

Asian Paints

Performance Highlights

Quarterly Data

(₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq
Revenue	4,160	3,653	13.9	3,779	10.1
EBITDA	748	585	27.9	621	20.5
Margin (%)	18.0	16.0	(197bp)	16.4	(156bp)
Adj. PAT	499	368	35.4	399	25.0

Source: Company, Angel Research

Asian Paints' posted a healthy performance for 3QFY2014, both on the top-line as well as the bottom-line front. For the quarter, the company's top-line grew by 13.9% yoy to ₹4,160cr while the reported Adj.PAT grew ~35% yoy to ₹499cr.

Key highlights: For 3QFY2016, Asian Paints' consolidated top-line posted a double-digit growth of 13.9% yoy to ₹4,160cr on the back of healthy festival season demand. However, heavy rainfall in south India did impact its sales performance. The company's protective and powder coatings business did well with the segment benefitting from lower material prices. Its international business posted healthy growth, particularly in the Middle East and Bangladesh. However as per the Management, the domestic demand environment continues to be challenging.

On the operating profit front, the company reported a growth of 27.9% yoy due to healthy sales growth and lower material prices. The operating profit margin was up by 197bp yoy to 18.0% due to easing material prices and employee costs as a percentage of sales. During the quarter, the company reported an adjusted net profit of 35.4% yoy to ₹499cr.

Outlook and valuation: We expect Asian Paints to post a ~10.2% and ~11.9% CAGR in its top-line and bottom-line respectively, over FY2015-18E. At the current market price, the stock is trading at 40.9x FY2018E earnings. **We maintain our Neutral view on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	14,183	15,403	17,128	18,978
% chg	11.6	8.6	11.2	10.8
Adj. Net profit	1,414	1,705	1,835	1,984
% chg	15.4	20.6	7.6	8.1
EBITDA margin (%)	15.6	17.4	16.8	16.4
EPS (₹)	14.7	17.8	19.1	20.7
P/E (x)	57.3	47.5	44.2	40.9
P/BV (x)	17.1	16.3	15.4	14.5
RoE (%)	29.4	34.3	34.8	35.5
RoCE (%)	37.6	44.3	45.1	46.2
EV/Sales (x)	5.6	5.2	4.6	4.2
EV/EBITDA (x)	36.1	29.7	27.7	25.6

Source: Company, Angel Research; Note: CMP as of January 19, 2016

NEUTRAL

CMP	₹845
Target Price	-
Investment Period	-

Stock Info

Sector	FMCG
Market Cap (₹ cr)	81,071
Net Debt (₹ cr)	-1,374
Beta	0.8
52 Week High / Low	925 / 693
Avg. Daily Volume	91,960
Face Value (₹)	1
BSE Sensex	24,480
Nifty	7,435
Reuters Code	ASPN.BO
Bloomberg Code	APNT@IN

Shareholding Pattern (%)

Promoters	52.8
MF / Banks / Indian Fls	15.3
FII / NRIs / OCBs	18.8
Indian Public / Others	13.1

