

# ASIAN PAINTS

## Volumes recover; margins to follow

India Equity Research | Consumer Goods



Asian Paints' Q2FY13 revenue came ahead of our estimate while PAT came bang in line. Key positives were: (1) Recovery in domestic volume growth at ~6% YoY (vs flattish volumes in Q1FY13) and (2) Slight improvement in domestic EBITDA margin. Key negatives include: (1) lowest consolidated EBITDA margin in the last 14 quarters (likely to have bottomed out) and (2) Spurt in interest cost by 37.7% YoY (on a low base). We remain positive due to re-launch of brand identity in India (after 10 years), innovation (entered the construction chemicals business in "dampness correction") and scaling up of benefits. Although the discretionary spending remains under pressure in near term, this could reverse if sentiments improve (due to recent reforms and a possible cut in interest rates). Maintain 'BUY'.

**This report also contains Q2FY13 analyst meet highlights.**

### Volume growth sees recovery

Q2FY13 consolidated net revenue increased 16.8% YoY. PAT rose 14.6% YoY. Other income in Q2FY12 includes INR158.3mn received as dividend from its subsidiary Asian Paints International Ltd (Mauritius). The company's standalone business posted revenue growth of 16.2% YoY to ~INR21.5bn. Q2FY13 standalone numbers do not include revenues of INR180mn and loss of INR10mn relating to AP Coatings Ltd (a wholly owned subsidiary). In H1FY13 constant currency growth in international business was 17-18%.

### Gross margin expands, but EBITDA margin remains flat

Asian Paints' COGS declined 24bps YoY reflecting correction in TiO2 prices. COGS benefit was offset by an increase in other expenses (up 28bps YoY), leading to flat EBITDA margin at 14.5%. Margin was better at the standalone level (domestic business) coming in at 15.7% (up 21bps YoY).

### Outlook and valuations: Positive; maintain 'BUY'

We remain positive on Asian Paints due to investment in new growth drivers (construction chemicals business), higher growth in decorative business and its JV with PPG. At CMP, the stock is trading at 32.7x and 27.0x FY13E and FY14E, respectively. We maintain 'BUY' and rate it 'Sector Performer' on a relative return basis.

#### Financials

(INR mn)

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
Net rev.	26,364	22,568	16.8	25,479	3.5	96,322	110,957	131,878
EBITDA	3,817	3,286	16.1	4,466	(14.5)	15,088	17,707	21,298
Net profit	2,392	2,087	14.6	2,884	(17.1)	9,887	11,495	13,925
Dilu. EPS (INR)	24.9	21.8	14.6	30.1	(17.1)	103.1	119.8	145.2
Dilu.P/E (x)						38.1	32.7	27.0
EV/EBITDA (x)						24.5	20.8	17.2
ROAE (%)						40.1	38.2	38.9

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: ASPN.BO, B: APNT IN)

CMP	: INR 3,923
Target Price	: INR 4,500
52-week range (INR)	: 4,191 / 2,550
Share in issue (mn)	: 95.9
M cap (INR bn/USD mn)	: 376 / 7,024
Avg. Daily Vol.BSE/NSE('000)	: 90.5

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters *	52.8	52.8	52.8
MF's, FI's & BK's	8.8	8.7	8.8
FII's	18.1	18.1	17.9
others	20.3	20.4	20.5
* Promoters pledged shares (% of share in issue)			11.8

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	0.8	0.0	4.9
3 months	13.1	12.3	13.5
12 months	27.8	8.9	45.0

#### Abneesh Roy

+91 22 6620 3141  
abneesh.roy@edelcap.com

#### Hemang Gandhi

+91 22 6620 3148  
hemang.gandhi@edelcap.com

#### Pooja Lath

+91 22 6620 3075  
pooja.lath@edelcap.com

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## Asian Paints Analyst Meet | Key Takeaways

**Demand in domestic business:** Demand in decorative segment was moderate in H1FY13 with the demand pick up seen in September. There has been a shift in consumer perception of painting need from maintenance to décor which is likely to help Asian Paints' future growth.

**Demand in industrial business:** Industrial business continues to struggle due to tough macro conditions.

**Mix improvement:** In the domestic business, mix improvement continued in favor of emulsions with premium emulsions growing faster than economy offerings. Unorganised players are doing well in the economy emulsions category; growth of unorganised sector has been similar to that of organised sector.

