

Retail Equity Research (South India Focus)

Asian Paints Ltd

Paint & Varnishes

BSE CODE : 500820 NSE CODE: ASIANPAINT
BLOOMBERG CODE: APNT:IN SENSEX : 37,463

REDUCE

12M Investment Period

Rating as per Large Cap

CMP Rs1,397 TARGET Rs1,269 RETURN -5% ↓
(Closing: 10-05-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Weak margin dent performance...

Asian paints (APNT), is the market leader in the Indian paint manufacturing industry with a market share of ~53%.

- Q4FY19 revenue grew by 12% YoY (below estimate) aided by double digit volume growth ~10%.
- However, inferior product mix, trade discounts and higher employee cost led to decline in EBITDA margin by 230bps YoY to 16.4%.
- While higher depreciation (42%YoY) and interest cost (68% YoY) dragged earnings to a de-growth of -2% YoY.
- Volume growth is likely to stabilize at double digit but inferior mix and increase in overhead cost on account of commissioning of new plant will impact margins.
- We reduce FY20E/21E earnings estimate by 10%/8% respectively.
- However high valuation and weak demand outlook will be a near term challenge. We therefore revise our rating to Reduce and value at a P/E of 40x on FY21E EPS.

Double digit volume but trade discounts impacted growth...

In Q4FY19, revenue grew by 12% YoY to Rs5,018cr supported by double digit volume (~10%) growth in decorative paint. Additionally, inferior product like distemper, putty and low value emulsion have seen good growth compared to premium products while higher trade discounts impacted the revenue growth. Industrial business witnessed mixed growth, the Auto OEM segment registered slowdown on the back of deceleration in the auto industry. The Industrial Coatings JV, continued to grow well led by good performance in the Protective coatings. International business, Oman, UAE & Bahrain and Nepal registered good topline growth while Egypt, Ethiopia, Sri Lanka and Bangladesh continued to see challenging environment. We expect volume is likely to grow at double digit due to capacity addition. Management pointed that growth is likely to remain uncertain in the near term to due to volatility in oil prices and rupee.

Margin pressure is likely to continue...

In FY19, company has took total price hikes of 7.45% however, this hikes was below required to offset input cost inflation. Consequently, gross margin declined by 248bps YoY to 41.4% in FY19. Higher RM cost due to rise in oil prices and increase in overhead expenses related to the commissioning of the two new plants dragged EBITDA margin by 230bps YoY to 16.4% in Q4FY19. Volatility in raw material prices is likely to continue in the near term while increase in employee cost and other expenditure pertaining to the new plant will restrict margin expansion. We reduce FY20E EBITDA margin by 40bps to 19%.

Muted earnings growth...

Q4FY19 earnings de-grew by -2 YoY to Rs487cr as weak operating margins and additional impact of higher depreciation for the new plants & increase in interest expenses by 68% YoY impacted earnings growth.

Valuations

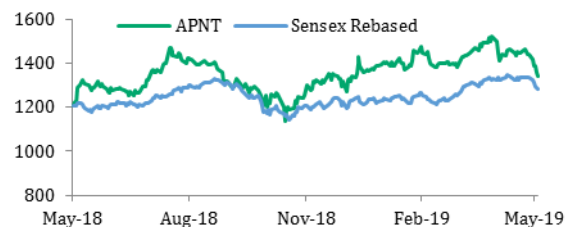
We expect volume to grow at double digit due to pick up in demand for distempers and low-end emulsion. However, margin pressure and high valuation will impact stock price. We therefore revise our rating to Reduce and value at a P/E of 40x on FY21EPS.

