

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



BUY | CMP 1439 | TARGET 1575 | POTENTIAL UPSIDE 9%

12 MARCH 2019

Stock Data

M.Cap (₹ in cr)	138029
Equity (₹ in cr)	95.92
52 wk H/L ₹	1529/1119
Face Value ₹	1.00
Div. Yield	0.58%
NSE Code	ASIANPAINT
BSE Code	500820

LEAD RATIONALE

APNT delivered a fourth consecutive quarter of double-digit volume growth on the back of strong festive season, GST rate reduction to 18% from 28% and premiumization trends sustaining. Further, **management highlighted that volume growth in Q3FY19 was fairly uniform across geographies and segment with rural growing faster than urban.** Decorative paint segment has been doing good and lower crude prices will aid to margins expansion. Also, with the hike in MSP prices, urban development, farm loan waivers, anticipated that rural disposable income to increase further.

Valuation Data

P/E	62.29
EV/EBITDA	36.90
P/BV	13.19
RONW(%)	21%

Looking ahead, **Management remains fairly optimistic on demand environment in the medium term** with healthy domestic growth to continue at **least for next couple of quarters** on the back of market share gains across segments. **However,** management still cautioned **owing to uncertainty around General Elections period in Q1FY20 and thus it needs to be monitored the demand conditions.**

Capacity expansion in untapped markets - Drive growth

Company is the industry leader in the decorative paint segment with 53% market share and a dealer network of over 55,000 across India. It derives 89% of its top line from the decorative segment while the rest comes from the industrial segment. **Company have current capacity at 1.1 million KL and added 0.6 million KL, which translates into a capacity enhancement of 53 %, which is quite significant.**

Index Detail

Sensex	37535.66
Nifty	11301.20
Index	S&P BSE SENSEX

Further, commissioning of the **Mysore plant as well as Vizag plant on board is expected to hit the market.** Mysore plant with capacity of 3,00,000 KL/annum of capacity was operationalized in Q3FY19 (commissioned in September 2018) while Vizag plant commissioned in Jan 2019 with an initial capacity of 3lakh KL/annum. Going forward, **company plans to scale up the Mysuru plant and Vizag plant by 6 lakh KL/annum and up to 5lakh KL/annum respectively in a phased manner.** Having said that is not enough, to stand out of the queue, it has **entered home décor business as well- AP homes, to bring décor options under one roof and is planning to open up four more stores by the middle of July next year.**

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



Total Capex planned for the standalone operations for FY19 is ₹1,000 crores including spends of about ₹800 crores on the two above mentioned plants. Going forward, capex requirements will be substantially lower as guided by the management. Both these plants will lead to a 50% capacity addition taking it to a total of 16.3lakh KL/annum capacity of decorative paints in India.

Also, company's products & market strategies are well on stream. It has been repeatedly throwing various campaigns. One amongst is Royale Health Shield as the Gold Standard for aesthetics and protection for every home with Anti-Bacterial technology, keeping in mind consumer awareness and choices that are safe and hygienic, to establish. Moreover, **campaign launch to establish Ultima Protek as the 'Gold Standard' in protection for the exteriors of every home is expected to gain consumers traction. We expect all this efforts could make Asian Paints a unique moat among other competitors and outperform ahead.**

International & automotive segment sluggish; industrial segment seems encouraging

Geographies like Egypt, Bangladesh and Sri Lanka witnessed pressures on business front during Q3FY19, as it does not enjoy market leadership to exercise pricing power. Ethiopia is witnessing raw material challenges because of lack of forex availability. Though its domestic automotive segment is seeing sluggish growth, industrial segment is seeing good traction. **Home improvement business is still a small segment contributing 2 % of revenues but has the potential to add significant value in the long-term.** Due to lack of market leadership position in most of these countries (market leader in India) it is present in Asian Paints was not able to pass on RM inflation through price hikes immediately to its consumers leading to margin pressures from these countries and thus lower profitability. However, **in FY20 margins in the International business should be better owing to the recent correction in RM prices.**

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



An Eye on Quarterly numbers

Asian paints delivered Q3 results in line with our expectations; Volume growth has also picked up significantly, though business continued to face pressure from rising raw material prices. Although **crude oil prices were uptick during Q3 results, it had softened currently and is expected to remain range bound which would help improving the margins front.**

Revenue from operations has increased by 24.1% to ₹ 5294 crores in Q3 and by 16% to ₹ 14,331.6 crores in nine months. EBITDA increased by 15.3% to ₹ 1103.6 crores in Q3 and increased by 12.7% to ₹ 2906.7 crores in nine months. PBT increased by 13.4% to ₹ 973.5 crores in Q3 and increased by 12.5% to ₹ 2,570.4 crores in nine months. Net profit from continuing operations increased by 14.1% to ₹ 647.2 crores, and increased by 12.6% to ₹ 1724.5 crores in nine months.