**Foray into construction chemicals:** Asian Paints has entered the construction chemicals business in the dampness correction category. This is currently offered in 13 cities as Home Solution. Gradually, it will be offered pan India. One of the key players in this space is Pidilite. Earlier, Asian Paints would ask consumers to first correct the dampness and then consume paints. This was a big gap in the portfolio and hence the company launched products in this category. Asian Paints is focusing on innovation and will be innovating in the paints segment.

**Raw material index:** Raw material index in the domestic decorative business was at 107.71 in Q2FY13 (with the base at 100 in FY12; 106.67 in Q1FY13).

**RM pressure has cooled off from peak levels:** TiO2 prices have cooled off from peak levels; recent rupee strengthening has been beneficial which will show the impact in H2FY13. No supply issue is seen in TiO2.

**New look:** Recent re-launch was done because the current logo has been there for past ten years; re-launch was done to make it look more fresh and contemporary. The logo reflects a more meaningful and personalized engagement with the increasing number of interior decor consumers in the home, retail and commercial segments across India. Asian Paints now claims to be a complete decor and design solutions company, having also launched the branded home painting service under the brand name 'Asian Paints Home Solutions' and the colour inspiration concept store. Currently it is offering only colour consultancy as an added service.

**Expansion on track:** Construction of the new greenfield plant at Khandala in Maharashtra is in full swing adding 300,000KL capacity which is likely to be commissioned by Q4FY13. The plant can be scaled up to 400,000KL. Total capex for FY13 is ~INR7.5bn of which INR4bn has been spent till date.

**JV with PPG Industries:** PPG Industries received necessary approvals from Indian authorities to expand its coatings joint venture by creating a second joint venture with Asian Paints. PPG and Asian Paints will expand their current 50-50 joint venture to serve India's industrial liquid, marine, consumer packaging and transportation coatings customers. PPG and Asian Paints also will form a second 50-50 joint venture, Asian Paints PPG Limited, to serve protective, industrial powder, industrial container and light industrial coatings customers. Both joint ventures leverage PPG's global scale, technology and customer



Old logo



New logo



Kansai Nerolac’s new campaign - ‘No VOC, No Gadbad’



Asian Paints ‘Green Assure’ stamp - A step ahead of competition

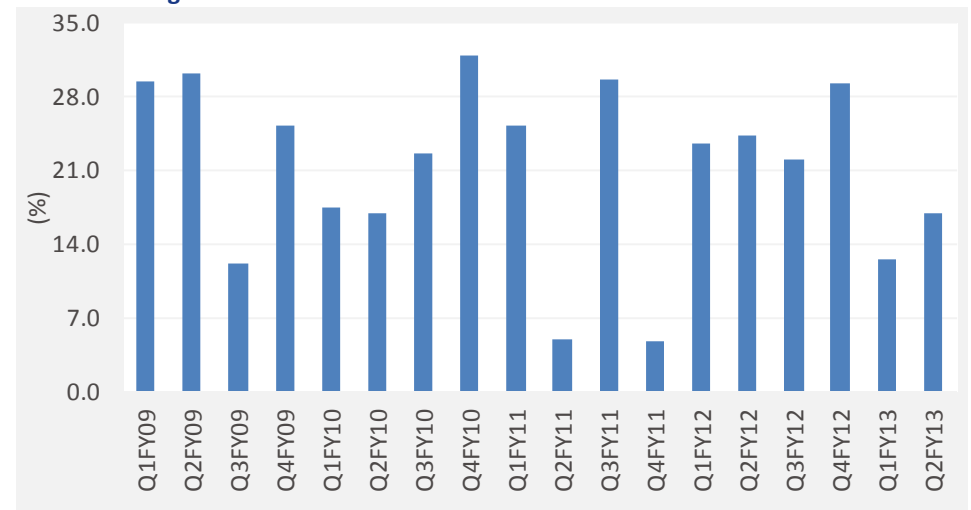
relationships with Asian Paint's Indian customer base, manufacturing footprint, distribution channels and local relationships. PPG is to have effective management control of Asian PPG Industries, while Asian Paints will have effective management control of Asian Paints PPG Limited.

**Change in product positioning in paints:** Recently major paint companies have been harping on health benefits of their products rather than just the decorative properties of look, feel and design.

Kansai Nerolac is currently aggressively marketing its products, having low to zero VOC (volatile organic chemicals). Kansai has launched a new campaign ‘No VOC, No Gadbad’ which points out the ‘gadbad’ in popular paints – VOC. During the painting process VOC evaporates in the air causing health risks such as headaches, nausea, respiratory disorders, dizziness, chest congestion, lung irritation and burning sensation in the eyes, nose and throat.

