

October 24, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 3,015	Rs2,820
EPS change FY12E/13E (%)	-2 / -3
Target Price change (%)	-7
Nifty	5,050
Sensex	16,786

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(3)	17	15
Rel. to Nifty	(1)	6	36	39

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	3,366/2,395
Market Cap (Rs bn/USD mn)	289/5,772
Daily Avg Volume (No of sh)	68195
Daily Avg Turnover (US\$m)	4.3

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) revenue increased 24% yoy to Rs 22.5 bn. Ebidta margins at 14.3% and APAT of Rs 2.1 bn decline of 3% yoy is much below our expectations**
- **Domestic volume growth in decorative paints reported a weak quarter at 10% vs our expectation of 12%. Industrial coatings continued its subdued demand performance**
- **Continued increase in titanium dioxide prices, coupled with higher operating costs resulted in a sharp decline of 400 bps in EBITDA margins to 14.3%**
- **Lowered FY12E/13E EPS by -2%/-3% to Rs 101.4 and Rs 117.5, respectively. Absence of upgrade catalysts to weigh on stock - Re-iterate Hold with revised TP of Rs 2,820/share**

Higher operating costs restricts PAT growth, below expectations

Revenue growth of 24% yoy to Rs 22.5 bn is marginally below our expectations. Volume growth of 10% in domestic decorative paint segment against our expectation of 12% has resulted in this deviation. While the monsoon season continued to impact the decorative paints, industrial, especially auto segment, continued its subdued demand performance. International business registered healthy revenue growth of 19% yoy during this quarter. Higher raw material costs continued to play the havoc. This, coupled with higher-than-expected other expenditure due to forex loss of Rs 150 mn and pre-loaded A&P costs due to Q3 festive season, resulted in consolidated operating margins contracting by 400 bps to 14.3%, against our expectation of 16.4%. Consequently, consolidated APAT registered a fall of 3% yoy to Rs 2.1 bn, below our expectation of Rs 2.4 bn.

Seasonal factors impacts volumes... expect mean reversion in future

Domestic paint growth has slowed during the quarter due to extended monsoon in Q2FY12. We expect Q3 volumes to pick-up qoq in light of the festive demand, however, being a discretionary product category, we re-iterate on a full year basis, volumes will moderate and revert to the mean levels – Expect volume growth of 1.9X GDP in FY12E and FY13E. Continuation of moderation in volumes and absence of any upgrade catalysts will continue to hamper the stock performance in the near term.

Raw material prices continue to remain a concern...

Despite price increase of 8.5% increase since May 2011, continued increase in titanium dioxide prices coupled with higher other operating expenditure on account of Rs 150 mn forex loss and pre-loaded A&P expenditure resulted in sharp 400 bps EBITDA margin contraction to 14.3%. We re-iterate that operating margins will continue to trail cost inflation and hence, operating margins to remain under check – Expect EBITDA margin to decline 100 bps yoy in FY12E.

Financial Snapshot (Consolidated)

YE-	Net	EBITDA		EPS	EPS	RoE	P/E	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(x)	EBITDA	P/BV	
								(x)	(x)	
FY10	66,809	12,299	18.6	8,839	87.1	110.0	55.8	34.6	22.4	17.0
FY11	77,062	13,130	17.1	8,814	87.9	0.9	45.2	34.3	20.8	13.3
FY12E	95,268	15,297	16.1	10,075	101.4	15.3	40.4	29.7	17.8	10.4
FY13E	108,222	17,729	16.4	11,639	117.5	15.9	36.9	25.7	15.5	8.3

Quarterly Results (Consolidated)

