EPS (Rs)	41.8	80.4	86.4	102.2
P/E (x)	50.3	26.2	24.3	20.6
P/BV (x)	16.8	12.7	10.4	8.6
RoE (%)	35.2	52.6	42.7	41.5
RoCE (%)	36.3	55.0	52.3	53.6
EV/Sales (x)	3.7	3.1	2.7	2.3
EV/EBITDA (x)	30.3	16.6	15.2	12.8

Source: Company, Angel Research

ACCUMULATE

CMP	Rs2,104
Target Price	Rs2,350

Investment Period	12 Months
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Stock Info

Sector	FMCG
Market Cap (Rs cr)	20,179
Beta	0.4
52 WK High / Low	2,180/1,050
Avg. Daily Volume	13,857
Face Value (Rs)	10
BSE Sensex	16,863
Nifty	5,067
Reuters Code	ASPN.BO
Bloomberg Code	APNT@IN

Shareholding Pattern (%)

Promoters	50.5
MF/Banks/Indian FIs	18.2
FII/NRIs/OCBs	17.2
Indian Public	14.1

Abs. (%)	3m	1yr	3yr
Sensex	2.6	18.0	17.1
Asian Paints	16.3	97.5	154.4

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Exhibit 1: Financial Performance Update (Consolidated)

Y/E March (Rs cr)	4QFY10	4QFY09	% chg	FY2010	FY2009	% chg
Net Sales	1,876.8	1,422.6	31.9	6,680.9	5,463.9	22.3
Consumption of RM	1,046.4	873.9	19.7	3,758.0	3,370.6	11.5
(% of Sales)	55.8	61.4		56.2	61.7	
Staff Cost	136.5	100.0	36.4	436.3	371.5	17.4
(% of Sales)	7.3	7.0		6.5	6.8	
Other Expenses	383.1	272.0	40.8	1,259.1	1,051.7	19.7
(% of Sales)	20.4	19.1		18.8	19.2	
Total Expenditure	1,565.9	1,245.9	25.7	5,453.3	4,793.8	13.8
Operating Profit	310.9	176.7	75.9	1,227.6	670.1	83.2
OPM (%)	16.6	12.4		18.4	12.3	
Interest	6.9	7.5	(7.1)	28.5	26.3	8.2
Depreciation	24.1	20.1	20.0	83.6	74.4	12.3
Other Income	20.8	13.7	51.5	140.5	51.0	175.4
Associated Profit/Loss	-	-		-	-	
PBT (excl Ext)	300.6	162.9	84.6	1,256.1	620.4	102.5
(% of Sales)	16.0	11.4		18.8	11.4	
Prov. for Taxation	86.8	53.0	63.8	373.1	197.4	89.0
(% of PBT)	28.9	32.5		29.7	31.8	
Minority Interest	22.1	7.3		48.3	21.6	
Recurring PAT (After MI)	191.7	102.6	86.8	834.7	401.4	108.0
Ext Income/(Expense)	(0.9)	1.2		(1.2)	1.2	
Prior Period Items	0.1	0.2		(0.2)	(2.3)	
Reported PAT	192.6	101.1	90.4	835.7	397.9	110.0
PATM (%)	10.3	7.1		12.5	7.3	
Equity Shares (cr)	9.6	9.6		9.6	9.6	
Adjusted EPS (Rs)	20.1	10.5	90.4	87.1	41.5	110.0

Source: Company, Angel Research

We highlight that the current quarter results are not comparable yoy/qoq, as the company has aligned the accounting year of all its overseas subsidiaries in line with that of the parent company, **which includes the 15-month results (Jan 09 – Mar 10) for the full year FY2010, and 6 Months (Oct 09 – Mar 10) for the current quarter 4QFY2010. Hence, Sales, PBT and PAT are higher by Rs225.9cr, Rs30.9cr and Rs14.4cr, respectively.**

Robust volume growth in mid-teens drives the Top-line

Asian Paints (APL) reported a growth of 31.9% yoy in its consolidated Top-line to Rs1,876.8cr (Rs1,422.6cr). However, adjusted for the additional 3 months consolidation of the international business, the Top-line growth stood at 16% yoy to Rs1,650.9cr, marginally ahead of our expectations of a 13.5% yoy growth to Rs1,617cr, driven by a 18% yoy growth in the domestic business on account of healthy volume growth (in mid-teens) and product-mix gains (interior and external emulsions continue to do well). We estimate the Top-line growth to be largely volume driven (in the range of 13-15%), as the company undertook price cuts in 2HFY2009 and 1HFY2010 to boost volumes. For the full year FY2010, APL posted a volume growth of ~16% yoy.