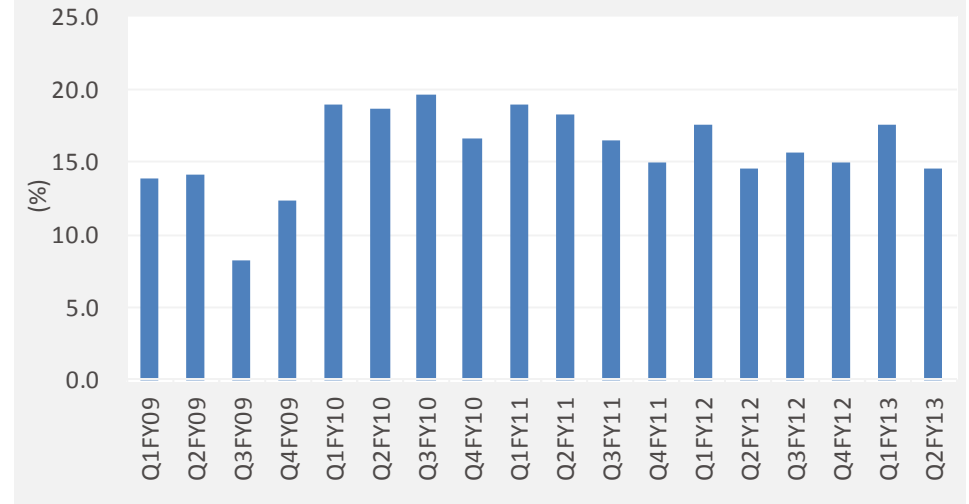
Asian Paints has had low VOC products for a long time in its portfolio but now it has gone a step ahead and introduced Green Assure stamp for a select range of best-in-class products (like Royale, Royale Shyne and Apex Ultima) which conform to true Green standards. Under this campaign, products not only conform to international VOC specifications but also do not contain any hazardous raw materials like lead, heavy metals, APEO (Alkylphenol Ethoxylates) and toxic materials as per the hazardous material usage guidelines laid out by the International GS - 11 (Green Seal) standard.