Company Data

Market Cap (cr)	Rs1,28,624
Enterprise Value (cr)	Rs1,29,240
Outstanding Shares (cr)	96
Free Float	47.2%
Dividend Yield	0.7%
52 week high	Rs1,530
52 week low	Rs1,120
6m average volume (cr)	0.13
Beta	0.9
Face value	Rs1

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	52.8	52.8	52.8
FII's	14.87	15.67	16.33
MFs/Insti	11.25	10.37	9.50
Public	21.08	21.16	21.37
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-7.4%	4.4%	10.4%
Absolute Sensex	2.5%	6.6%	6.3%
Relative Return*	-9.9%	-2.2%	4.1%



Consolidated (bn)	FY19	FY20E	FY21E
Sales	193.5	220.1	253.8
Growth (%)	12.1	13.7	15.3
EBITDA	35.3	41.8	48.7
EBITDA Margin(%)	18.2	19.0	19.2
PAT Adj.	22.1	26.0	30.4
Growth (%)	9.1	17.7	16.8
Adj.EPS	23.1	27.2	31.7
Growth (%)	9.1	17.7	16.8
P/E	58.1	49.4	42.3
P/B	13.5	11.8	10.3
EV/EBITDA	36.7	30.9	26.5
ROE (%)	24.7	25.5	26.0
D/E	0.1	0.1	0.0

Antu Eapen Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
Sales	5,018	4,492	11.7	10,312	8,760	17.7
EBITDA	823	840	(2.0)	1,866	1,731	7.8
EBITDA margins %	16.4	18.7	(230)bps	18.1	19.8	(167)bps
Depreciation	130	91	42.2	245	181	35.6
EBIT	693	748	(7.4)	1,621	1,550	4.5
Interest	15	9	67.8	30	18	64.2
Other Income	57	39	45.0	102	89	14.9
Exceptional Items	-	-				
PBT	734	779	(5.7)	1,692	1,621	4.4
Tax	253	288	(12.1)	579	579	-
Share of profit from Associate	-	-				
Minority Interest	6	5	16.9	21	22	(1.2)
Reported PAT	487	496	(1.7)	1,135	1,063	6.7
Adjustments	-	-				
Adj PAT	487	496	(1.7)	1,135	1,063	6.7
No. of Shares	96	96		96	96	
EPS (Rs)	5.1	5.2	(1.7)	11.8	11.1	6.7

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	22,262	25,785	22,007	25,376	(1.1)	(1.6)
EBITDA	4,319	4,899	4,181	4,872	(3.2)	(0.50)
Margins (%)	19.4	19.0	19.0	19.2	(40)bps	20bps
Adj. PAT	2,901	3,297	2,604	3,043	(10.2)	(7.7)
EPS	30.24	34.37	27.15	31.72	(10.2)	(7.7)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	16,857	17,262	19,350	22,007	25,376
% change	18.1	2.4	12.1	13.7	15.3
EBITDA	2986	3,198	3,525	4,181	4,872
% change	5	7	10	19	17
Depreciation	335	360	431	547	631
EBIT	2,652	2,837	3094	3634	4241
Interest	30	35	51	46	42
Other Income	262	221	227	250	300
PBT	2,884	3,023	3,270	3,838	4,499
% change	7	5	8	17	17
Tax	943	1,041	1099	1293	1516
Tax Rate (%)	32.7	34.4	33.6	33.7	33.7
Reported PAT	1,990	2,028	2,212	2,604	3,043
Adj.*	-	-	-	-	-
Adj. PAT	1,990	2,028	2,212	2,604	3,043
% change	8.1	1.9	9.1	17.7	16.8
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs)	20.8	21.1	23.1	27.2	31.7
% change	8.1	1.9	9.1	17.7	16.8
DPS (Rs)	10.3	8.7	9.8	10.9	12.0

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	1,668	846	445	726	973
Accounts Receivable	1,447	1,737	1,913	2,231	2,642
Inventories	2,627	2,658	3,150	3,557	4,189
Other Cur. Assets	1,536	1,244	1,495	1,676	2,002
Investments	1,567	2,141	2,570	3,212	4,015
Gross Fixed Assets	3,513	4,004	5,804	6,604	7,104
Net Fixed Assets	2,957	3,118	5,256	4,790	4,684
CWIP	258	1405	210	600	500
Intangible Assets	346	614	595	851	917
Def. Tax (Net)	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	12,404	13,763	15,633	17,644	19,923
Current Liabilities	3,342	3,911	4,363	4,980	5,531
Provisions	195	197	232	241	278
Debt Funds	546	521	616	602	579
Other Liabilities	718	725	903	944	989
Equity Capital	96	96	96	96	96
Reserves & Surplus	7,506	8,314	9,424	10,781	12,450
Shareholder's Fund	7,602	8,410	9,520	10,876	12,546
Total Liabilities	12,404	13,763	15,633	17,644	19,923
BVPS	79.3	87.7	99.2	113.4	130.8

