



Asian Paints

BSE SENSEX	S&P CNX	CMP: INR3,898	TP: INR3,900	Neutral						
18,759	5,705									
Bloomberg	APNT IN									
Equity Shares (m)	95.9									
52-Week Range (INR)	4,170/2,551									
1,6,12 Rel. Perf. (%)	-1/2/18									
M.Cap. (INR b)	373.9									
M.Cap. (USD b)	7.0									
Year	Net Sales	Adj.PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
3/11A	77,223	8,432	87.9	1.0	-	-	38.5	50.7	-	-
3/12A	96,322	9,887	103.1	17.3	37.8	13.6	36.0	47.8	3.8	24.2
3/13E	110,400	11,652	121.5	17.8	32.1	11.1	34.7	46.6	3.3	20.2
3/14E	129,785	13,707	142.9	17.6	27.3	9.2	33.8	45.5	2.8	16.7

- Asian Paints (APNT) posted in-line results for 2QFY13, with consolidated PAT up 15% YoY to INR2.4b (v/s our estimate of INR2.4b). Revenue grew 16.5% YoY, 2.5% ahead of our estimate. Consolidated EBITDA margin declined 50bp YoY to 13.8% (v/s our estimate of 15%), despite flat gross margin. Higher staff costs (up 10bp YoY) and overheads (up 30bp YoY) led to the EBITDA margin decline.
- Standalone sales grew ~16.2% YoY. Gross margin was flat YoY but contracted 265bp QoQ. EBITDA margin expanded 20bp YoY to 15.2%, led by operating leverage.
- We estimate that APNT's domestic decorative paints volumes (part of the standalone entity) increased ~6% YoY. Though modest, this is a good recovery after 2% YoY volume decline in 1QFY13, more so given the higher base (15% YoY volume growth in 2QFY12) and shift in festive season (Diwali) to November. We expect volume growth to accelerate going forward led by festive demand.
- Sales of international and industrial subsidiaries/JVs (imputed as difference between consolidated and standalone entities) were up 18% YoY. However, operating margin declined 270bp YoY to 7.4%.
- We maintain our revenue and earnings estimates for FY13 and FY14. Festive season demand has begun on a good note and we expect Asian Paints to benefit from softening in Tio2 and currency appreciation in 2HFY13. The stock trades at 32.1x FY13E and 27.3x FY14E EPS, respectively. We maintain **Neutral** rating on APNT given the rich valuations.

Quarterly Performance (Consolidated)

Y/E March	FY12				FY13				FY12	FY13E	FY13	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	22,571	22,447	25,605	25,387	25,393	26,160	30,100	28,748	96,010	110,400	25,500	2.6%
Change (%)	23.3	24.0	22.0	29.5	12.5	16.5	17.6	13.2	24.3	15.0	13.3	
Raw Material/PM	13,537	13,507	15,514	15,213	14,838	15,714	17,910	16,736	57,770	65,198	15,045	4.4%
Gross Profit	9,035	8,940	10,092	10,174	10,554	10,445	12,191	12,012	38,240	45,202	10,455	-0.1%
Gross Margin (%)	40.0	39.8	39.4	40.1	41.6	39.9	40.5	41.8	39.8	40.9	41.0	
Operating Expenses	5,149	5,772	6,118	6,420	6,176	6,834	7,314	6,725	23,459	27,049	6,630	3.1%
% of Sales	22.8	25.7	23.9	25.3	24.3	26.1	24.3	23.4	24.4	24.5	26.0	
EBITDA	3,886	3,168	3,974	3,754	4,379	3,612	4,876	5,287	14,781	18,154	3,825	
Margin (%)	17.2	14.1	15.5	14.8	17.2	13.8	16.2	18.4	15.4	16.4	15.0	(119)
Change (%)	11.9	-4.4	15.2	31.8	12.7	14.0	22.7	40.9	179.6	22.8	18.5	
Interest	65	88	90	166	109	122	130	144	410	504	130	
Depreciation	291	300	307	314	334	357	400	455	1,211	1,546	365	
Other Income	338	353	225	470	326	422	300	158	1,387	1,207	300	40.8%
PBT	3,868	3,133	3,802	3,744	4,262	3,555	4,646	4,847	14,547	17,310	3,630	
Tax	1,155	955	1,138	1,097	1,273	1,041	1,417	1,549	4,344	5,280	1,107	
Effective Tax Rate (%)	29.9	30.5	29.9	29.3	29.9	29.3	30.5	32.0	29.9	30.5	30.5	
PAT before Minority	2,713	2,179	2,664	2,647	2,989	2,514	3,229	3,298	10,203	12,031	2,523	
Minority Interest	79	91	96	52	106	122	95	56	319	379	95	
Adjusted PAT	2,634	2,087	2,569	2,595	2,884	2,392	3,134	3,242	9,884	11,652	2,428	-1.5%
Change (%)	18.5	-2.8	16.6	39.5	9.5	14.6	22.0	24.9	17.2	17.9	16.3	