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Growth	QoQ Growth	YTD FY12	YTD FY11	YoY Growth
Net Sales	18,108	20,996	19,656	22,604	22,508	24.3%	-0.4%	45,112	36,410	23.9%
Expenditure	14,793	17,547	16,762	18,682	19,279	30.3%	3.2%	37,961	29,624	28.1%
Material Cost	10,197	12,535	11,526	13,537	13,507	32.5%	-0.2%	27,043	20,685	30.7%
% of Sales	56.3%	59.7%	58.6%	59.9%	60.0%	370 bps	10 bps	59.9%	56.8%	310 bps
Employee Expenses	1,086	1,115	1,150	1,301	1,287	18.5%	-1.0%	2,588	2,275	13.7%
% of Sales	6.0%	5.3%	5.8%	5.8%	5.7%	-30 bps	0 bps	5.7%	6.2%	-50 bps
Other Expenses	3,509	3,897	4,086	3,845	4,485	27.8%	16.6%	8,330	6,664	25.0%
% of Sales	19.4%	18.6%	20.8%	17.0%	19.9%	50 bps	290 bps	18.5%	18.3%	20 bps
EBIDTA	3,315	3,449	2,894	3,922	3,229	-2.6%	-17.7%	7,151	6,786	5.4%
Depreciation	284	286	292	291	300	5.5%	3.0%	591	553	6.8%
EBIT	3,031	3,163	2,603	3,631	2,929	-3.4%	-19.3%	6,560	6,233	5.2%
Other Income	249	194	200	305	292	17.4%	-4.2%	598	433	38.0%
Interest	46	59	76	65	88	93.6%	35.6%	153	88	74.7%
PBT	3,234	3,298	2,726	3,871	3,133	-3.1%	-19.1%	7,004	6,578	6.5%
Total Tax	984	974	818	1,155	955	-3.0%	-17.3%	2,110	1,997	5.6%
Adjusted PAT	2,250	2,324	1,909	2,716	2,179	-3.2%	-19.8%	4,894	4,581	6.8%
(Profit)/Loss from JV's/Ass/MI	103	120	49	79	91	-11.4%	15.0%	171	212	-19.7%
Reported PAT	2,147	2,203	1,860	2,637	2,087	-2.8%	-20.8%	4,724	4,369	8.1%
Reported EPS	22.4	23.0	19.4	27.5	21.8	-2.8%	-20.8%	49.2	45.5	8.1%

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	18.3	16.4	14.7	17.3	14.3	-400 bps	-300 bps	15.9	18.6	-280 bps
EBIT	16.7	15.1	13.2	16.1	13.0	-370 bps	-300 bps	14.5	17.1	-260 bps
EBT	17.9	15.7	13.9	17.1	13.9	-390 bps	-320 bps	15.5	18.1	-250 bps
PAT	11.9	10.5	9.5	11.7	9.3	-260 bps	-240 bps	10.5	12.0	-150 bps
Effective Tax rate	30.4	29.5	30.0	29.8	30.5	0 bps	60 bps	30.1	30.4	-20 bps

Absence of catalysts and emergence of risk to weigh on stock performance...

We lower our FY12E and FY13E EPS by 2% to Rs 101.4 and 3% to Rs 117.5, respectively, to factor in higher other operating expenditure reported during this quarter. We continue to remain negative on discretionary product spends and hence, re-iterate our HOLD rating on the stock due to absence of upgrade catalysts in volume growth and continued raw material pressures which will keep operating margins under check. At our revised target price of Rs 2,820/share, the stock would trade at 24.0x our FY13E EPS of Rs 117.5/share.

Revision in estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	95,489	95,268	-0.2	108,473	108,222	-0.2
EBITDA	15,714	15,297	-2.7	18,401	17,729	-3.7
EBITDA Margin (%)	16.5	16.1	(40 bps)	17.0	16.4	(60 bps)
APAT	10,307	10,075	-1.8	12,049	11,639	-3.0
EPS	103.2	101.4	-1.8	121.0	117.5	-3.0

Financials (Consolidated)

