

Asian Paints

Performance Highlights

Quarterly Highlights (Consolidated)

(₹ cr)	2QFY13	2QFY12	% yoy	Angel est.	% Diff
Revenue	2,616	2,251	16.2	2,575	1.6
EBITDA	361	323	11.9	386	(6.5)
OPM (%)	13.8	14.3	(54)bp	15	(119)bp
PAT	239	209	14.6	243	(1.6)

Source: Company, Angel Research

For 2QFY2013, Asian Paints (APL) posted a 14.6% yoy growth in its bottom-line which is in line with estimates. Volume growth for the domestic business is estimated to be ~5-6% yoy for the quarter. The OPM fell by 54bp yoy to 13.8%.

We maintain our Neutral view on the stock.

Key highlights of the quarter: For 2QFY2013, APL registered a 16.2% yoy growth in its consolidated top-line to ₹2,616cr. On a stand-alone basis, the revenue rose by ~16.2%, indicating a ~5-6% decline in the domestic volumes considering the price hikes taken by the company over the last one year. Volume growth for the quarter is decent considering the high base as the festival season sales occurred during 2QFY2012. However, there is a shift in the festival season to 3QFY2013 in the current year. The performance on the volume front is much better than the ~1-2% yoy de-growth reported in 1QFY2013. The consolidated OPM fell by 54bp yoy to 13.8%. The cumulative price increase for 1HFY2013 stood at 5.3%. The company didn't take any price hikes during the quarter.

Outlook and valuation: APL is currently facing a problem of demand uncertainty both in the domestic and international markets. Over FY2012-14E, we expect the company to post a CAGR of 17% and 19.2% in its top-line and bottom-line respectively. **At the current market price, the stock is trading richly at 26.5x FY2014E Earnings. Hence, we maintain our Neutral view on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net Sales	7,722	9,632	11,198	13,184
% chg	15.6	24.7	16.3	17.7
Net Profit (Adj.)	843	989	1,186	1,404
% chg	1.0	17.3	20.0	18.4
EBITDA margin (%)	17.2	15.7	16.2	16.2
EPS (₹)	87.9	103.1	123.7	146.4
P/E (x)	44.2	37.7	31.4	26.5
P/BV (x)	17.0	13.6	10.7	8.4
RoE (%)	43.3	40.1	38.1	35.4
RoCE (%)	45.0	40.7	40.1	38.5
EV/Sales (x)	4.7	3.8	3.2	2.7
EV/EBITDA (x)	27.3	24.0	19.9	16.7

Source: Company, Angel Research

NEUTRAL

CMP	₹3,884
Target Price	-

Investment Period	-
-------------------	---

Stock Info	
Sector	FMCG
Market Cap (₹ cr)	37,251
Net Debt	(643)
Beta	0.3
52 Week High / Low	4170/2551
Avg. Daily Volume	9,533
Face Value (₹)	10
BSE Sensex	18,431
Nifty	5,598
Reuters Code	ASPN.BO
Bloomberg Code	APNT@IN

Shareholding Pattern (%)	
Promoters	52.8
MF / Banks / Indian Fls	8.7
FII / NRIs / OCBs	19.6
Indian Public / Others	18.9

Abs. (%)	3m	1yr	3yr
Sensex	7.5	3.5	15.9
APNT	8.6	26.7	136.1

V Srinivasan

022-39357800 Ext: 6831

v.srinivasan@angelbroking.com

Exhibit 1: Quarterly Performance (Consolidated)