E: MOSL Estimates

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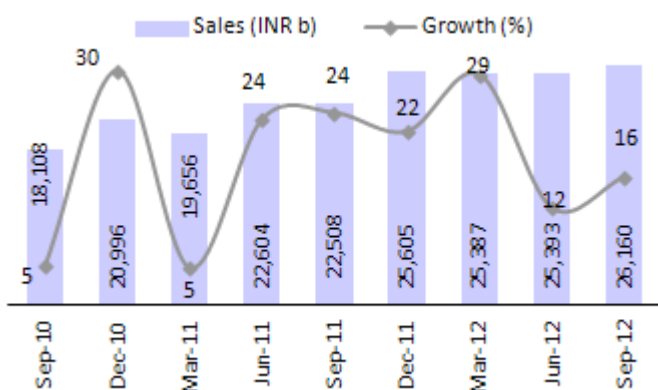
Analyst meet highlights

- APNT's new brand identity is aimed at deeper connect with the customers by widening their imagination and scope of creativity towards new possibilities.
- Management indicated that demand for decorative paints in 2QFY13 was lower than expectation. However, the onset of festive season has been good in terms of demand and premium products have shown a promise in offtake.
- Rural market demand was also below expectations; however, offtake in Tier 1 and Tier 2 cities were reasonable.
- Demand from auto and industrial business was subdued due to a weak macro economic environment; however, auto refinish demand has shown a recovery.
- APNT's RM index increased by 7% during 2QFY13. While TiO2 prices have stabilized, currency volatility remains a concern.
- Capacity expansion plans at the Khandala plant are on track. Company has so far invested INR4b for its Khandala plant. Phase 1 will have a capacity of 300,000 KL and is set to be commissioned by 4QFY13. Total capex for FY13 is expected to be INR7.5b.
- Royalty to APNT from its international operations stood at INR94m.
- Company witnessed pressure in its international business in the South Asian markets due to weak economic environment. Sales growth in Caribbean, Middle East and South Pacific was healthy, though ~16-17% growth was led by favorable currency. Egypt business still remains under pressure.

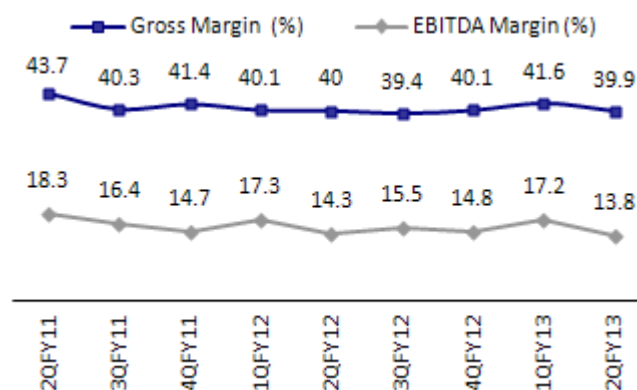
Consolidated sales up 16.5% YoY; subsidiaries' sales up 19% YoY

