

Asian Paints (ASIPAI)

Rs 2614

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 2384 to Rs 2890
EPS (FY11E)	Changed from Rs 83.4 to Rs 88.8
EPS (FY12E)	Changed from Rs 90.4 to Rs 102.5
RATING.....	Buy

Robust performance despite higher costs...

Asian Paints Limited, the leader in the decorative paint segment, exhibited robust topline growth for the quarter ended June, 2010 with a 28% growth in net sales (standalone) to Rs 1491.1 crore and a 22% rise in profit to Rs 201 crore. In spite of a 33% increase in raw material costs the company reported EBITDA at Rs 300 crore, up by almost 23% from the corresponding quarter last year. The company's interest cost came down drastically by ~43% YoY to Rs 1.99 crore from Rs 2.85 crore in Q1FY10.

■ Highlight of the quarter

During the quarter, the company decided to undertake two price increases for its decorative paint segment, to be effective from May 1, 2010 by 1.45% and July 1, 2010 by 2.6%. This was on the back of significantly higher raw material prices for the company, with the raw material index for them being 100 in Q1FY10 and 106.5 in Q1FY11. The new plant at Rohtak with a capacity of 1,50,000 KL (Kilolitres) commenced operations from April 12, 2010. This unit manufactures water and emulsion based products for the company.

Valuation

At the current market price of Rs 2614, the stock is trading at 26.8x its FY11E EPS of Rs 97.6 and 23.1x its FY12E EPS of Rs 113.3. With the volume growth expected to sustain at ~20% in the coming quarters led by rising consumer demand and increasing market share for the company, we believe the company would be able to sustain its margin, going ahead. Hence, we value it at 25.5x its FY12E Consolidate EPS of Rs 113.3 and recommend a **BUY** rating with a target price of Rs 2890.

Exhibit 1: Financial Performance

(Rs Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY(%)	QoQ(%)
Net Sales	1491.1	1520.1	1164.8	1296.1	28.0	15.0
EBITDA margin (%)	20.2	20.1	21.0	17.6	-80bps	256bps
Depreciation	22.5	15.8	15.0	15.8	50.7	43.1
Interest	2.0	0.8	2.9	4.0	-30.2	-50.1
Other Income	17.4	13.5	16.2	19.1	7.3	-8.9
Reported PAT	201.0	199.9	164.5	177.0	22.2	13.5
EPS (Rs)	21.0	20.8	17.1	18.5	22.2	13.5

Source: Company, ICICIdirect.com Research

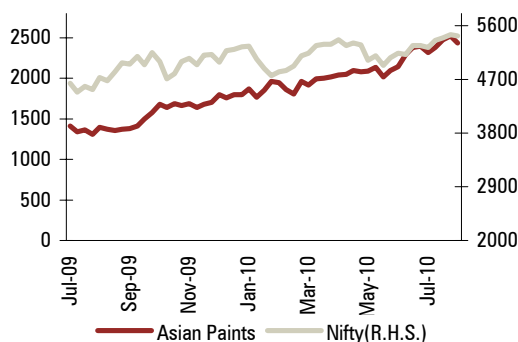
Rating matrix	
RATING	: Buy
Target	: Rs 2890
Target Period	: 12-15 months
Potential Upside	: 11 %

Key Financials				
Rs Crore	FY09	FY10	FY11E	FY12E
Net Sales	4,270	5,125	6,230	7,438
EBITDA	560.4	1,153.9	1,303.4	1,380.0
Net Profit	362.9	774.5	851.7	982.8
EPS (Rs)	37.8	80.7	88.8	102.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
P/E	59.6	29.4	26.8	23.1
Target P/E	50.2	23.5	21.4	18.5
EV / EBITDA	44.7	21.8	19.3	18.1
Price to Book Va	21.5	14.9	10.4	7.7
RoNW(%)	45.5	68.6	56.3	50.2
RoCE (%)	48.4	74.5	60.8	48.0

Stock data	
Market Capitalization	Rs 25072 crore
Total Debt (FY10)	Rs. 39.7 crore
Cash and Investments (FY10)	Rs. 456.5 crore
EV	Rs. 25105.6 crore
52 week H/L	2705.9 / 1296
Equity capital	Rs. 95.92 crore
Face value	10.0
MF Holding (%)	12.5
FII Holding (%)	15.5