**Chart 1: Sales growth recovers due to better volumes**

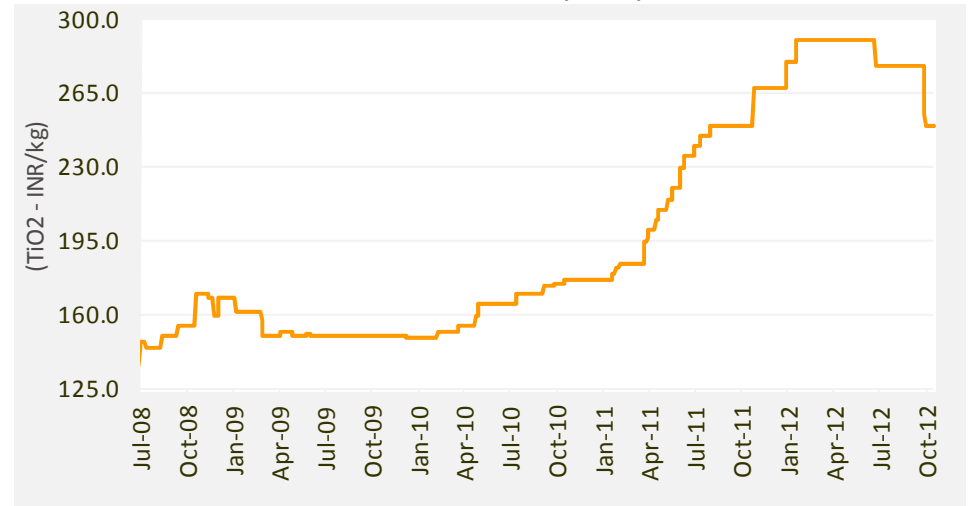


Source: Company, Edelweiss research

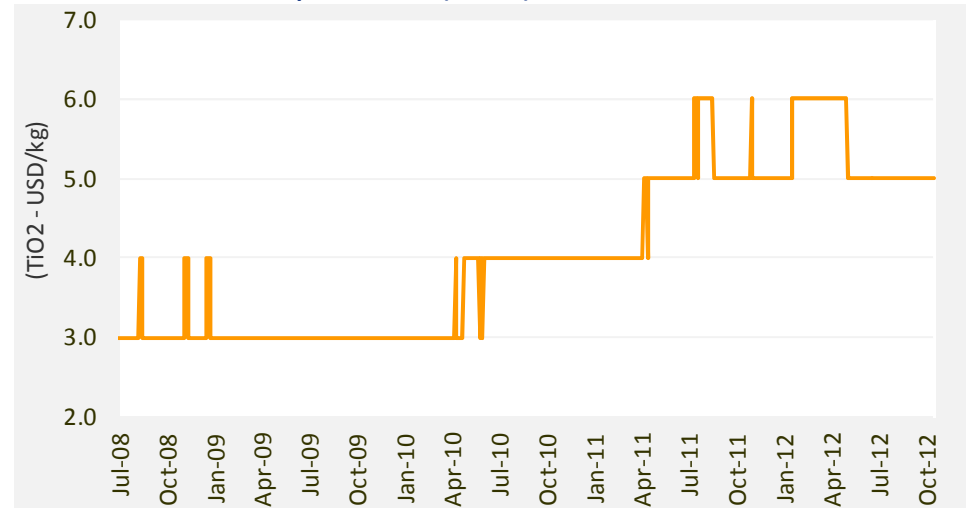
**Chart 2: EBITDA margin flat YoY**



**Chart 3: Price correction seen in Titanium dioxide (in INR)**



**Chart 4: Titanium dioxide prices stable (in USD)**



Source: Company, Edelweiss research

**Table 1: Price hike history**

Date	Price hike (in %)
May-12	3.2
April-12	2.1
March-12	1.4
December-11	2.2
July-11	1.3
June-11	2.5
May-11	4.4
Jan-Mar 2011	1.0
December-10	3.0
August-10	1.2
July-10	2.6
May-10	4.2

Source: Company, Edelweiss research

**Table 2: Segmental performance- Standalone**

Segment revenue (INR mn)	Q2FY13	Q2FY12	YoY growth (%)	Q1FY13	QoQ growth (%)
Paints	21,273	18,298	16.3	20,350	4.5
Others	652	614	6.2	723	(9.8)
<b>Total</b>	<b>21,926</b>	<b>18,912</b>	<b>15.9</b>	<b>21,073</b>	<b>4.0</b>
less inter-segment revenue	350	316	10.5	425.5	(17.8)
<b>Net sales</b>	<b>21,576</b>	<b>18,596</b>	<b>16.0</b>	<b>20,648</b>	<b>4.5</b>
<b>Segment PBIT (INR mn)</b>					
Paints	3,292	3,033	8.6	4,152	(20.7)
Others	81	43	87.9	73	9.8
<b>Total</b>	<b>3,373</b>	<b>3,076</b>	<b>9.7</b>	<b>4,225</b>	<b>(20.2)</b>
<b>PBIT margins (%)</b>					
Paints	15.5	16.6		20.4	
Others	12.4	7.0		10.2	
<b>Total</b>	<b>15.4</b>	<b>16.3</b>		<b>20.1</b>	

Source: Company, Edelweiss research

Table 3: Standalone snapshot

(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change
Net sales	21,464	18,477	16.2	20,559	4.4
COGS	12,688	10,912	16.3	11,621	9.2
Staff costs	978	850	15.1	1,044	(6.3)
Other expenditure	4,424	3,851	14.9	3,847	15.0
Total expenditure	18,090	15,613	15.9	16,512	9.6
EBITDA	3,373	2,864	17.8	4,047	(16.6)
Depreciation	294	250	17.8	274	7.6
EBIT	3,079	2,615	17.8	3,773	(18.4)
Interest	100	66	50.6	78	28.3
Other income	231	451	(48.8)	252	(8.4)
PBT	3,210	3,000	7.0	3,948	(18.7)
Tax expenses	972	871	11.6	1,202	(19.1)
Net profit	2,238	2,129	5.1	2,746	(18.5)
<b>As % of net revenues</b>					
COGS	59.1	59.1	6	56.5	259
Staff expenses	4.6	4.6	(4)	5.1	(52)
Others	20.6	20.8	(23)	18.7	190
EBITDA	15.7	15.5	21	19.7	(397)
PAT	4.5	4.7	(18)	5.8	(132)
Tax rate	30.3	29.0	124	30.4	(17)