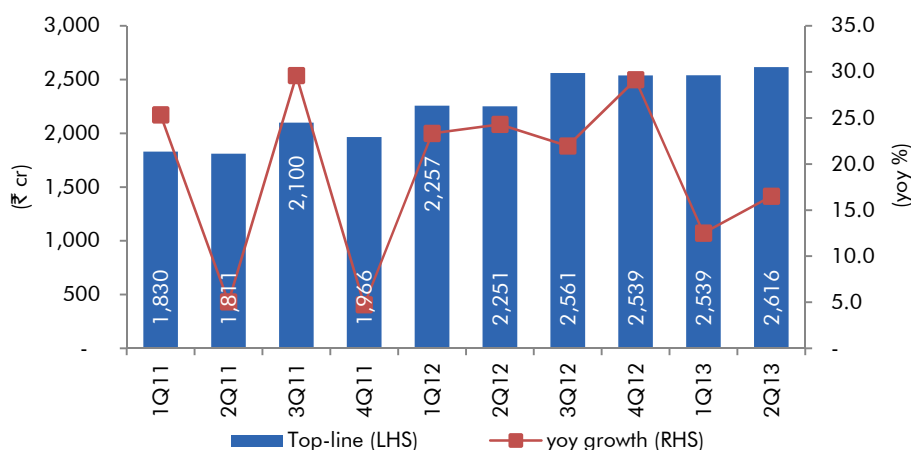
Y/E March (Rs cr)	2QFY13	2QFY12	% chg	1QFY13	% chg	1HFY2013	1HFY2012	% chg
Net Sales	2,616	2,251	16.2	2,539	3.0	5,155	4,502	14.5
Consumption of RM	1,571	1,351	16.3	1,484	5.9	3,055	2,704	13.0
(% of Sales)	60.1	60.0		58.4		59.3	60.1	
Staff Costs	152	129	17.9	159	(4.3)	310	259	19.9
(% of Sales)	5.8	5.7		6.2		6.0	5.7	
Other Expenses	532	448	18.5	459	15.8	991	834	18.8
(% of Sales)	20.3	19.9		18.1		19.2	18.5	
Total Expenditure	2,255	1,928	17.0	2,101	7.3	4,356	3,797	14.7
Operating Profit	361	323	11.9	438	(17.5)	799	705	13.3
OPM	13.8	14.3	-	17.2	(343)	15.5	15.7	(16)
Interest	12	9	37.7	11	11.9	23	15	50.1
Depreciation & Amortisation	36	30	19.2	33	6.9	69	59	17.0
Other Income	42	29	44.4	33	29.4	75	69	8.4
Profit/Loss from Associate	-	-	-	-	-	-	-	-
PBT (excl. Extr Items)	356	313	13.5	426	(16.6)	782	700	11.7
(% of Sales)	13.6	13.9		16.8		15.2	15.5	
Provision for Taxation	104	95	9.0	127	(18.2)	231	210	10.0
(% of PBT)	29.3	30.5		29.9		29.6	30.1	
Recurring PAT	252	218	15.4	299	(15.9)	550	489	12.5
Minority Interest	12	9		11		23	17	
Extr Income/(Expense)	-	-	-	-	-	-	-	-
Prior Period Items	-	-	-	-	-	-	-	-
Reported PAT	239	209	14.6	288	(17.0)	528	472	11.7
PATM	9.1	9.3		11.4		10.2	10.5	
Adjusted EPS (₹)	24.9	21.8	14.6	30.1	(17.0)	55.0	49.2	11.7

Source: Company, Angel Research

Top-line grows by 16.2% yoy, volume growth impressive

For 2QFY2013, APL registered a 16.2% yoy growth in its consolidated top-line to ₹2,616cr. On a stand-alone basis, the revenue rose by 16.2%, indicating a 5-6% growth in the domestic volumes. The performance on the volume front is much better than the ~1-2% yoy de-growth reported in 1QFY2013. The decorative segment witnessed good recovery in demand at the end of the quarter, aiding the volume growth. Premium products in the decorative segment saw higher growth. However, the auto and non-auto industrial segments faced subdued demand conditions. Auto refinish and general insurance segments showed relatively better growth within this segment.

Exhibit 2: Top-line growth driven by value



Source: Company, Angel Research

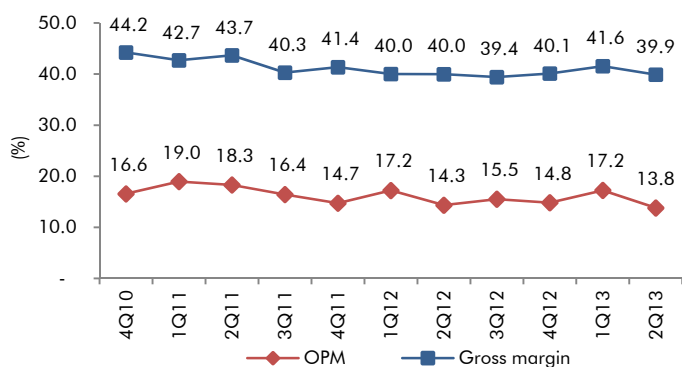
Update on international operations

During the quarter, the company reported good value growth across the regions aided largely by translation gains due to INR depreciation. However, the management indicated that political uncertainty and slowdown in economic activity continue to plague the Middle East region, especially Egypt. The sales were hit in the South Asian markets due to weak economic conditions.