Financial Data	
EV	139887.07
Net Worth	10462.34
BV	109.07
EPS(TTM)	23.10

₹ In crores except EPS

Key Financials (₹ in crores)			
Particulars	Q3 FY 19	Q3 FY 18	Variation %
Revenue	5293.99	4267.49	24.05
EBITDA	1103.61	957.36	15.28
PBT	973.46	858.55	13.38
PAT	647.15	567.21	14.09
EPS	6.63	5.78	14.71

Key Takeaways to watch out

- ⇒ Reported healthy demand and growth across all regions with Kerala mirroring growth reported in other regions.
- ⇒ Company will receive tax benefit from its Vizag plant, but that will accrue after its products reach the market which is expected to follow through in FY20.
- ⇒ **Capacity utilization** stands at 80% and its current capacity **will suffice demand for next 4-5 years.**
- ⇒ **Held its market position in South India** (particularly Tamil Nadu) despite aggressive advertisement by Nippon Paints.

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



- ⇒ Sales of lower-end products like **Distemper remained buoyant during Q3FY19**
- ⇒ Demand situation to remain uncertain due to upcoming election, rupee fluctuation and raw material prices uncertainly
- ⇒ **Company mentioned that if crude increases from the current levels, it will have to take further price hikes.**
- ⇒ In the industrial business, the automotive coatings JV (PPG-AP), witnessed good growth in the General Industrial segment. However the Auto OEM segment witnessed subdued growth on the back of fall in production across auto OEMs

Industry Outlook

While the outlook remains positive for the paints industry for FY 2018-19, concerns on the cost of raw materials would remain, if crude oil prices continue to soar. Raw material prices in the paint industry have already moved up over the last three quarters, leading to a series of price hikes in the sector. Any potentially adverse market conditions could further affect the industry. The political climate, with assembly elections pending across several states as well as at the Centre, is also likely to have an impact on the industry

There has been slight revival in investment activity. Global demand has been improving, which should boost exports as well as fresh investments. The Government's focus on infrastructure development is likely to spur demand for industrial coatings. However, while the economic activity is showing signs of improvement, rising raw material and packing material prices could pose as challenges.

The kitchen industry is fragmented, not only in the overall segment but also within product categories. The presence of a large number of unorganized players presents an opportunity for organized players. New product offerings and operational excellence are expected to be the key success factors for the industry in the coming years.

The home improvement segment, a promising business for the Company, offers ample opportunities to draw from the well-established brand and network of the Company, with the implementation of GST expected to formalize the demand. Besides, growing aspirations of consumers to experience branded products enables company to remain confident about growth prospects for this business over the long-term .

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



The Indian Paint Industry currently valued at around ₹ 50,000 Crores is poised to grow at a healthy rate and is expected to reach around ₹70, 000 Crores by 2021-22. There is a strong co-relation between the Indian Paint Industry and the GDP growth of the country. It has historically surpassed India's GDP growth by 1.5 to 2 times .Although the implementation of GST regime came in as a challenge initially; the reduction of GST rates from 28% to 18% has come in as a breather for the paint industry .

Outlook and Recommendation

Company had sharpened its focus on its core paints business as well as allied segments such as waterproofing, adhesives and home decor and improvement. Moreover, **Company is looking to double its manufacturing capacity over the next few years from one million K/L per annum now, this will give a push to its decorative paints volume.** In recent quarters, competition from players such as Berger, Kansai Nerolac and Nippon Paints has also grown as the organized market gets stronger. **Innovative store formats such as ‘Color Ideas’ and ‘AP Homes’ are also additional growth levers for the company besides capacity augmentation.**

Increased volatility and challenging business conditions marked the quarter gone by. On the domestic macro front, growth trends still remain uncertain and the volatility in crude prices and exchange rates have only added to the uncertainty. After witnessing a significant increase in crude prices and a sharp fall in the rupee till the middle of the quarter, the later part of the quarter saw respite in terms of declining crude prices and rupee appreciation.

Looking forward, **company is poised to see potential growth prospects owing to healthy double digit volume growth trajectory to be sustained over the medium term led by capacity addition, strong pricing power, GST rate reduction and leadership position in the domestic market.** Moreover, campaign launch to establish Ultima Protek as the ‘Gold Standard’ in protection for the exteriors of every home is expected to gain consumers traction. We expect all these efforts could make Asian Paints a unique moat among other competitors and outperform ahead.