Source: Company, Edelweiss research

**Table 4: Balance sheet - consolidated**

As on 30th September 2012 (INR mn)	Q2FY13	Q4FY12
<b>Sources of funds</b>		
Share capital	959	959
Reserves and surplus	27,844	23,919
<b>Shreholders fund</b>	<b>28,803</b>	<b>24,878</b>
Long term borrowings	466	526
Deffered tax liability (net)	1,064	808
Other long term liabilities	42	36
Long term provisions	690	652
<b>Non-current liabilities</b>	<b>2,261</b>	<b>2,022</b>
Short term borrowings	102	1,105
Trade payables	13,925	10,691
Other current liabilities	10,841	7,554
Short term provisions	436	3,551
<b>Current liabilities</b>	<b>25,303</b>	<b>22,901</b>
<b>Total sources of funds</b>	<b>56,367</b>	<b>49,800</b>
<b>Uses of funds</b>		
Fixed assets	20,485	16,119
Non-current investments	2,744	2,792
Long term loans & advances	3,536	3,113
<b>Total non-current assets</b>	<b>26,765</b>	<b>22,024</b>
Current investments	2,812	2,630
Inventories	14,607	12,644
Trade recievables	6,158	5,002
Cash and cash equivalent	1,817	5,010
Short term loans and advances	2,989	1,537
Other current assets	1,220	953
<b>Total current assets</b>	<b>29,602</b>	<b>27,776</b>
<b>Total uses of funds</b>	<b>56,367</b>	<b>49,800</b>

Source: Company, Edelweiss research

## Peer performance

### Akzo Nobel India: (Numbers not comparable on YoY basis because of merger)

Company's sales dipped 7% QoQ, as against Asian Paints' 4.4% QoQ sales growth in standalone business. Also, Asian Paints' performance on EBITDA and PAT front was significantly better with a dip of 16.6% QoQ and 18.5% QoQ respectively as against Akzo's 31.8% QoQ and 27.7% QoQ dip in EBITDA and PAT respectively.

Table 5: Akzo Nobel's Q2FY13 performance snapshot

(INR mn)	Q2FY13	Q2FY12	YoY % change	Q1FY13	QoQ % change
Net sales	5,113	3,015	69.6	5,498	(7.0)
Other op. income	122	24	406.7	132	(8.2)
Total operating income	5,234	3,039	72.2	5,630	(7.0)
COGS	3,037	1,631	86.3	3,257	(6.8)
Employee cost	466	209	123.2	460	1.1
Other expenditure	1,368	967	41.4	1,380	(0.8)
Total costs	4,871	2,807	73.5	5,097	(4.4)
EBITDA	363	232	56.4	533	(31.8)
Depreciation	100	62	62.8	93	7.2
EBIT	263	171	54.1	439	(40.1)
Other inc	273	154	77.4	356	(23.3)
Net interest income/(expense)	(4)	(2)	NM	(6)	NM
PBT	532	323	64.7	789	(32.6)
Tax	92	60	52.9	180	(48.9)
PAT	440	263	67.4	609	(27.7)
EPS	9.17	7.14	28.6	12.70	(27.7)
<b>As % of net sales</b>					
COGS	58.0	53.7	437	57.9	17
Employee	8.9	6.9	203	8.2	72
Other expenditure	26.1	31.8	(569)	24.5	163
EBITDA	6.9	7.6	(70)	9.5	(252)
PAT	8.4	8.6	(24)	10.8	(241)
Tax Rate	17.3	18.6	(133)	22.8	(552)

Source: Company, Edelweiss research

### Outlook and valuations: Positive; maintain 'BUY'

Asian Paints' volume performance has surprised positively with an impressive ~6% YoY growth; we expect coming quarters to benefit on the volume front as the festive mood picks up momentum. With TiO2 prices having cooled off, we believe pricing action in FY14 will moderate hence we have revised our pricing growth assumption for FY14 from 13.4% earlier to 10.4% and revised our volume assumptions for FY14 upwards by 3%. Benefit in COGS and sustained high pricing power of the paint industry will lead to margin expansion; we expect margins have bottomed out (Q2FY13 clocked the lowest margin on consol basis in the past 14 quarters). We have tweaked our EPS estimates upwards for FY13 and FY14 by 1.9% and 3.9% (to INR119.8 and INR145.2) respectively. With investment in new growth drivers (construction chemicals business) and higher growth in decorative business, we assign a higher FY14 target multiple of 31.0x (against earlier multiple of 29x) revising our target price from INR4,000 to INR4,500.