- Consolidated net sales grew 16.5% YoY to INR26.1b, marginally higher than our estimate of INR25.5b.
- Gross margin remained flat YoY but contracted 170bp QoQ to 39.9%.
- EBITDA margin contracted 30bp YoY to 13.8%, lower than our estimate of 15%. EBITDA grew ~11.9% YoY to INR3.6b v/s our estimate of INR3.8b.
- We expect operating margins to improve in 3QFY13, as input cost (TiO2) has corrected from the peak and the INR has appreciated from the lows.
- Other income grew 19.6% YoY to INR422m and tax rate declined 120bp YoY to 29.3%; consequently, adjusted PAT grew 14.6% YoY to INR2.4b.
- Despite lower than expected EBITDA margin, adjusted PAT was in line with our estimate due to higher other income (INR422m v/s our estimate of INR300m) and lower tax rate (29.3% v/s our estimate of 30.5%).

Consolidated sales up 16% YoY



Gross margin flat YoY

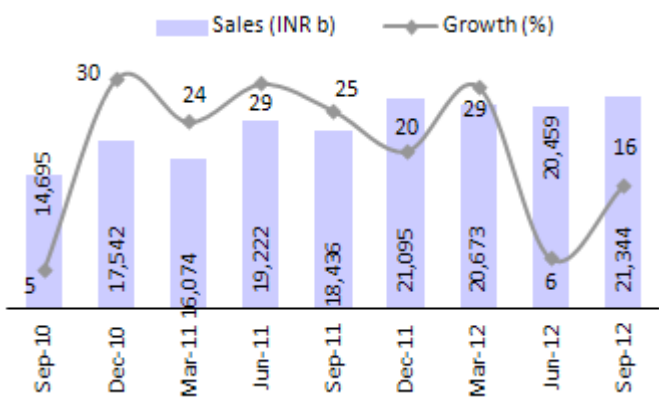


Source: Company/MOSL

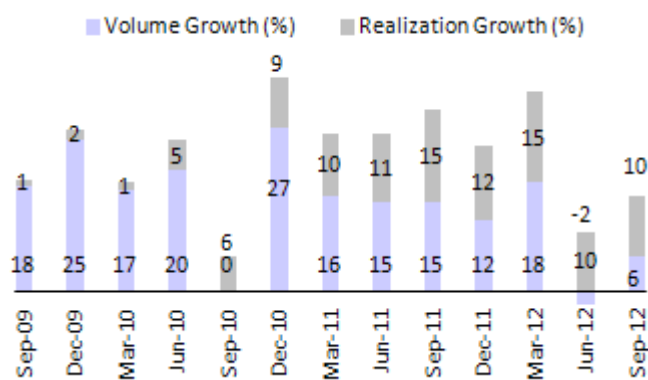
Domestic volumes up ~6% YoY; gross margin contracts 260bp YoY

- Standalone sales grew 16.2% YoY to INR21.3b. We expect domestic decorative paints volumes to grow ~6% YoY.
- Gross margin was flat YoY but declined 260bp QoQ to 40.6%. We believe this is due to lack of price hikes post May 2012 and higher carrying cost of raw material inventory. APNT took its last price hike in May (3.2%). However, TiO2 prices have come off 5% QoQ from the peak and we expect the benefits from the same to reflect in 3QFY13.
- EBITDA margin expanded 20bp YoY to 15.2%, led by 30bp savings due to operating leverage. EBITDA grew ~18.1% YoY to INR3.2b.
- PAT grew just 5% YoY, as other income declined 37% YoY (base quarter had dividend income of INR158.3m from Mauritius subsidiary) and tax rate was 125bp YoY higher at 30.3%.