Gross margin flat, OPM down

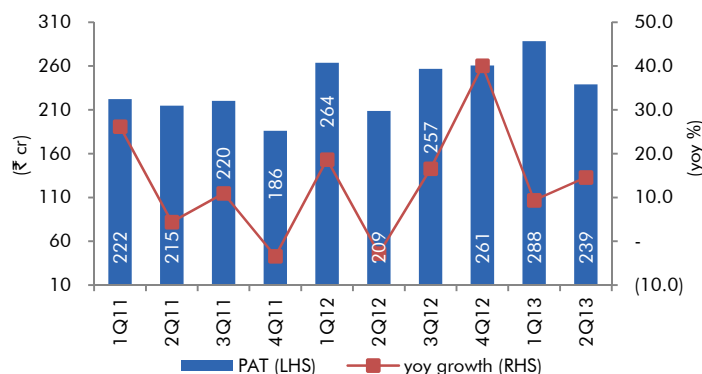
During the quarter, APL's gross margin remained flat as increase in prices was offset by increase in raw material costs. As per the management, the material price index for decorative products stood at 107.7 for 2QFY2013 on a base of 100 for FY2012. However, it was much lower than the index reading of 116.99 for 2QFY2012 taking the base as 100 for FY2011. The industrial business segment too faced margin pressures due to increasing material cost and weak currency. The OPM was marginally down due to higher other expenses which rose by 39bp yoy. On a consolidated basis, APL posted a 14.6% yoy growth in net profit to ₹239cr, driven by higher operating profit.

Exhibit 3: OPM down on a yoy basis



Source: Company, Angel Research

Exhibit 4: PAT up by 14.6% yoy



Source: Company, Angel Research

Analyst meet highlights

- The management indicated that the company's new brand identity signifies its intent to establish a deeper connect with its customers. It is aimed at stirring the customer's imagination as well as expanding their vision to a new vista of possibility.
- The management indicated a capex of ₹750cr and ₹500cr in FY2013 and FY2014, respectively, towards scaling capacity at the Rohtak plant and building the Khandala plant. Of the ₹750cr to be spent in FY2013, ₹400cr has been spent till date. Phase 1 of Khandala with 3,00,000 KL capacity is expected to be commissioned by 4QFY2013.
- There are signs of improvement in retail off-take from September.

Investment arguments

- **Uncertainty over demand conditions hover:** APL is currently facing some amount of slowdown in both, the decorative & auto and the industrials segment. Although the demand situation has improved in 2QFY2013 as compared to the previous quarter there is uncertainty with respect to the future demand scenario due to the prolonged slowdown in economy.
- **Sluggishness in the international business:** APL's international business has been sluggish for a few quarters now. We do not expect any positive surprises on this front, as lot of uncertainties prevail in many countries in which the company operates.

Outlook and valuation

APL is currently facing problem of demand uncertainty, both in the domestic and international markets. Over FY2012-14E, we expect the company to post a CAGR of 17% and 19.2% in its top-line and bottom-line respectively. **At the current market price, the stock is trading richly at 26.5x FY2014E EPS. Hence, we maintain our Neutral view on the stock.**

Exhibit 5: Peer valuation

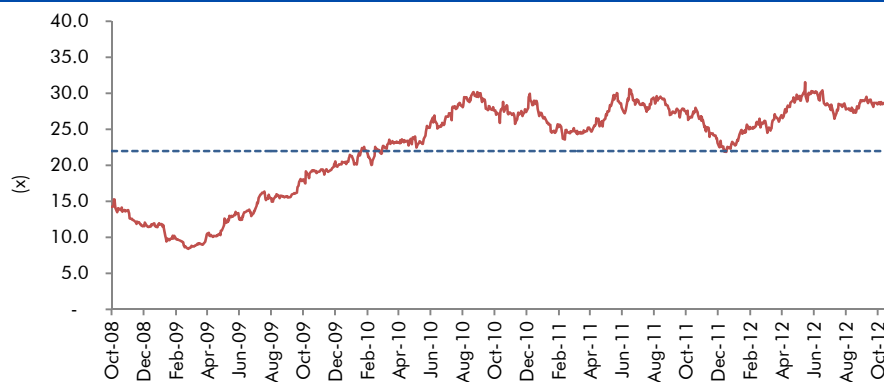
Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	EPS
Asian Paints	Neutral	37,251	3,884	-	-	31.4	26.5	3.2	2.7	38.1	35.4	17.0	19.2
Britannia	Buy	5,781	484	584	21	23.4	19.1	0.9	0.7	43.1	41.9	17.4	27.4
Colgate	Neutral	17,479	1,285	-	-	36.0	30.4	5.6	4.9	101.0	93.5	12.8	13.6
Dabur	Neutral	21,738	125	-	-	27.9	24.1	3.6	3.0	43.2	41.4	15.3	18.3
GCPL	Neutral	24,690	726	-	-	33.2	27.4	4.3	3.6	31.2	30.0	22.1	28.3
GSKCHL*	Neutral	12,604	2,997	-	-	26.9	22.8	3.6	3.0	34.4	32.8	16.8	24.9
HUL	Neutral	118,980	550	-	-	37.4	32.3	4.5	3.9	84.5	75.8	15.5	19.7
ITC	Neutral	221,964	284	-	-	30.5	26.0	7.2	6.3	35.4	34.7	17.2	17.7
Marico	Neutral	12,621	205	-	-	30.3	24.3	2.6	2.2	31.4	29.7	18.6	27.6
Nestle*	Neutral	45,058	4,673	-	-	40.7	33.4	5.1	4.3	71.2	60.3	16.5	15.0
Tata Global	Neutral	9,332	151	-	-	22.8	19.3	1.2	1.1	8.6	9.5	9.7	16.6

