

Asian Paints

Sensex: 20,570

CMP: INR 502

Target: INR 401



Paints

Asian Paints reported good performance in Q2FY14, better than our expectations on the back of lower base of the corresponding quarter last year and softening in RM cost. Company registered Q2FY14 consolidated sales at INR 31,147mn, a growth of 18% YoY. PAT at INR 3,268 grew by 37% YoY, aided by higher other income. EBIDTA at 16.40% expanded by 192bps YoY to 16.40%. We expect the company to register slightly better sales numbers in H2FY14 on the back of expected improvement in economic environment. Although, we remain positive on the long term growth prospects and strong business fundamentals of the company, we believe market is discounting unwarranted optimism in the stock price. We have raised our target price but maintain SELL recommendation on the stock due to overpricing concerns.

Lower base and preponement of festive season aided growth

Asian Paint's standalone decorative paints business registered Q2FY14 sales growth of 18% YoY to INR 25.32bn on the back of double digit volume growth. The good sales numbers were backed by lower base and preponement of festive season demand. We expect demand environment to improve in second half of the current fiscal on the back of expected improvement in economic growth backed by election related spending and lag effect of recent reform measures announced by the Govt.

Opex continue to register higher growth

Higher growth in operating expenses and employee cost reduced the full benefit of standalone gross margin expansion of 352bps YoY on the profitability. Softening in key RM cost like TiO2 and crude derivatives along with better product mix aided gross margin expansion. Standalone EBIDTA margin at 18.03% expanded by 231bps YoY. Employee cost (22% YoY growth) and other expenditure (24% YoY growth) were largely on the back of commissioning of new plant at Khandala (capacity of 300mn ltr/annum) and increase in power & fuel cost. Higher depreciation expenses (69% YoY) were offset by more than doubling of other income aided by special dividend by Akzo Nobel that contributed INR 160mn to Asian Paint's profitability.

Industrial paints business continue to remain sluggish

International and Industrial paints business of the company registered cumulative sales of INR 5,826mn (up 19% YoY) while EBIDTA margin expanded by 29bps YoY to 9.34% aided by decline in RM cost and other expenditure. International paints business of the company

reported good sales growth on the back of improved demand environment. However, Industrial coatings business continues to be affected by the economic slowdown. Automotive coatings growth was subdued due to lower demand in the auto sector.

Other Key Highlights

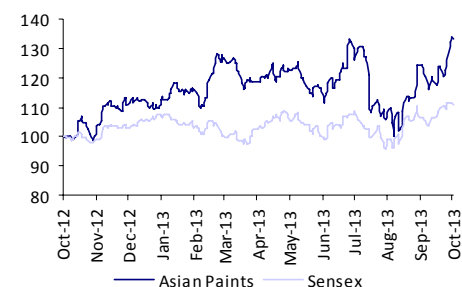
- Company took a price hike of ~1% on 1st Aug 2013 and ~1.8% on 1st September. Total price hikes of 4.1% taken by the company in H1FY14
- Asian Paints invested INR 998mn to acquire 51% stake in Sleek International Private Limited on 8th August 2013. The acquisition was done to expand the business to provide complete home solutions
- Company's active dealer network expanded from ~27,000 dealers in FY11 to ~35,000 dealers now

Outlook & Valuation

Company is expected to better its sales performance in the second half of the current fiscal on the back of expected improvement in demand environment. Recent hikes in prices would negate the pressure from depreciating currency and higher growth in other expenditure. Asian Paints remains the most attractive business with strong fundamentals in the Indian paints industry. We have upped our target price to INR 401, from 369, backed by steady performance of the company despite economic slowdown. However, we believe that valuations at which it is currently trading is not sustainable as the stock price is discounting unwarranted optimism, quoting at 37x FY14E EPS which is much higher than its long term average multiple of 25x. Thus, we continue to recommend SELL on the stock.