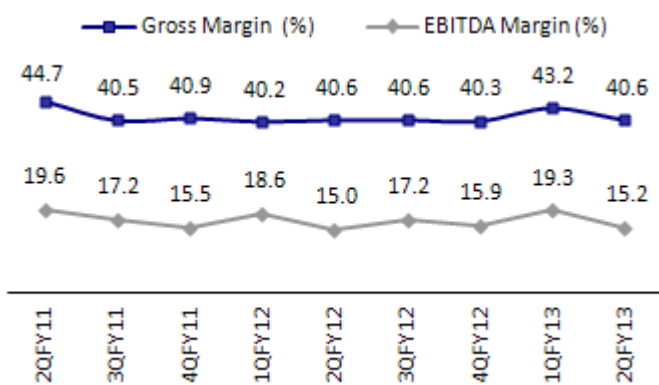
Domestic decorative paints sales up 16% YoY, led by ~6% YoY volume growth



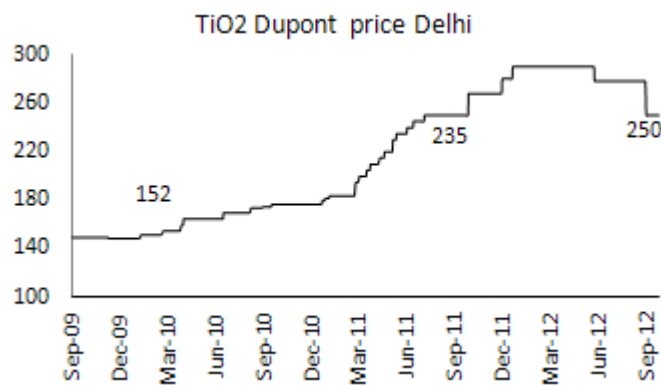
Domestic decorative volumes recover QoQ; up 6% YoY



Gross margin flat; EBITDA margin up 20bp YoY



Correction in TiO2 prices should reflect in 3QFY13 gross margin



Source: Company/MOSL

Performance of international division + industrial subsidiaries/JVs (imputed as difference between standalone and consolidated numbers)

The international business and industrial JVs posted 18% YoY revenue growth. EBITDA margin declined 268bp YoY to 7.4%. However, due to lower tax rate and higher other income, PAT was INR153.4m as against a loss of INR41.7m in 2QFY13.

Valuation and view: Festive season started on good note; levers for margin expansion ahead

- Decorative paints demand has improved post 2QFY13 and October has begun on a good note according to our channel checks. We expect good festive demand in 3QFY13, as Diwali has shifted to November this year from October in FY12.
- Correction in input costs and currency appreciation augurs well for APNT's gross margin.
- We maintain our revenue and earnings estimates for FY13 and FY14, factoring in 7-8% volume growth for FY13 and 12-13% volume growth for FY14.
- The stock trades at 32.1x FY13E and 27.3x FY14E EPS. Maintain **Neutral** with a target price of INR3,900.

Asian Paints: an investment profile

Company description

Asian Paints (APNT) is India's largest paint manufacturer and marketer, with a dominant share in the decorative segment. For the industrials and automotive segment, it has a JV with PPG of the US. APNT acquired Berger International of Singapore to expand its operations in other markets in Asia, the Middle East and the Caribbean.

Key investment arguments

- Expansion in housing and construction will drive demand for decorative paints over the next 3-5 years.
- International operations, which have turned around, will contribute to the company's earnings.

Key investment risks

- High spread and geographical diversification increases risk of execution.
- Other players in the decorative segment are becoming more aggressive.

Recent developments

- APNT took a 2% price increase from April and another 3% from May to mitigate the impact of increase in excise duty from 10% to 12%, increase in prices of TiO₂ and INR depreciation.
- APNT expects its Khandala plant to be commissioned in 4QFY13, with a capacity of 300,000KL.

Valuation and view

- We maintain our revenue and earnings estimates for FY13 and FY14.
- The stock trades at 32.1x FY13E and 27.3x FY14E EPS. Maintain **Neutral** with a target price of INR3,900.