Source: Company, Angel research; Note: # Denotes CAGR over FY2012-14E, *December Year Ending.

Exhibit 6: Angel vs. Consensus

Top-line (₹ cr)	FY2013E	FY2014E	EPS (₹)	FY2013E	FY2014E
Angel estimates	11,198	13,184	Angel estimates	124	146
Consensus	11,171	13,184	Consensus	120	145
Diff (%)	0.2	0	Diff (%)	2.8	1.0

Source: Angel research, Bloomberg

Exhibit 7: One year forward PE


Source: Company, Angel Research Note: Blue line indicates 5 year average PE

Company Background

Asian Paints (APL) is India's largest paints company, with a market share of ~50%. The company is mainly present in the decorative segment, which contributes over 75% to its sales. The company features among the top 10 decorative paint players globally. APL has a large distribution network of around 25,000 dealers and 18,000 'Colour World' outlets. The company's international revenue comes from countries in the Caribbean, Middle East, South Pacific and Asian regions.

Profit & Loss statement (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Gross sales	6,045	7,107	8,378	10,472	12,121	14,285
Less: Excise duty	581	426	655	840	924	1,101
Net Sales	5,464	6,681	7,722	9,632	11,198	13,184
Total operating income	5,464	6,681	7,722	9,632	11,198	13,184
% chg	24.0	22.3	15.6	24.7	16.3	17.7
Total Expenditure	4,794	5,454	6,394	8,123	9,384	11,048
Cost of Materials	3,371	3,758	4,474	5,777	6,719	7,911
SG&A	714	853	981	1,228	1,377	1,622
Personnel	372	436	454	526	672	791
Others	338	406	485	592	616	725
EBITDA	670	1,227	1,328	1,509	1,814	2,136
% chg	1.4	83.2	8.2	13.6	20.2	17.7
(% of Net Sales)	12.3	18.4	17.2	15.7	16.2	16.2
Depreciation & Amortisation	74	84	113	121	149	176
EBIT	596	1,144	1,215	1,388	1,665	1,960
% chg	(1.0)	92.0	6.2	14.2	20.0	17.7
(% of Net Sales)	10.9	17.1	15.7	14.4	14.9	14.9
Interest & other Charges	26	28	23	41	41	39
Other Income	51	141	68	107	142	142
(% of PBT)	8.2	11.2	5.4	7.4	8.0	6.9
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	620	1,256	1,260	1,454	1,766	2,063
% chg	(3.0)	102.4	0.3	15.4	21.5	16.8
Prior Period & Extra Exp/(Inc.)	3.5	(1.2)	-	-	-	-
PBT (reported)	617	1,257	1,260	1,454	1,766	2,063
Tax	197	373	378	434	530	609
(% of PBT)	31.8	29.7	30.0	29.8	30.0	29.5
PAT (reported)	423	883	881	1,021	1,236	1,454
Add: Share of earns of asso	-	-	-	-	-	1
Less: Minority interest (MI)	22	48	38	32	50	50
PAT after MI (reported)	401	834	843	989	1,186	1,404
ADJ. PAT	398	836	843	989	1,186	1,404
% chg	(2.8)	110.0	0.9	17.3	20.0	18.4
(% of Net Sales)	7.3	12.5	10.9	10.3	10.6	10.6
Basic EPS (₹)	41.8	87.0	87.9	103.1	123.7	146.4
Fully Diluted EPS (₹)	41.8	87.0	87.9	103.1	123.7	146.4
% chg	(3.9)	107.9	1.0	17.3	20.0	18.4