Higher Gross Margin and profitability in International business boosts Earnings

In terms of Earnings, the company reported a growth of 86.8% yoy to Rs191.7cr (Rs102.6cr), on a recurring basis, driven by Margin expansion (largely Gross Margin gains), higher Other Income (up 51.5% yoy) and a lower Tax rate (down 367bp yoy). However, adjusted for the additional 3 months consolidation of the international business, the Earnings growth stood at 76.1% yoy to Rs178.2cr (101.1cr), on a reported basis, ahead of our expectations of a 55% yoy growth to Rs156cr.

A benign input cost environment, a significant improvement in the profitability of the International operations and Rupee appreciation helped Asian Paints post a strong Gross Margin expansion of 567bp. Moreover, Gross Margin expanded by 58bp qoq, despite a jump in the cost index, owing to a superior product-mix (higher contribution from emulsions), which comes as a positive surprise. However, Other expenses increased by 129bp yoy, due to higher marketing spends on brand building activities.

Key Takeaways from Analyst Meet

- **Strong volume growth:** Domestic Paints volume registered a growth of 16.4% yoy.
- **Input costs benign, but have started hardening:** The Material price Index for full year FY2009-10 stood at 92.44, with FY2009 as the base, indicating benign input costs for the year. For 4QFY2010, it stood at 94.37 (92.37 in 3QFY2010), indicating that input costs are witnessing an uptrend, particularly in Monomers, Rutilite and some oils.
- **Price hikes of 4.1% from May 2010:** APL has already initiated a price hike of 4.15% in its decorative products portfolio from May 2010 in order to safeguard its margins from excise rollback and inflation in input costs.
- **FY2010 Margins not sustainable:** The Management has clearly re-iterated that FY2010 Margins are at an all-time high and are not sustainable.
- **Focus on Retailing initiatives continues:** Asian Paints has installed more than 15,000 *Colourworlds* till date.
- **APPG posts a better-than-expected performance:** Sales of the Automotive JV (APPG) grew at a strong pace in FY2010, driven by the impressive growth in the domestic sales of passenger vehicles.
- **International Operations witness a significant improvement in profitability:** Volume growth in the international business for Jan-Dec 2009 period stood at 6%. Among geographies, Nepal, Bangladesh and Egypt performed well. Profit Margins for the International business improved significantly, aided by lower material costs (lower crude prices).
- **South-East Asia business restructured:** During FY2010, APL has divested its stakes in Malaysia, Thailand and Hong Kong. Moreover, it also divested its China subsidiary in April 2010, leaving a presence only in Singapore.
- **Capacity expansion:** For FY2010, APL incurred a capex of Rs350cr. The Rohtak Plant has been commissioned in April 2010, with an initial capacity of 150,000KL and with an outlay of Rs274cr. The Capacity of Sriperumbudur Plant has been raised to 140,000KL. For FY2011E, the company plans to incur a capex of Rs250cr. It has acquired land at Kesurdi, Maharashtra for setting up its next paint plant with an outlay of Rs100cr (to be commissioned by the end of FY2013E).

Outlook and Valuation

After another quarter of strong results, we have marginally tweaked our Earnings Estimates for FY2011E and FY2012E, factoring in a steady improvement in Margins (driven by a better product-mix and improved profitability in the International business), coupled with sustained Top-line growth. In terms of revenue, we maintain our estimates, factoring in a 13-14% volume growth, driven by an uptick in consumer sentiment, coupled with gains in market share (particularly in South India) and an improvement in the product-mix (emulsions showing strong growth).

Exhibit 2: Revision in Estimates

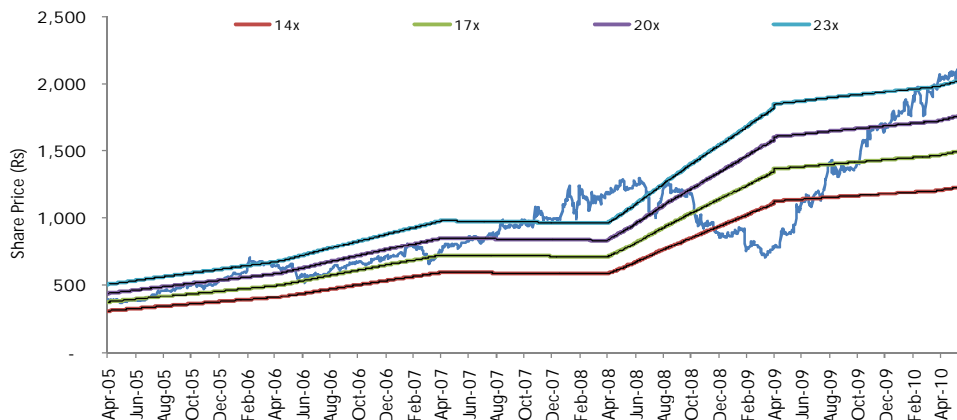
(Rs cr)	Old Estimate		New Estimate		% chg	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Revenue	7,499	8,692	7,532	8,731	0.4	0.4
OPM (%)	17.1	16.7	17.5	17.7	44bp	99bp
EPS	84.3	95.9	86.4	102.2	2.5	6.5

Source: Angel Research

At Rs2,104, the stock is trading at 20.6x FY2012E revised EPS of Rs102.2. We upgrade the stock from Neutral to Accumulate, with a revised Target Price of Rs2,351, driven by a sustained Earnings momentum and by a better visibility regarding revenue growth.