**Financial snapshot**

(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Net revenues	26,364	22,568	16.8	25,479	3.5	96,322	110,957	131,878
Raw material costs	16,245	15,145	7.3	16,834	(3.5)	57,770	66,338	78,131
Employee expenses	1,518	1,287	17.9	1,586	(4.3)	5,260	6,067	7,428
Other expenses	5,316	4,488	18.5	4,590	15.8	18,205	20,844	25,021
Total expenditure	22,548	19,282	16.9	21,014	7.3	81,235	93,249	110,580
EBITDA	3,817	3,286	16.1	4,466	(14.5)	15,088	17,707	21,298
Depreciation	357	300	19.2	334	6.9	1,211	1,497	1,887
EBIT	3,459	2,987	15.8	4,131	(16.3)	13,876	16,210	19,410
Other income	217	232	(6.3)	239	(9.2)	1,074	1,136	1,528
EBIT including other income	3,677	3,219	14.2	4,371	(15.9)	14,951	17,346	20,938
Interest	122	88	37.7	109	11.9	410	472	517
Profit before tax	3,555	3,130	13.6	4,262	(16.6)	14,541	16,874	20,421
Tax	1,041	952	9.4	1,273	(18.2)	4,335	5,012	6,065
Core profit	2,514	2,179	15.4	2,989	(15.9)	10,206	11,862	14,356
Minority interest	(122)	(91)	NA	(106)	NA	(319)	(368)	(431)
Net profit	2,392	2,087	14.6	2,884	(17.1)	9,887	11,495	13,925
Diluted EPS (INR)	24.9	21.8	14.6	30.1	(17.1)	103.1	119.8	145.2
<b>As % of net revenues</b>								
COGS	59.6	59.8		58.2		60.0	59.8	59.2
Employee cost	5.8	5.7		6.2		5.5	5.5	5.6
Other expenses	20.2	19.9		18.0		18.9	18.8	19.0
EBITDA	14.5	14.6		17.5		15.7	16.0	16.1
EBIT	13.1	13.2		16.2		14.4	14.6	14.7
PBT	13.5	13.9		16.7		15.1	15.2	15.5
Adjusted net profit	9.1	9.2		11.3		10.3	10.4	10.6
Tax rate	29.3	30.4		29.9		29.8	29.7	29.7

### Company Description

Asian Paints is the largest paints company in India and figures among the top 10 players in the world. The company has 30 manufacturing plants in 22 countries, serving consumers in 65 countries globally. The decorative segment accounts for almost 70% of the overall paints market. Paints sales in domestic and international markets contributed 81% and 17%, respectively, to the company's consolidated revenue; chemical sales accounted for the balance. Among Asian Paints' international businesses, while the Middle East contributes the lion's share at 51% to revenue, the Caribbean contributes 18%. South East Asia, South Pacific, and South Asia contribute 12%, 7%, and 12%, respectively.

### Investment Theme

The paints industry is expected to post robust volume growth led by strong repainting demand and from construction. Growth in the repainting segment, accounting for about 75% of decorative demand, is on account of a relatively strong economy. Further, expected growth in construction activity over the next five years creates immense opportunity for fresh painting. Though Asian Paints is expected to grow ahead of the market on account of its pricing strategy at the lower end, higher growth in premium products, brand equity and distribution strength (over 30,000 dealers compared to Berger's 9,500 and Kansai's 6,500), moderation in real estate and auto segments can act as barrier.

### Key Risks

A slowdown in the economy is the biggest risk for the paints industry, as about 75% of demand for decorative paints arises from repainting, which, in turn, depends heavily on the country's economic condition. Slowdown in real estate and industrial growth poses the biggest threat to volume growth.

A rise in crude oil price could hurt the company's margin as crude derivatives account for 35-40% of Asian Paints' input costs.

## Financial Statements

### Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
<b>Macro -</b>	GDP (Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
<b>Company -</b>	Volume growth (% YoY)	16.4	16.8	11.7	7.2	10.2
	Pricing change (% YoY)	(1.0)	6.2	13.5	10.4	10.4
	COGS as % of sales	56.2	57.9	60.0	59.8	59.2
	Advertising as % of sales	4.5	4.4	4.3	4.4	4.4

### Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Net revenue	66,809	77,223	96,322	110,957	131,878
Materials costs	37,580	44,746	57,770	66,338	78,131
Employee costs	4,363	4,540	5,260	6,067	7,428
Other Expenses	9,597	11,231	14,104	16,012	19,177
Advertisement & sales costs	2,994	3,426	4,101	4,832	5,845
EBITDA	12,276	13,281	15,088	17,707	21,298
Depreciation & Amortization	836	1,131	1,211	1,497	1,887
EBIT	11,441	12,150	13,876	16,210	19,410
Other income	1,405	680	1,074	1,136	1,528
Interest expenses	285	232	410	472	517
Profit before tax	12,561	12,597	14,541	16,874	20,421
Provision for tax	3,731	3,784	4,335	5,012	6,065
Net profit before minority	8,830	8,814	10,206	11,862	14,356
Minority interest	(483)	(381)	(319)	(368)	(431)
Reported net profit	8,356	8,432	9,887	11,495	13,925
Diluted EPS (INR)	87.1	87.9	103.1	119.8	145.2
Dividend per share (INR)	27.0	32.0	40.0	56.6	68.2
Dividend payout (%)	31.0	36.4	38.8	47.2	47.0

### Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Materials costs	56.2	57.9	60.0	59.8	59.2
Employee expenses	6.5	5.9	5.5	5.5	5.6
Advertising & sales costs	4.5	4.4	4.3	4.4	4.4
Other expenses	14.4	14.5	14.6	14.4	14.5
Depreciation	1.3	1.5	1.3	1.3	1.4
EBITDA margins	18.4	17.2	15.7	16.0	16.1
Net profit margins	12.5	10.9	10.3	10.4	10.6

### Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	22.3	15.6	24.7	15.2	18.9
EBITDA	83.2	8.2	13.6	17.4	20.3
PBT	102.5	0.3	15.4	16.0	21.0
Net profit	110.0	0.9	17.3	16.3	21.1
EPS growth (%)	110.0	0.9	17.3	16.3	21.1

<b>Balance sheet</b>					
(INR mn)					
<b>As on 31st March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Equity capital	959	959	959	959	959
Reserves & surplus	16,141	20,915	26,526	31,715	38,034
Shareholders funds	17,100	21,874	27,485	32,674	38,993
Minority interest (BS)	945	1,099	1,367	1,735	2,165
Secured loans	637	438	423	739	808
Unsecured loans	1,655	1,982	3,070	2,955	1,885
Borrowings	2,292	2,420	3,493	3,693	2,693
Deferred tax liability	562	852	928	928	928
<b>Sources of funds</b>	<b>20,899</b>	<b>26,245</b>	<b>33,273</b>	<b>39,030</b>	<b>44,780</b>
Gross block	15,371	20,249	21,458	28,958	33,958
Depreciation	6,276	7,151	8,453	9,950	11,838
Net block	9,096	13,099	13,006	19,008	22,121
Capital work in progress	4,072	433	6,171	4,200	4,500
Investments	6,241	9,120	7,507	7,507	7,507
Inventories	9,559	13,054	15,989	16,719	19,872
Sundry debtors	5,425	5,731	7,813	7,904	9,394
Cash and equivalents	1,058	1,433	2,283	3,407	5,090
Loans and advances	1,746	2,107	5,135	5,135	5,135
Total current assets	18,437	23,454	32,279	34,224	40,550
Sundry creditors and others	13,797	16,193	21,240	21,460	25,449
Provisions	3,150	3,668	4,449	4,449	4,449
Total current liabilities & provisions	16,947	19,861	25,689	25,909	29,898
Net current assets	1,490	3,593	6,590	8,315	10,652
<b>Uses of funds</b>	<b>20,899</b>	<b>26,245</b>	<b>33,273</b>	<b>39,030</b>	<b>44,780</b>
Book value per share (INR)	178.3	228.0	286.5	340.6	406.5

<b>Free cash flow</b>					
(INR mn)					
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Net profit	8,356	8,432	9,887	11,495	13,925
Add : Non cash charge	1,594	1,745	1,940	2,337	2,835
Depreciation	836	1,131	1,211	1,497	1,887
Others	758	613	728	839	948
Gross cash flow	9,950	10,177	11,827	13,831	16,761
Less: Changes in WC	(2,110)	1,405	(30)	601	654
Operating cash flow	12,060	8,772	11,857	13,230	16,106
Less: Capex	252	4,878	1,209	5,529	5,300
<b>Free cash flow</b>	<b>11,808</b>	<b>3,894</b>	<b>10,648</b>	<b>7,701</b>	<b>10,806</b>

<b>Cash flow metrics</b>					
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Operating cash flow	10,632	7,625	8,264	13,230	16,106
Investing cash flow	(2,990)	(4,404)	(5,121)	(5,529)	(5,300)
Financing cash flow	(3,319)	(3,345)	(3,265)	(6,577)	(9,124)
Net cash flow	4,323	(124)	(123)	1,124	1,683
Capex	(252)	(4,878)	(1,209)	(5,529)	(5,300)
Dividends paid	(3,023)	(3,571)	(4,459)	(6,306)	(7,607)