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



Quarterly Results (₹ in crore except per share)

Particulars	LTM	201812	201809	201806	201803
Net Sales	18806.90	5293.99	4639.05	4390.27	4483.58
EBITDA	3790.90	1103.61	855.53	947.55	884.18
Depreciation	392.00	115.36	94.74	90.50	91.44
Operating Income	3398.80	988.25	760.79	857.05	792.74
Misc. Income (Exp.)	249.40	60.63	71.38	73.11	44.25
Interest Expenses	44.80	14.79	12.12	8.77	9.13
EBT	3354.00	973.46	748.67	848.28	783.61
Taxes	1133.70	326.31	242.67	276.97	287.70
Net Income (Reg)	2220.40	647.15	506.00	571.31	495.91
Extraordinary Items	0.00	-	-	-	-
Reported Net Income	2220.40	647.15	506.00	571.31	495.91
EPS	23.20	6.75	5.28	5.96	5.17
Adjusted EPS	23.10	6.70	5.30	6.00	5.20

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



Disclosures :

Business Activity :

Rudra Shares & Stock Brokers Limited is engaged in the business of providing broking services & distribution of various financial products. RUDRA is also registered as a Research Analyst under SEBI(Research Analyst) Regulations, 2014. SEBI Reg. No. INH100002524.

Disciplinary History :

There has been no instance of any Disciplinary action, penalty etc. levied/passed by any regulation/administrative agencies against RUDRA and its Directors. Pursuant to SEBI inspection of books and records of Rudra, as a Stock Broker, SEBI has not issued any Administrative warning to Rudra.

Terms & Conditions of issuance of Research Report:

The Research report is issued to the registered clients. The Research Report is based on the facts, figures and information that are considered true, correct and reliable. The information is obtained from publicly available media or other sources believed to be reliable. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation to buy or sell or subscribe for securities or other financial instruments for clients.

Disclosures with regard to ownership and material conflicts of interest :

Rudra or its research analysts, or his/her relative or associate has any direct or Indirect financial interest in the subject company.	NO
Rudra or its research analysts, or his/her relative or associate has any other material conflict of interest at time of publication of the research report.	NO
Rudra or its research analysts, or his/her relative or associates have actual ownership of one per cent or more securities of the subject company.	NO

Disclosures with regard to receipt of compensation :

Rudra or its associates have received any compensation from the subject company in the past twelve months.	NO
Rudra or its associates have managed or co-managed public offering of securities for the subject in the past twelve months.	NO
Rudra or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report .	NO

FUNDAMENTAL COVERAGE

ASIAN PAINTS LIMITED



Other Disclosures:

The research analyst has served as an officer,director,employee of the subject company.	NO
Rudra or its research analyst has been engaged in market making activity for the subject company.	NO
Rudra or its or associates have received any compensation from the subject company in the past twelve months.	NO

Disclaimers:

This Research Report (hereinafter called report) has been prepared and presented by RUDRA SHARES & STOCK BROKERS LIMITED, which does not constitute any offer or advice to sell or does solicitation to buy any securities. The information presented in this report, are for the intended recipients only. Further, the intended recipients are advised to exercise restraint in placing any dependence on this report, as the sender, Rudra Shares & Stock Brokers Limited, neither guarantees the accuracy of any information contained herein nor assumes any responsibility in relation to losses arising from the errors of fact, opinion or the dependence placed on the same.

Despite the information in this document has been previewed on the basis of publicly available information, internal data , personal views of the research analyst(s)and other reliable sources, believed to be true, we do not represent it as accurate, complete or exhaustive. It should not be relied on as such, as this document is for general guidance only. Besides this, the research analyst(s) are bound by stringent internal regulations and legal and statutory requirements of the Securities and Exchange Board of India(SEBI) and the analysts' compensation was, is, or will be not directly or indirectly related with the other companies and/or entities of Rudra Shares & Stock Brokers Ltd and have no bearing whatsoever on any recommendation, that they have given in the research report. Rudra Shares & Stock Brokers Ltd or any of its affiliates/group companies shall not be in any way responsible for any such loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Rudra Shares & Stock Brokers Ltd has not independently verified all the information, which has been obtained by the company for analysis purpose, from publicly available media or other sources believed to be reliable. Accordingly, we neither testify nor make any representation or warranty, express or implied, of the accuracy, contents or data contained within this document. Rudra Share & Stock Brokers Ltd and its affiliates are engaged in investment advisory, stock broking, retail & HNI and other financial services. Details of affiliates are available on our website i.e. www.rudrashares.com.

We hereby declare, that the information herein may change any time due to the volatile market conditions, therefore, it is advised to use own discretion and judgment while entering into any transactions, whatsoever.

Individuals employed as research analyst by Rudra Shares & Stock Brokers Ltd or their associates are not allowed to deal or trade in securities, within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, we and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or profits.