Downside risks to our estimates include: 1) Hardening of input costs, driven by a rise in crude oil prices, and 2) a sharp fall in the Rupee.

Exhibit 3: 1-year forward P/E Band



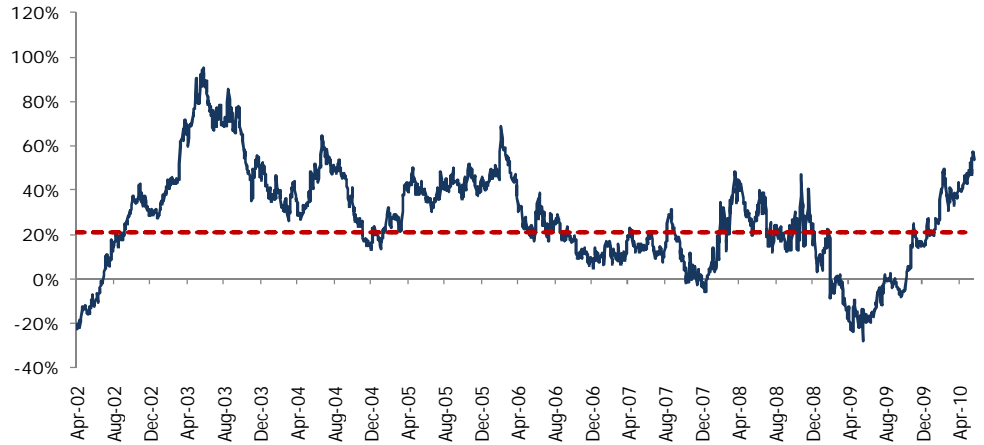
Source: Bloomberg, Angel Research

Exhibit 4: 1-year forward P/E Chart



Source: Bloomberg, Angel Research; Note: Red-line indicates 5-year average

Exhibit 5: 1-year forward Premium to Sensex Chart



Source: Bloomberg, Angel Research; Note: Red-line indicates 5-year average

Profit & Loss Statement (Consolidated)							Rs crore
Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E	
Gross sales	4,134	4,939	6,044	7,315	8,272	9,599	
Less: Excise duty	464	531	581	634	741	867	
Net Sales	3,670	4,407	5,463	6,681	7,532	8,731	
Total operating income	3,670	4,407	5,463	6,681	7,532	8,731	
% chg	(66.8)	20.1	24.0	22.3	12.7	15.9	
Total Expenditure	3,192	3,747	4,794	5,453	6,210	7,187	
Cost of Materials	2,199	2,578	3,371	3,758	4,327	5,034	
Advertising Exp	446	566	714	869	964	1,100	
Personnel	262	307	372	436	482	550	
Others	285	296	338	391	437	502	
EBITDA	478	661	669	1,228	1,321	1,545	
% chg	(66.9)	38.2	1.3	83.4	7.6	16.9	
(% of Net Sales)	13.0	15.0	12.3	18.4	17.5	17.7	
Depreciation & Amortisation	61	59	74	84	90	99	
EBIT	417	601	595	1,144	1,231	1,445	
% chg	(68.4)	44.3	(1.1)	92.3	7.6	17.4	
(% of Net Sales)	11.4	13.6	10.9	17.1	16.3	16.6	
Interest & other Charges	19	21	26	28	23	16	
Other Income	37	60	52	77	73	82	
(% of PBT)	8.6	9.3	8.3	6.5	5.7	5.4	
Share in profit of Associates	(0.40)	-	-	-	-	-	
Recurring PBT	435	640	620	1,193	1,281	1,511	
% chg	(72.9)	47.0	(3.0)	92.3	7.4	17.9	
Extraordinary Expense/(Inc.)	5	8	4	(64)	1	1	
PBT (reported)	430	631	617	1,257	1,281	1,510	
Tax	147	203	197	373	401	476	
(% of PBT)	33.7	31.8	31.8	31.3	31.3	31.5	
PAT (reported)	289	436	423	820	880	1,035	
Add: Share of associates	-	-	-	-	-	-	
Less: Minority interest (MI)	2	19	22	48	51	55	
PAT after MI (reported)	287	418	401	772	829	980	
ADJ. PAT	281	409	398	836	829	979	
% chg		45.4	(2.8)	110.0	(0.8)	18.1	
(% of Net Sales)	7.7	9.3	7.3	12.5	11.0	11.2	
Basic EPS (Rs)	29.8	43.5	41.8	80.4	86.4	102.2	
Fully Diluted EPS (Rs)	29.8	43.5	41.8	80.4	86.4	102.2	
% chg	380.1	45.9	(3.9)	92.2	7.5	18.2	