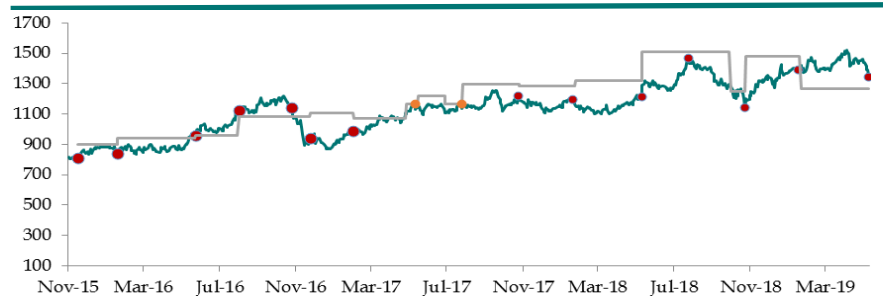
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	3,303	3,500	3,742	4,445	5,191
Non-cash adj.	(1,107)	(1,188)	(912)	(1,254)	(1,505)
Changes in W.C	(603)	(80)	(431)	(280)	(781)
C.F. Operation	1,527	2,113	2,399	2,912	2,904
Capital exp.	(667)	(1,409)	(811)	(1,271)	(491)
Change in inv.	11	(191)	(423)	(619)	(753)
Other invest.CF	0	0	0	0	0
C.F - Investment	(656)	(1599)	(1,234)	(1,890)	(1,244)
Issue of equity	0	0	0	0	0
Issue/repay debt	178	(79)	44	(60)	(65)
Dividends paid	(947)	(1,218)	(1,122)	(1,248)	(1,374)
Other finance.CF	0	-50	35	25	25
C.F - Finance	(756)	(1,379)	(1,566)	(740)	(1,413)
Chg. in cash	115	(865)	(401)	282	247
Closing cash	1,668	846	445	726	973

RATIOS

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	17.7	18.5	18.2	19.0	19.2
EBIT margin (%)	15.7	16.4	16.0	16.5	16.7
Net profit mgn.(%)	11.8	11.7	11.4	11.8	12.0
ROE (%)	28.2	25.3	24.7	25.5	26.0
ROCE (%)	18.7	15.8	16.9	16.4	16.8
W.C & Liquidity					
Receivables (days)	28.6	33.7	34.4	34.4	35.0
Inventory (days)	50.1	55.9	54.8	55.6	55.7
Payables (days)	8.2	7.4	6.5	6.2	5.8
Current ratio (x)	1.8	1.6	1.5	1.6	1.7
Quick ratio (x)	0.7	0.5	0.5	0.6	0.7
Turnover & Leverage					
Gross asset T.O (x)	4.9	4.6	3.9	3.5	3.7
Total asset T.O (x)	1.5	1.3	1.3	1.3	1.4
Int. covge. ratio (x)	88.4	80.9	60.7	78.8	101.8
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.0
Valuation					
EV/Sales (x)	7.7	7.5	6.7	5.9	5.1
EV/EBITDA (x)	43.3	40.4	36.7	30.9	26.5
P/E (x)	64.6	63.4	58.1	49.4	42.3
P/BV (x)	16.9	15.3	13.5	11.8	10.3

PRICE HISTORY



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
17th November 2015	*Accumulate	901
20th January 2016	Accumulate	942
24th May 2016	Hold	956
1st August 2016	Reduce	1,084
27th October 2016	Reduce	1,084
24th November 2016	Buy	1,108
2nd February 2017	Hold	1,071
16th May 2017	Hold	1,218
26th July 2017	Hold	1,164
26th October 2017	Hold	1,297
24th January 2018	BUY	1,283
11th May 2018	Hold	1,317
25th July 2018	Hold	1507
23rd October 2018	Hold	1,219
30th October 2018	BUY	1,317
23rd January 2019	Hold	1,478
13th May 2019	Reduce	1,269

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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