

July 27, 2011

Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs 3,140	Rs 3,026
EPS change FY12E/13E (%)	+5%/+5%
Target Price change (%)	+4%
Nifty	5,575
Sensex	18,518

Price Performance (%)	1M	3M	6M	12M
Absolute	6	18	21	25
Rel. to Nifty	4	24	23	21

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	APNT@IN
Equity Capital (Rs mn)	959
Face Value(Rs)	10
No of shares o/s (mn)	96
52 Week H/L	3,366/2,366
Market Cap (Rs bn/USD mn)	301/6,806
Daily Avg Volume (No of sh)	28256
Daily Avg Turnover (US\$m)	1.9

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	52.7	52.3	52.3
FII/NRI	19.0	16.2	16.4
Institutions	9.2	11.6	11.4
Private Corp	5.7	6.2	6.3
Public	13.5	13.7	13.7

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com
+91 22 6612 1273

Sweta Jain

sweta.jain@emkayglobal.com
+91 22 6624 2479

- Asian Paints' (APL) sales growth of 23.5% to Rs 22.6bn is in line with our expectations. Ebitda margins at 17.3% and APAT up at Rs 2.6 bn, up 18.7% yoy, are above estimates
- Domestic volume growth in decorative paints remains strong at 14%. However, industrial coatings witness a weak quarter with muted performance
- Implemented 4.4% price hike in May, 2.5% in June and 1.3% in July - corresponding increase in raw material index is 14% - expect continued pressure on margins
- Revise FY12/13E EPS by +5% to Rs103.2 and Rs121. But, with our dislike for discretionary spends and moderation in volume growth, downgrade to HOLD with TP of Rs 3,026

Lower other expenses boosts margins, above expectations

Revenue growth of 23.5% to Rs 22.6 bn is in line with our expectations. Revenue growth is driven by healthy 14% volume growth in domestic paints segment, despite a weak performance in the industrial coatings business. International business grew 5% yoy in constant currency. While raw material costs pressure continues, lower-than-expected other expenditure helped arrest EBITDA margin decline to 162 bps to 17.3% against our expectation of 14.9%. APAT registered 18.7% growth to Rs 2.6 bn, higher than our expectations.

Expect domestic paints volume growth to track median growth in future

While domestic paint growth has shown resilience, pace of growth has seen moderation, on the expected lines, to 14% for 1QFY12 against 17% for FY11. We believe that demand velocity would be impacted; domestic business would register volume growth of 1.9X GDP in FY12E and FY13E. Accordingly, we have estimated volume growth of 15% in FY12E and FY13E. While we have built-in a moderation in our volume growth assumptions, we do not foresee any likely upgrade catalysts in the near term.

Weak performance in industrial paints and international business...likely to continue

While domestic decorative paints segment continued to post healthy growth, auto and industrial paints segment witnessed a weak performance during the quarter. This segment has higher price elasticity, and considering the weak business environment, relative to decorative paints, the muted performance is likely to continue in near term. Moreover, the international business continued to witness challenging operating environment, especially in Egypt and Bahrain, and is likely to continue its subdued performance in ensuing quarters.

Financial Snapshot (Consolidated)

YE- Mar	Net Sales	EBITDA		EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ P/BV		
		(Core)	(%)					EBITDA	P/BV	
FY10	66,809	12,299	18.4	8,124	87.1	110.0	55.8	36.0	23.3	17.7
FY11	77,062	13,130	17.1	8,814	87.9	0.9	45.2	35.7	21.7	13.8
FY12E	95,489	15,714	16.5	10,307	103.2	17.4	41.2	30.4	18.3	10.7
FY13E	108,473	18,401	17.0	12,049	121.0	17.2	37.9	25.9	15.7	8.5

Quarterly Results (Consolidated)