Price movement



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Segment analysis

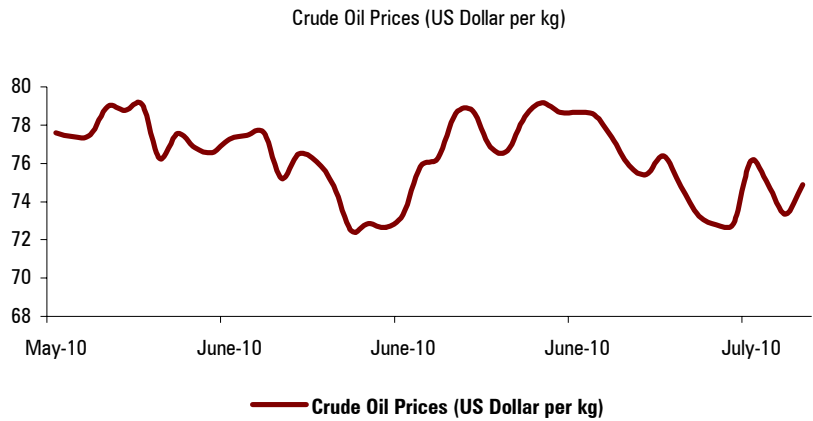
The company’s paint segment continued its growth trajectory and grew by ~29% YoY on a consolidated basis with sales in Q1FY11 being Rs 1482.1 crore (80% contribution to topline). Revenues from the company’s business units manufacturing Phthalic Anhydride and Pentaerythritol were marginally up from Rs 45 crore to Rs 49 crore. Thus, the paint segment was the major contributor to the increased topline yet again.

Raw material prices may pressurise margins

The price of the company’s basic raw materials, crude, titanium dioxide rutile and acrylic monomers, rose significantly during the quarter. The raw material index with Q1FY10 base as 100 rose to 106.5 for Q1FY11, thereby leading to an increase in the prices of the company’s decorative paints segment. International prices also witnessed a slight increase due to the competition in these markets and the currency impact that increased the cost for the company in these markets.

Exhibit 2: Crude oil price

Higher crude prices in the last quarter forced the company to increase prices by almost 2%



Source: Company, ICICIdirect.com Research

Revising estimates

With the decorative paints volumes expected to sustain in the coming years and increasing industrial paints demand the original equipment manufacturers (OEM) segment and the expansion plans of the company, we believe the company would continue to maintain its market share (45% currently in the decorative paint segment), going ahead. Therefore, we are revising our estimates for FY11 and FY12 and expect the growth in sales to be 21% and 19%, respectively.

Exhibit 3: Revising estimates

	FY11E			FY12E		
	Old	New	% Change	Old	New	% Change
Revenue	6,080.2	6230.0	2.5	6,435.8	7438.3	15.6
EBITDA	1,222.1	1303.4	6.7	1,325.3	1380.0	4.1
EBITDA Margin %	20.1	20.9	82 bps	20.6	18.6	-204 bps
PAT	799.5	851.7	6.5	867.1	982.8	13.3
EPS	83.4	88.8	6.5	90.4	102.5	13.3

Source: Company, ICICIdirect.com Research

Valuation

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Exhibit 4: Valuation Matrix

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	4270.0	25.0	37.8	-3.3	69.1	44.7	45.5	48.4
FY10	5125.1	20.0	80.7	113.4	32.4	21.8	68.6	74.5
FY11E	6230.0	21.6	88.8	10.0	29.4	19.3	56.3	60.8
FY12E	7438.3	19.4	102.5	15.4	25.5	18.1	50.2	48.0

Source: Company, ICICIdirect.com Research

Coverage Universe

Asian Paints			Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	ASIPAI CMP	2613.8 FY10	5125.1	80.7	32.4	21.8	68.6	74.5
	Target	2890.2 FY11E	6230.0	88.8	29.4	19.3	56.3	60.8
MCap	25071.6 Upside	10.6 FY12E	7438.3	102.5	25.5	18.1	50.2	48.0

Kansai Nerolac			Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	GOONER CMP	794.6 FY10	1706.4	30.7	0.0	16.0	21.3	22.8
	Target	691 FY11E	2025.5	34.0	0.0	13.9	19.5	28.0
MCap	4282.3 Upside	-13.0 FY12E	2332.6	38.4	0.0	12.4	18.2	24.1

Dabur India			Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	DABIND CMP	196.5 FY10	3391.3	5.8	34.4	26.6	54.6	51.6
	Target	192.4 FY11E	3758.3	6.2	32.4	25.9	47.3	46.3
MCap	15960.7 Upside	-2.1 FY12E	4366.6	7.4	27.0	21.1	47.1	50.0

Marico			Sales (Rs crore)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	MARIN CMP	125.4 FY10	2660.8	3.8	32.8	17.6	44.0	36.3
	Target	114.0 FY11E	3225.1	5.1	24.4	13.8	45.2	46.7
MCap	6458.4 Upside	-9.1 FY12E	3732.8	6.1	20.7	11.4	42.3	51.1

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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