**Profitability & efficiency ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	57.3	43.3	40.1	38.2	38.9
ROACE (%)	75.6	76.5	64.7	56.6	56.4
Inventory day	47	53	55	55	55
Debtors days	30	26	26	26	26
Payable days	80	86	84	84	84
Cash conversion cycle (days)	(2)	(6)	(3)	(3)	(3)
Current ratio	1.1	1.2	1.3	1.3	1.4
Debt/EBITDA	0.2	0.2	0.2	0.2	0.1
Debt/Equity	0.1	0.1	0.1	0.1	0.1

**Operating ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	3.6	3.3	3.2	3.1	3.1
Fixed asset turnover	7.5	7.0	7.4	6.9	6.4
Equity turnover	4.6	4.0	3.9	3.7	3.7

**Valuation parameters**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	87.1	87.9	103.1	119.8	145.2
Y-o-Y growth (%)	110.0	0.9	17.3	16.3	21.1
CEPS (INR)	100.8	103.7	119.0	139.3	169.3
Diluted PE (x)	45.0	44.6	38.1	32.7	27.0
Price/BV (x)	22.0	17.2	13.7	11.5	9.7
EV/Sales (x)	5.6	4.8	3.8	3.3	2.8
EV/EBITDA (x)	30.3	27.8	24.5	20.8	17.2
Dividend yield (%)	0.7	0.8	1.0	1.4	1.7

**Peer comparison valuation**

Company	Market Price (INR)	Mcap (INR bn)	P/E (x)		EV/EBITDA(x)		ROE (%)	
			FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Consumer Goods</b>								
Asian Paints	3,923	376	32.7	27.0	20.8	17.2	38.2	38.9
Colgate	1,231	167	31.9	27.6	23.5	19.7	112.0	112.9
Dabur	130	226	30.5	25.1	21.1	17.7	40.7	38.4
Emami	596	90	30.0	24.4	24.9	20.5	40.3	43.7
GSK Consumer*	3,094	130	31.6	27.2	20.5	17.4	40.7	38.4
Godrej Consumer	706	240	31.4	26.1	22.8	18.8	22.9	23.6
Hindustan Unilever	552	1194	35.9	31.2	27.5	23.4	78.5	70.9
ITC	286	2246	29.6	25.2	19.1	16.1	37.5	39.6
Marico	206	133	32.1	26.7	21.3	17.5	30.3	28.5
Nestle*	4,652	449	39.8	32.8	25.3	20.5	74.7	67.4
United Spirits	1,203	157	48.0	34.6	18.1	15.7	6.6	8.6
<b>Consumer Goods - Mean</b>			<b>34.0</b>	<b>28.0</b>	<b>22.3</b>	<b>18.6</b>	<b>47.5</b>	<b>46.4</b>
<b>Consumer Goods - Mean (market cap wtd average)</b>			<b>32.9</b>	<b>27.7</b>	<b>22.1</b>	<b>18.6</b>	<b>50.5</b>	<b>49.1</b>
<b>Consumer Goods - Mean (ex-Nestle)</b>			<b>33.4x</b>	<b>27.5x</b>	<b>21.9x</b>	<b>18.4x</b>	<b>44.8</b>	<b>44.3</b>

\* CY numbers

Source: Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Colgate	HOLD	SP	M
Dabur	BUY	SO	M	Emami	BUY	SP	H
GlaxoSmithKline Consumer Healthcare	BUY	SP	M	Godrej Consumer	BUY	SO	H
Hindustan Unilever	HOLD	SP	L	ITC	BUY	SO	L
Marico	BUY	SO	M	Nestle Ltd	HOLD	SP	L
United Spirits	HOLD	SU	H				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

**Coverage group(s) of stocks by primary analyst(s): Consumer Goods**

Asian Paints, Colgate, Dabur, Godrej Consumer , Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, GlaxoSmithKline Consumer Healthcare, United Spirits

**Recent Research**

Date	Company	Title	Price (INR)	Recos
26-Oct-12	<b>Hindustan Unilever</b>	Core story intact; wait for better entry point; <i>Result Update</i>	552	Hold
26-Oct-12	<b>Dabur</b>	Healthy and Juicy; <i>Result Update</i>	130	Buy
26-Oct-12	<b>Procter &amp; Gamble</b>	China disappoints, India robust; <i>Global Pulse</i>		

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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