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	66,809	77,062	95,268	108,222
Growth (%)	22.3	15.3	23.6	13.6
Expenses	54,511	63,933	79,971	90,493
Growth (%)	14.3	17.3	25.1	13.2
Raw Materials	37,580	44,746	57,034	64,779
% Of Sales	56.2	58.1	59.9	59.9
Employee Cost	4,363	4,540	5,499	6,069
% Of Sales	6.5	5.9	5.8	5.6
Other Expenditure	12,568	14,578	17,381	19,589
% Of Sales	18.8	18.9	18.2	18.1
Ebidta	12,299	13,130	15,297	17,729
Growth (%)	76.9	6.8	16.5	15.9
Ebidta%	18.6	17.1	16.1	16.4
Other Income	676	826	1,003	1,003
Interest	285	222	295	295
Depreciation	836	1,131	1,369	1,513
PBT	11,855	12,602	14,636	16,924
Tax	3,731	3,789	4,562	5,285
PAT (Before EO Item)	8,124	8,814	10,075	11,639
Growth (%)	95.1	8.5	14.3	15.5
Net Margin%	12.2	11.4	10.6	10.8
E/O Item	715	0	0	0
Reported PAT	8,839	8,814	10,075	11,639

CashFlow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	12,572	12,602	14,636	16,924
Depreciation	836	1,131	1,369	1,513
Non Cash	-882	30	0	0
Chg in Working Cap	1,338	-1,767	369	-488
Tax Paid	-3,169	-3,924	-4,562	-5,285
Operating Cash Flow	10,695	8,072	11,812	12,664
Capex	-3,833	-1,503	-8,000	-6,000
Free Cash Flow	6,862	6,569	3,812	6,664
Investments	-4,873	-3,105	1,500	0
Equity Capital	0	0	0	0
Loans	-675	-167	0	0
Dividend	-2,359	-3,168	-3,603	-4,198
Others	0	0	0	0
Net Change in Cash	-1,045	129	1,709	2,466
Opening Cash Position	2,104	1,058	1,330	3,040
Closing Cash Position	1,058	1,187	3,040	5,506

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity Share Capital	959	959	959	959
Reserves	16,141	20,915	27,036	34,105
Networth	17,100	21,874	27,996	35,064
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	1,099	1,449	1,822
Capital Employed	20,899	26,172	32,644	40,084
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	26,187	31,557
Inventories	9,559	13,054	13,528	15,354
Debtors	5,425	5,855	6,391	7,155
Cash & Bank	1,058	1,330	3,040	5,506
Loans & Advances	1,746	2,056	2,335	2,649
Other Current Assets	648	893	893	893
Current Liabilities & Prov	16,947	19,769	21,426	23,842
Net Current Assets	1,490	3,421	4,761	7,715
Miscellaneous Expenditure	-	-	-	-
Capital Deployed	20,899	26,172	32,644	40,084

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability %				
Ebidta Mgn	18.6	17.1	16.1	16.4
PAT Mgn	12.2	11.4	10.6	10.8
ROCE	65.1	54.5	50.8	47.4
ROE	55.8	45.2	40.4	36.9
Per Share Data				
EPS	87.1	87.9	101.4	117.5
BVPS	177.4	227.1	291.0	364.7
DPS	27.0	32.0	37.6	43.8
Valuations (X)				
PER	34.6	34.3	29.7	25.7
P/BV	17.0	13.3	10.4	8.3
Ev/Sales	4.4	3.8	3.1	2.7
Ev/Ebidta	22.4	20.8	17.8	15.5
Dividend Yield (%)	0.9	1.1	1.2	1.5
Turnover (X Days)				
Debtor TO Days	30.4	26.7	23.5	22.8
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
15/09/2011	Consumers Sector Sector Update			
27/07/2011	Asian Paints Q1FY12 Result Update	Hold	3,140	3,026
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/08/2011	Berger Paints Q1FY12 Result Update	Accumulate	101	109
03/08/2011	GSK Cosnumer Q2CY11 Result Update	Accumulate	2,388	2,547
01/08/2011	Nestle India Q2CY11 Result Update	Accumulate	4,349	4,268
28/07/2011	Titan Industries Q1FY12 Result Update	Hold	228	225

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

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