Balance Sheet (Consolidated)							Rs crore
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
SOURCES OF FUNDS							
Equity Share Capital	96	96	96	96	96	96	
Preference Capital	-	-	-	-	-	-	
Reserves & Surplus	682	886	1,107	1,494	1,846	2,264	
Shareholders Funds	778	982	1,203	1,590	1,942	2,359	
Minority Interest	60	57	76	102	105	109	
Total Loans	306	275	309	334	254	174	
Deferred Tax Liability	27	39	53	53	53	53	
Total Liabilities	1,171	1,354	1,641	2,079	2,353	2,695	
APPLICATION OF FUNDS							
Gross Block	1,083	1,211	1,461	1,782	1,883	2,030	
Less: Acc. Depreciation	604	634	648	732	822	922	
Net Block	479	578	813	1,050	1,061	1,109	
Capital Work-in-Progress	14	114	92	107	113	122	
Goodwill	47	44	51	51	51	51	
Investments	193	277	78	78	78	78	
Current Assets	1,291	1,494	1,799	2,056	2,498	3,023	
Cash	105	111	210	132	351	576	
Loans & Advances	167	209	247	307	354	419	
Other	1,019	1,174	1,341	1,617	1,792	2,029	
Current liabilities	853	1,152	1,192	1,263	1,447	1,687	
Net Current Assets	438	341	607	794	1,051	1,336	
Mis. Exp. not written off	-	-	-	-	-	-	
Total Assets	1,171	1,354	1,641	2,079	2,353	2,695	

Cash Flow Statement (Consolidated)							Rs crore
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
Profit before tax	443	647	622	1,129	1,281	1,511	
Depreciation	61	59	74	84	90	99	
Change in Working Capital	(81)	4	(143)	(174)	(62)	(106)	
Interest / Dividend (Net)	6	(8)	7	21	17	9	
Direct taxes paid	147	203	197	373	401	476	
Others	(38)	(23)	35	16	(25)	(7)	
Cash Flow from Operations	244	476	397	702	900	1,031	
Inc./ (Dec.) in Fixed Assets	(80)	(282)	(288)	(335)	(107)	(156)	
Inc./ (Dec.) in Investments	(34)	(84)	198	0	0	0	
Cash Flow from Investing	(115)	(366)	(90)	(335)	(107)	(156)	
Issue of Equity	0	0	0	0	0	0	
Inc./ (Dec.) in loans	46	(16)	(4)	25	(80)	(80)	
Dividend Paid (Incl. Tax)	137	97	197	449	477	561	
Interest / Dividend (Net)	6	(8)	7	21	17	9	
Cash Flow from Financing	(98)	(105)	(207)	(445)	(574)	(650)	
Inc./ (Dec.) in Cash	32	5	100	(78)	219	224	
Opening Cash balances	73	105	111	210	132	351	
Closing Cash balances	105	111	210	132	351	576	

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	70.5	48.3	50.3	26.2	24.3	20.6
P/CEPS	57.8	40.7	40.6	22.0	22.0	18.7
P/BV	25.9	20.5	16.8	12.7	10.4	8.6
Dividend yield (%)	0.6	0.8	0.8	1.9	2.0	2.4
EV/Sales	5.6	4.6	3.7	3.1	2.7	2.3
EV/EBITDA	42.6	30.8	30.3	16.6	15.2	12.8
EV / Total Assets	17.4	15.0	12.4	9.8	8.5	7.3
Per Share Data (Rs)						
EPS (Basic)	29.8	43.5	41.8	80.4	86.4	102.2
EPS (fully diluted)	29.8	43.5	41.8	80.4	86.4	102.2
Cash EPS	36.4	51.7	51.9	95.8	95.8	112.4
DPS	13.0	17.0	17.5	40.0	42.5	50.0
Book Value	81.1	102.4	125.4	165.8	202.4	246.0
Returns (%)						
RoCE (Pre-tax)	38.4	47.6	39.7	61.5	55.5	57.2
Angel RoIC (Pre-tax)	33.8	44.6	35.0	49.0	44.6	49.9
RoE	40.5	49.6	38.7	59.8	46.9	45.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.4	3.6	3.7	3.8	4.0	4.3
Inventory / Sales (days)	59	59	51	51	50	49
Receivables (days)	42	38	38	38	37	36
Payables (days)	78	82	68	58	59	60

#Note: FY2009 Results are for 15 Months

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Disclosure of Interest Statement	Asian Paints
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies.

Ratings (Returns) :

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)

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