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY Growth	QoQ Growth
Net Sales	18,302	18,108	20,996	19,656	22,604	23.5%	15.0%
Expenditure	14,831	14,793	17,547	16,762	18,682	26.0%	11.5%
Material Cost	10,487	10,197	12,535	11,526	13,537	29.1%	17.4%
% of Sales	57.3%	56.3%	59.7%	58.6%	59.9%	260 bps	120 bps
Employee Expenses	1,189	1,086	1,115	1,150	1,301	9.4%	13.1%
% of Sales	6.5%	6.0%	5.3%	5.8%	5.8%	-70 bps	-10 bps
Other Expenses	3,155	3,509	3,897	4,086	3,845	21.9%	-5.9%
% of Sales	17.2%	19.4%	18.6%	20.8%	17.0%	-20 bps	-380 bps
EBIDTA	3,471	3,315	3,449	2,894	3,922	13.0%	35.5%
Depreciation	269	284	286	292	291	8.1%	-0.2%
EBIT	3,202	3,031	3,163	2,603	3,631	13.4%	39.5%
Other Income	184	249	194	200	305	65.8%	53.0%
Interest	42	46	59	76	65	54.3%	-14.3%
PBT	3,344	3,234	3,298	2,726	3,871	15.8%	42.0%
Total Tax	1,013	984	974	818	1,155	14.0%	41.2%
Adjusted PAT	2,331	2,250	2,324	1,909	2,716	16.5%	42.3%
(Profit)/Loss from MI	109	103	120	49	79	-27.4%	63.5%
Reported PAT	2,222	2,147	2,203	1,860	2,637	18.7%	41.7%
Reported EPS	23.2	22.4	23.0	19.4	27.5	18.7%	41.7%

Margins (%)

EBIDTA	19.0	18.3	16.4	14.7	17.3	-160 bps	260 bps
EBIT	17.5	16.7	15.1	13.2	16.1	-140 bps	280 bps
EBT	18.3	17.9	15.7	13.9	17.1	-110 bps	330 bps
PAT	12.1	11.9	10.5	9.5	11.7	-50 bps	220 bps
Effective Tax rate	30.3	30.4	29.5	30.0	29.8	-50 bps	-20 bps

Reiterate input cost pressure to continue despite price hikes

Post the recent price hikes in May at 4.4% and June at 2.5%, APL has undertaken another price increase – 1.3% in July. The company has witnessed 6% yoy inflation in Titanium dioxide (TiO₂) prices for this quarter and its total raw material index is approximately 14% up - Index value 100 for FY11. It has indicated that while TiO₂ prices have reduced marginally from its peak, the average input cost for Q2FY12 is higher than Q1FY12. We reiterate that EBITDA margins would trail cost inflation in ensuing quarters and hence expect operating margins to witness a decline of 60 bps in FY12E.

Revise earnings upwards... downgrade rating to HOLD

While we maintain our sales and gross margin numbers, we revise our earnings upwards by 4.8% for FY12E and 5.1% for FY13E to factor in lower than estimated other expenditure in this quarter. Our revised earnings are Rs 103.2/share for FY12E and Rs 121/share for FY13E. Nevertheless, we downgrade our rating to HOLD (from ACCUMULATE) primarily due to the following reasons - 1. Expect moderation in volume growth with no upward catalysts, 2. Continued raw material pressure to keep margins under check, 3. Dislike for discretionary spends considering absence of favourable operating environment, unlike the enabling factors prevalent during FY09-11 and 4. Valuations at 26x FY13E EPS provides no room for possible downside risks. At our target price of Rs 3,026/share (revised from Rs 2,923/share), the stock would trade at 25x our FY13E EPS of Rs 121/share.

Estimates Change

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenues	94,890	95,489	0.6	108,187	108,473	0.3
EBITDA	15,026	15,714	4.6	17,544	18,401	4.9
EBITDA Margin (%)	15.8	16.5	4.3	16.2	17.0	4.9
APAT	9,833	10,307	4.8	11,462	12,049	5.1
EPS	98.7	103.2	4.8	115.2	121.0	5.1

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	66,809	77,062	95,489	108,473
Growth (%)	22.3	15.3	23.9	13.6
Expenses	54,511	63,933	79,775	90,072
Growth (%)	14.3	17.3	24.8	12.9
Raw Materials	37,580	44,746	57,869	65,514
% Of Sales	56.2	58.1	60.6	60.4
Employee Cost	4,363	4,540	5,087	5,617
% Of Sales	6.5	5.9	5.3	5.2
Other Expenditure	12,568	14,578	16,763	18,885
% Of Sales	18.8	18.9	17.6	17.4
Ebidta	12,299	13,130	15,714	18,401
Growth (%)	76.9	6.8	19.7	17.1
Ebidta%	18.6	17.1	16.5	17.0
Other Income	676	826	826	826
Interest	285	222	220	220
Depreciation	836	1,131	1,369	1,513
PBT	11,855	12,602	14,951	17,494
Tax	3,731	3,789	4,645	5,445
PAT (Before EO Item)	8,124	8,814	10,307	12,049
Growth (%)	95.1	8.5	16.9	16.9
Net Margin%	12.2	11.4	10.8	11.1
E/O Item	715	0	0	0
Reported PAT	8,839	8,814	10,307	12,049