Shareholding %	Sep-13
Promoters	52.79
FII's	19.38
DIIS	7.84
Others	19.99

Relative Price Performance

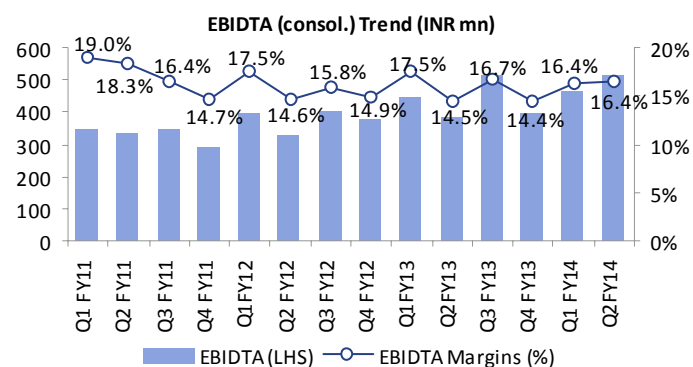
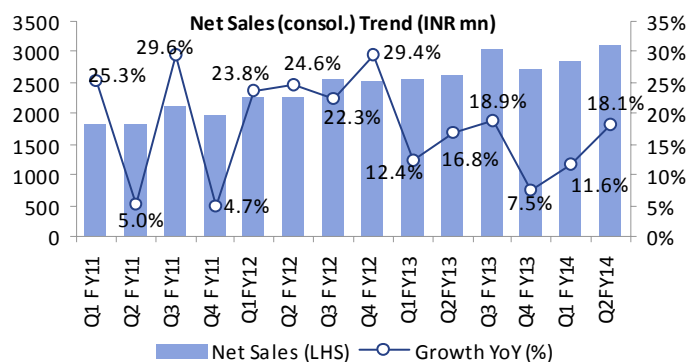


Key Data	
BSE Code	500820
NSE Code	ASIANPAINT
Bloomberg Code	APNT IN
Reuters Code	ASPN.BO
Shares Outstanding (mn)	95.9
Face Value	10
Mcap (INR bn)	481.5
52 Week H/L	5,247/3,448
2W Avg. Qty, NSE	78,349
Free Float (INR bn)	227.3
Beta (1 Yr. Nifty)	0.69

(INR mn)	FY12	FY13	FY14E	FY15E
Net Sales	96,322	109,686	123,191	142,000
Growth (%)	24.73%	13.87%	12.31%	15.27%
EBIDTAM (%)	15.66%	15.79%	16.27%	16.32%
Adj. PAT	9,880	11,139	12,931	15,372
Growth (%)	17.43%	12.74%	16.09%	18.88%
Adj. EPS (INR)	10.30	11.61	13.48	16.03
P/E (x)	48.74	43.23	37.24	31.32
EV/EBIDTA	32.30	28.13	24.36	21.08
Net Debt/Equity	(0.23)	(0.23)	(0.37)	(0.45)
RoACE (%)	38.00%	35.23%	34.08%	33.93%
RoANW (%)	40.03%	36.33%	34.53%	34.17%

Quarterly Consolidated Financial

Particulars (INR mn)	Q1FY14	Q1FY13	YoY (%)	Q4FY13	QoQ (%)
Net Sales	28,411	25,461	11.59%	27,331	3.95%
COGS	16,138	14,838	8.75%	15,523	3.96%
Gross Profit	12,273	10,622	15.54%	11,808	3.94%
Gross Profit Margins %	43.20%	41.72%	+148bps	43.20%	0bps
Employee Cost	2,009	1,586	26.70%	1,601	25.486%
as a % of sales	7.07%	6.23%	+84bps	5.86%	+121bps
Other Expenditure	5,618	4,571	22.91%	6,277	-10.50%
as a % of sales	19.77%	17.95%	+182bps	22.97%	-319bps
Total Expenditure	23,764	20,995	13.19%	23,401	1.55%
EBIDTA	4,647	4,466	4.04%	3,930	18.23%
EBIDTA Margins %	16.35%	17.54%	-119bps	14.38%	+198bps
Depreciation	599	334	79.26%	489	22.60%
EBIT (excl. Other income)	4,048	4,132	-2.04%	3,442	17.61%
Other Income	277	239	16.03%	382	-27.47%
EBIT	4,325	4,371	-1.05%	3,824	13.10%
Interest	86	109	-21.34%	58	48.18%
EBT	4,239	4,262	-0.53%	3,766	12.56%
Tax Expense (Total)	1,390	1,273	9.20%	1,178	18.02%
PAT	2,850	2,989	-4.68%	2,589	10.08%
Minority Interest	98	106	-7.58%	78	25.94%
Net Profit	2,752	2,884	-4.57%	2,511	9.59%
Net Profit Margins %	9.69%	11.33%	-164bps	9.19%	+50bps
EPS	28.69	30.06	-4.57%	26.18	9.59%