Sector view

- We are positive on the long-term demand potential in the sector. Near-term concerns notwithstanding, APNT has displayed strong resilience in volume growth.
- Longer-term prospects bright, given rising incomes and low penetration.

Comparative valuations

		Asian Paints	ITC	HLL
P/E (x)	FY13E	32.1	31.5	36.5
	FY14E	27.3	22.9	31.4
EV/EBITDA (x)	FY13E	20.2	17.5	28.4
	FY14E	16.7	14.6	24.3
EV/Sales (x)	FY13E	3.3	6.4	4.5
	FY14E	2.8	5.4	4.0
P/BV (x)	FY13E	11.1	8.7	26.3
	FY14E	9.2	7.4	19.9

Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	52.8	52.8	52.8
Domestic Inst	8.8	8.7	8.9
Foreign	19.6	19.6	19.3
Others	18.8	18.9	19.1

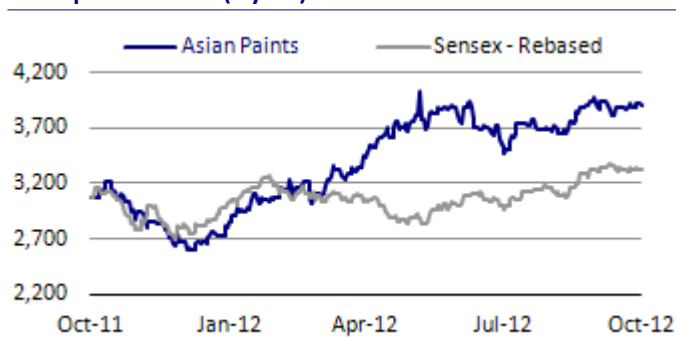
EPS: MOST forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	121.5	121.2	0.3
FY14	142.9	145.7	-1.9

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
3,898	3,900	0.1	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement						Ratios					
(INR Million)											
Y/E March	FY10	FY11	FY12	FY13E	FY14E	Y/E March	FY10	FY11	FY12	FY13E	FY14E
Net Sales	66,809	77,223	96,322	110,400	129,785	Basic (INR)					
Change (%)	22.3	15.6	24.7	14.6	17.6	EPS	87.0	87.9	103.1	121.5	142.9
Raw Materials	37580	44746	57770	65198	76327	Cash EPS	95.7	99.7	115.7	137.6	163.0
Gross Profit	29230	32477	38552	45202	53458	BV/Share	178.3	228.0	286.5	350.1	422.8
Margin (%)	43.8	42.1	40.0	40.9	41.2	DPS	31.5	37.2	46.5	58.5	70.2
Operating Expenses	16956	19196	23465	27049	31492	Payout %	31.0	36.4	38.8	41.2	42.0
EBITDA	12,274	13,281	15,088	18,154	21,966	Valuation (x)					
Change (%)	83.2	8.2	13.6	20.3	21.0	P/E			37.8	32.1	27.3
Margin (%)	18.4	17.2	15.7	16.4	16.9	Cash P/E			33.7	28.3	23.9
Depreciation	836	1,131	1,211	1,546	1,928	EV/Sales			3.8	3.3	2.8
Int. and Fin. Charges	285	232	410	504	576	EV/EBITDA			24.2	20.2	16.7
Other Income	1,405	680	1,074	1,207	1,058	P/BV			13.6	11.1	9.2
Profit before Taxes	12,559	12,597	14,541	17,310	20,520	Dividend Yield (%)			1.2	1.5	1.8
Change (%)	102.4	0.3	15.4	19.0	18.5	Return Ratios (%)					
Margin (%)	18.8	16.3	15.1	15.7	15.8	RoE	48.8	38.5	36.0	34.7	33.8
Tax	3,676	3,502	4,274	4,933	5,848	RoCE	61.5	50.7	47.8	46.6	45.5
Deferred Tax	55	282	61	346	410	Working Capital Ratios					
Tax Rate (%)	29.7	30.0	29.8	30.5	30.5	Debtor (Days)	8	7	8	8	8
PBT Before Minority	8828	8813	10206	12031	14261	Asset Turnover (x)	6.5	3.8	4.5	3.5	3.2
Minority Interest	483	381	319	379	554	Leverage Ratio					
Adjusted PAT	8,345	8,432	9,887	11,652	13,707	Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
Change (%)	107.9	1.0	17.3	17.8	17.6						
Margin (%)	12.5	10.9	10.3	10.6	10.6						
Exceptional/Prior Perio	12	0	0	0	0						
Reported PAT	8,356	8,432	9,887	11,652	13,707						