CashFlow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	12,572	12,602	14,951	17,494
Depreciation	836	1,131	1,369	1,513
Non Cash	-882	30	0	0
Chg in Working Cap	1,338	-1,767	253	-549
Tax Paid	-3,169	-3,924	-4,645	-5,445
Operating Cash Flow	10,695	8,072	11,929	13,013
Capex	-3,833	-1,503	-8,000	-6,000
Free Cash Flow	6,862	6,569	3,929	7,013
Investments	-4,873	-3,105	1,500	0
Equity Capital	0	0	0	0
Loans	-675	-167	0	0
Dividend	-2,359	-3,168	-3,636	-4,286
Others	0	0	0	0
Net Change in Cash	-1,045	129	1,792	2,727
Opening Cash Position	2,104	1,058	1,330	3,123
Closing Cash Position	1,058	1,187	3,123	5,849

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity Share Capital	959	959	959	959
Reserves	16,141	20,915	27,182	34,505
Networth	17,100	21,874	28,141	35,464
Secured Loans	637	500	500	500
Unsecured Loans	1,655	1,847	1,847	1,847
Loan Funds	2,292	2,347	2,347	2,347
Net Deferred Tax	562	852	852	852
Minority interest	945	1099	1502	1941
Capital Employed	20,899	26,172	32,842	40,604
Gross Block	15,004	19,878	21,878	23,878
Less: Depreciation	6,276	7,151	8,519	10,033
Net Block	8,728	12,727	13,358	13,845
Capital Work In Progress	4,072	433	6,433	10,433
Goodwill	367	372	372	372
Investments	6,241	9,220	7,720	7,720
Current Assets	18,437	23,190	26,338	31,978
Inventories	9,559	13,054	13,562	15,392
Debtors	5,425	5,855	6,425	7,194
Cash & Bank	1,058	1,330	3,123	5,849
Loans & Advances	1,746	2,056	2,335	2,649
Other Current Assets	648	893	893	893
Current Liabilities & Prov	16,947	19,769	21,379	23,743
Net Current Assets	1,490	3,421	4,960	8,235
Miscellaneous Expenditure	-	-	-	-
Capital Deployed	20,899	26,172	32,842	40,604

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability %				
Ebidta Mgn	18.6	17.1	16.5	17.0
PAT Mgn	12.2	11.4	10.8	11.1
ROCE	65.1	54.5	51.4	48.2
ROE	55.8	45.2	41.2	37.9
Per Share Data				
EPS	87.1	87.9	103.2	121.0
BVPS	177.4	227.1	292.5	368.8
DPS	27.0	32.0	37.9	44.7
Valuations (X)				
PER	36.0	35.7	30.4	25.9
P/BV	17.7	13.8	10.7	8.5
Ev/Sales	4.5	3.9	3.2	2.8
Ev/Ebidta	23.3	21.7	18.3	15.7
Dividend Yield (%)	0.9	1.0	1.2	1.4
Turnover (X Days)				
Debtor TO Days	30.4	26.7	23.5	22.9
Inventory TO Days	47.1	53.6	50.9	48.7
Gearing Ratio				
Net Debt/Equity (X)	-0.2	-0.2	-0.2	-0.2
Total Debt/Equity (X)	0.1	0.1	0.1	0.1

Recommendation History: Asian Paints Ltd – APNT IN

Date	Reports	Reco	CMP	Target
11/05/2011	Asian Paints Q4FY11 Result Update	Accumulate	2,697	2,923
25/01/2011	Asian Paints Q3FY11 Result Update	Hold	2,503	2,510
27/10/2010	Asian Paints Q2FY11 Result Update	Hold	2,503	2,510
29/07/2010	Asian Paints Q1FY11 Result Update	Hold	2,585	2,510

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/07/2011	GCPL Q1FY12 Result Update	Accumulate	453	474
22/07/2011	Colgate-Palmolive Q1FY12 Result Update	Reduce	993	826
27/06/2011	Berger Paints Initiating Coverage	Accumulate	100	109
03/06/2011	GCPL Event Update	Accumulate	411	474

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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