Financials Consolidated

Income statement

Year End March (INR mn)	FY12	FY13	FY14E	FY15E
Net Sales	96,322	109,686	123,191	142,000
Growth (%)	24.73%	13.87%	12.31%	15.27%
Cost of Goods Sold	57,770	64,209	71,115	81,659
Employee Cost	5,260	6,236	7,280	8,737
Other Operating Expenses	18,205	21,924	24,756	28,425
Total Operating Expenses	81,235	92,369	103,151	118,820
EBIDTA (excl. OI)	15,088	17,317	20,040	23,180
EBIDTA Margin (%)	15.66%	15.79%	16.27%	16.32%
Depreciation/Amortization	1,211	1,546	2,004	2,139
EBIT	13,876	15,771	18,036	21,041
Interest Expense	410	367	313	314
Other Income (OI)	1,074	1,148	1,520	2,149
Exceptionals	-	-	-	-
EBT	14,541	16,552	19,243	22,875
Tax Expenses	4,341	4,957	5,773	6,863
PAT	10,200	11,595	13,470	16,013
Minority Interest	319	456	539	641
Adjustment to PAT	(2)	-	-	-
APAT	9,880	11,139	12,931	15,372
Growth (%)	17.43%	12.74%	16.09%	18.88%
APAT Margin	10.26%	10.16%	10.50%	10.83%

Key Ratios

Year End March	FY12	FY13	FY14E	FY15E
Per Share Data (INR)				
Reported EPS	10.30	11.61	13.48	16.03
Adj. EPS	10.30	11.61	13.48	16.03
Growth (%)	17.43%	12.74%	16.09%	18.88%
CEPS	11.56	13.22	15.57	18.26
DPS	4.00	4.60	5.20	6.40
BVPS	28.65	35.28	42.80	51.02
Return Ratios (%)				
RoACE	38.00%	35.23%	34.08%	33.93%
RoANW	40.03%	36.33%	34.53%	34.17%
RoIC	45.17%	40.53%	38.21%	37.45%
Liquidity Ratios				
Net Debt/Equity	(0.23)	(0.23)	(0.37)	(0.45)
Interest Coverage Ratio	33.87	43.03	57.56	67.07
Current Ratio	1.43	1.40	1.39	1.40
Efficiency Ratios				
Asset Turnover Ratio	1.87	1.76	1.67	1.65
Inventory Days	101	104	104	105
Debtor Days	30	33	31	31
Creditor Days	123	131	131	129
Valuation Ratios				
P/E (x)	48.74	43.23	37.24	31.32
P/BV (x)	17.52	14.23	11.73	9.84
Dividend Yield (%)	0.80%	0.92%	1.04%	1.27%
Dividend Payout (%)	38.83%	39.61%	38.57%	39.93%
EV/EBIDTA (x)	32.30	28.13	24.36	21.08

Balance Sheet

Year End March (INR mn)	FY12	FY13	FY14E	FY15E
Sources of Funds				
Share Capital	959	959	959	959
Reserves and Surplus	26,526	32,884	40,093	47,974
Total Networth	27,485	33,843	41,053	48,934
Minority Interest Reserves	1,367	1,608	2,039	2,551
Total Debt	3,488	2,471	2,979	2,725
Deferred Tax Liability (Net)	928	1,544	1,659	1,797
Total	33,268	39,465	47,730	56,006
Application of Funds				
Net Block	13,223	24,643	24,704	25,215
CWIP	6,171	592	1,000	1,100
Investments	3,547	2,807	9,828	15,376
Current Assets	34,181	39,824	43,856	50,552
Current Liabilities	23,854	28,401	31,658	36,237
Net Current Assets	10,327	11,423	12,198	14,315
Total	33,268	39,465	47,730	56,006

Cash Flow

Year End March (INR mn)	FY12	FY13	FY14E	FY15E
EBT	14,541	16,552	19,243	22,875
Less: Other Income/Exceptionals	1,074	1,148	1,520	2,149
Add: Depreciation	1,211	1,546	2,004	2,139
Add: Interest Paid	410	367	313	314
Taxes Paid	(4,296)	(4,385)	(5,657)	(6,725)
Change in Working Capital	(4,101)	(1,587)	46,805	(2,202)
Others	409	884	288	246
Cash Flows from Operations (a)	7,100	12,229	61,474	14,498
Capital Expenditure	(7,029)	(7,361)	(2,500)	(2,750)
Asset Sales	-	10	-	-
Change in Investment	5,672	741	(7,264)	(5,943)
Others	2,309	1,741	1,501	1,850
Cash Flows from Investments (b)	952	(4,869)	(8,263)	(6,842)
Change in Equity	-	-	-	-
Debt Raised/(Repaid)	969	(1,016)	509	(254)
Dividend paid (including tax)	(3,831)	(4,621)	(52,673)	(5,828)
Interest Paid	(404)	(371)	(313)	(314)
Cash Flows from Financing (c)	(3,246)	(5,977)	(52,478)	(6,396)
Net Change in Cash (a+b+c)	4,806	1,383	734	1,260
Opening Cash	1,330	6,137	7,520	8,254
Closing Cash	6,137	7,520	8,254	9,514

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| 1. Analyst ownership of the stock | - No |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

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