Balance Sheet						Cash Flow Statement					
(INR Million)						(INR Million)					
Y/E March	FY10	FY11	FY12	FY13E	FY14E	Y/E March	FY10	FY11	FY12	FY13E	FY14E
Share Capital	959	959	959	959	959	OP/(loss) before Tax	12,274	13,281	15,088	18,154	21,966
Reserves	16,141	20,915	26,526	32,626	39,600	Int./Div. Received	1,405	680	1,074	1,207	1,058
Net Worth	17,100	21,874	27,485	33,585	40,560	Interest Paid	-285	-232	-410	-504	-576
Loans	2,292	581	559	700	800	Direct Taxes Paid	-3,676	-3,502	-4,274	-4,933	-5,848
Other Liability	562	1,745	1,847	2,205	2,665	(Incr)/Decr in WC	3,530	-784	-1,075	-740	-7,890
Minority Interest	945	1,099	1,367	1,746	2,300	CF from Operations	13,249	9,443	10,404	13,183	8,710
Capital Employed	20,899	25,299	31,257	38,236	46,325	Incr in FA	-3,541	-1,606	-6,946	-10,163	-1,078
Gross Block	15,004	20,249	21,458	32,792	34,870	Pur of Investments	-5,457	1,951	742	1,655	-81
Less: Accum. Deprn.	6,276	7,151	8,453	9,999	11,927	CF from Invest.	-8,998	345	-6,204	-8,508	-1,159
Net Fixed Assets	8,728	13,099	13,006	22,793	22,943	Issue of Shares	0	0	0	0	0
Capital WIP	4,072	433	6,171	5,000	4,000	Incr in Debt	-794	-1,711	-23	142	100
Investments	6,241	4,290	3,547	1,892	1,973	Dividend Paid	-3,023	-3,571	-4,459	-5,611	-6,734
Curr. Assets, L&A	18,437	28,284	36,238	37,997	51,798	Min Int/ Dt					
Inventory	9,559	13,054	15,989	16,636	19,557	Others	-1,479	698	263	71	52
Account Receivables	5,425	5,731	7,813	9,074	10,667	CF from Fin. Activity	-5,296	-4,584	-4,219	-5,399	-6,582
Cash and Bank Balance	1,058	6,262	6,243	5,520	6,489	Incr/Decr of Cash	-1,045	5,204	-19	-724	970
Others	2,395	3,237	6,194	6,768	15,085	Add: Opening Balance	2,104	1,058	6,262	6,243	5,520
Curr. Liab. and Prov.	16,947	20,807	27,705	29,447	34,389	Closing Balance	1,059	6,262	6,243	5,520	6,490
Account Payables	7,183	10,874	12,968	11,789	13,802						
Other Liabilities	6,613	4,606	8,462	9,594	10,883						
Provisions	3,150	5,327	6,275	8,064	9,705						
Net Current Assets	1,490	7,478	8,533	8,550	17,409						
Godwill on Cons.	367	0	0	0	0						
Application of Funds	20,899	25,299	31,257	38,235	46,325						

E: MOSL Estimates

N O T E S

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3. Broking relationship with company covered	No
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