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Balance Sheet

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	96	96	96	96	96	96
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	1,107	1,614	2,092	2,653	3,390	4,345
Shareholders Funds	1,203	1,710	2,187	2,749	3,486	4,441
Minority Interest	76	94	110	137	155	155
Total Loans	309	229	229	336	326	316
Deferred Tax Liability	53	56	85	93	93	93
Long term Provisions			77	78	78	78
Other long term liabilities			13	13	13	13
Total Liabilities	1,641	2,090	2,701	3,406	4,151	5,096
APPLICATION OF FUNDS						
Gross Block	1,461	1,500	1,988	2,104	2,488	2,930
Less: Acc. Depreciation	648	628	715	845	995	1,170
Net Block	813	873	1,273	1,259	1,494	1,759
Capital Work-in-Progress	92	407	43	617	747	732
Goodwill	51	37	37	42	42	42
Investments	78	624	429	355	355	605
Long term loans and adv.			127	349	349	349
Current Assets	1,799	1,844	2,701	3,275	3,859	4,612
Cash	210	106	626	624	757	966
Loans & Advances	247	239	106	186	213	251
Other	1,341	1,498	1,968	2,464	2,889	3,396
Current liabilities	1,192	1,695	1,910	2,491	2,693	3,003
Net Current Assets	607	149	792	784	1,166	1,609
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,641	2,090	2,701	3,406	4,151	5,096

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Cash flow statement (consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	622	1,255	1,260	1,454	1,766	2,063
Depreciation	74	84	113	121	149	176
Change in Working Capital	(143)	134	(245)	(412)	(216)	(245)
Interest / Dividend (Net)	7	(5)	(23)	(7)	(30)	(32)
Direct taxes paid	197	373	378	434	530	609
Others	(25)	12	56	223	(65)	(40)
Cash Flow from Operations	337	1,105	783	946	1,074	1,314
(Inc.)/ Dec. in Fixed Assets	(228)	(354)	(123)	(690)	(513)	(427)
(Inc.)/ Dec. in Investments	198	(546)	195	74	-	(250)
Cash Flow from Investing	(30)	(900)	72	(616)	(513)	(677)
Issue of Equity	0	-	-	-	-	-
Inc./ (Dec.) in loans	(4)	(79)	0	107	(10)	(10)
Dividend Paid (Incl. Tax)	197	236	357	446	449	449
Interest / Dividend (Net)	7	(5)	(23)	(7)	(30)	(32)
Cash Flow from Financing	(207)	(310)	(334)	(332)	(429)	(427)
Inc./ (Dec.) in Cash	100	(105)	520	(2)	132	209
Opening Cash balances	111	210	106	626	624	757
Closing Cash balances	210	106	626	624	757	966

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	92.8	44.6	44.2	37.7	31.4	26.5
P/CEPS	78.9	40.5	39.0	33.6	27.9	23.6
P/BV	31.0	21.8	17.0	13.6	10.7	8.4
Dividend yield (%)	0.5	0.7	0.8	1.0	1.0	1.0
EV/Sales	6.8	5.5	4.7	3.8	3.2	2.7
EV/EBITDA	55.6	29.9	27.3	24.0	19.9	16.7
EV / Total Assets	22.7	17.6	13.4	10.7	8.7	7.0
Per Share Data (₹)						
EPS (Basic)	41.8	87.0	87.9	103.1	123.7	146.4
EPS (fully diluted)	41.8	87.0	87.9	103.1	123.7	146.4
Cash EPS	49.2	95.8	99.7	115.7	139.2	164.7
DPS	17.5	27.0	32.0	40.0	40.0	40.0
Book Value	125.4	178.3	228.0	286.5	363.4	463.0
Returns (%)						
ROCE (Pre-tax)	39.8	61.3	50.7	45.4	44.1	42.4
Angel ROIC (Pre-tax)	35.0	59.3	56.6	50.8	42.6	42.1
ROE	36.4	57.4	43.3	40.1	38.1	35.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.7	4.5	3.9	4.6	4.5	4.5
Inventory / Sales (days)	51	52	62	61	61	61
Receivables (days)	38	30	27	30	30	30
Payables (days)	68	75	77	80	76	73
WC cycle (ex-cash) (days)	26	2	8	6	13	18

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Asian Paints

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)