Abs. (%)	3m	1yr	3yr
Sensex	(11.6)	(5.9)	20.7
Asian Paints	2.5	0.2	96.1

3-year price chart



Source: Company, Angel Research

Amarjeet S Maurya

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

Exhibit 1: Consolidated quarterly performance

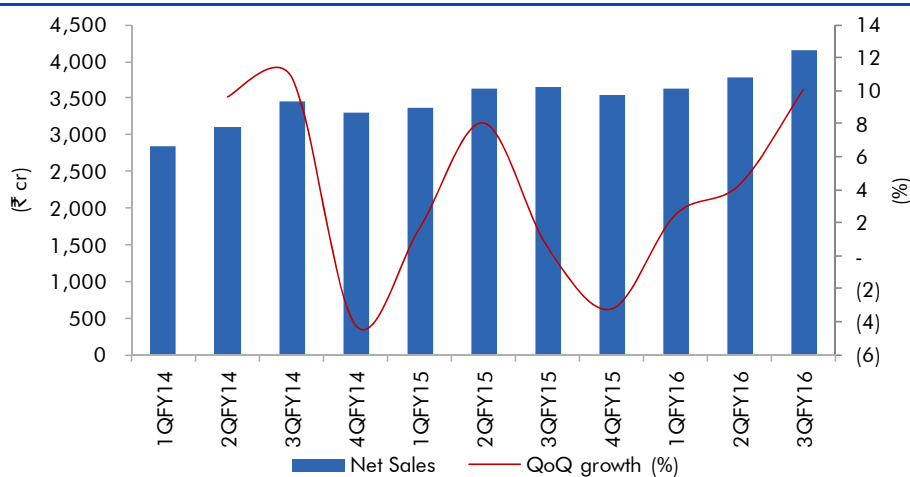
Y/E March (₹ cr)	3QFY16	3QFY15	% yoy	2QFY15	% qoq	9MFY16	9MFY15	% chg
Net Sales	4,160	3,653	13.9	3,779	10.1	11,563	10,648	8.6
Consumption of RM	2,200	2,052	7.2	2,032	8.3	6,179	6,030	2.5
(% of Sales)	52.9	56.2		53.8		53.4	56.6	
Staff Costs	247	232	6.5	247	0.1	741	691	7.3
(% of Sales)	5.9	6.3		6.5		6.4	6.5	
Other Expenses	965	784	23.0	880	9.6	2,591	2,277	13.8
(% of Sales)	23.2	21.5		23.3		22.4	21.4	
Total Expenditure	3,412	3,068	11.2	3,159	8.0	9,510	8,997	5.7
Operating Profit	748	585	27.9	621	20.5	2,052	1,650	24.4
OPM	18.0	16.0		16.4		17.8	15.5	
Interest	8	10	(22.2)	9	(17.5)	26	25	4.8
Depreciation	73	67	7.7	71	2.3	213	199	7.0
Other Income	36	31	17.3	58	(37.8)	167	128	30.2
PBT (excl. Ext Items)	704	538	30.7	598	17.7	1,981	1,555	27.4
Ext (Income)/Expense	-	-	-	-	-	-	-	-
PBT (incl. Ext Items)	704	538	30.7	598	17.7	1,981	1,555	27.4
(% of Sales)	16.9	14.7		15.8		17.1	14.6	
Provision for Taxation	229	167		184		624	480	30.0
(% of PBT)	32.5	31.0		30.7		31	31	
Reported PAT	475	372	27.8	415	14.6	1,357	1,075	26.2
PATM	11.4	10.2		11.0		11.7	10.1	
Minority Interest After NP	11.7	3.5		15.6		39.5	21.2	
Extra-ordinary Items	(35)	-	-	-	--	-	-	-
Reported PAT	499	368	35.4	399	25.0	1,317	1,054	25.0
Equity shares (cr)	96	96		96		96	96	
FDEPS (₹)	5.2	3.8	35.4	4.2	25.0	13.7	11.0	25.0

Source: Company, Angel Research

Healthy top-line growth

For 3QFY2016, Asian Paints' consolidated top-line posted a double-digit growth of 13.9% yoy to ₹4,160cr on the back of healthy festival season demand. However, heavy rainfall in south India did impact its sales performance. The company's protective and powder coatings business did well with the segment benefitting from lower material prices. Its international business posted healthy growth, particularly in the Middle East and Bangladesh. However as per the Management, the domestic demand environment continues to be challenging.

Exhibit 2: Top-line growth trend

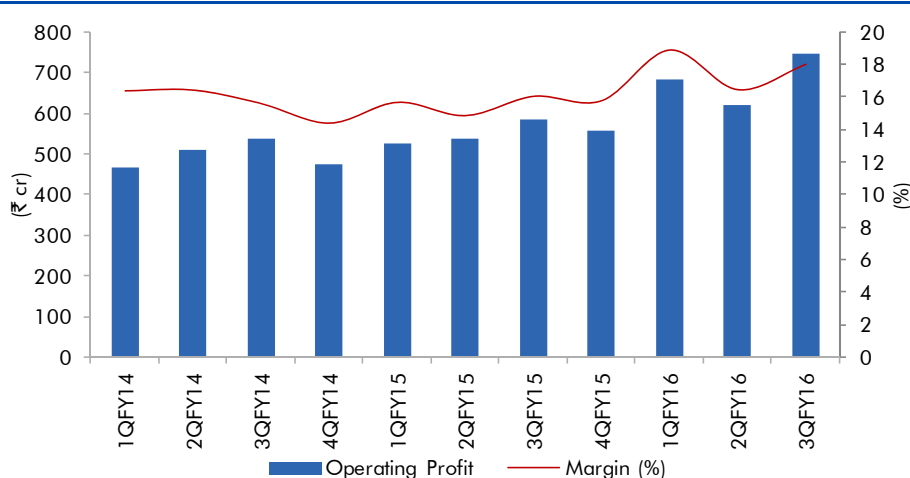


Source: Company, Angel Research

Operating margin up due to lower material prices

On the operating profit front, the company reported a growth of 27.9% yoy due to healthy sales growth and lower material prices. The operating profit margin was up by 197bp yoy to 18.0% due to easing material prices and employee costs as a percentage of sales.

Exhibit 3: Operating profit and margin trend

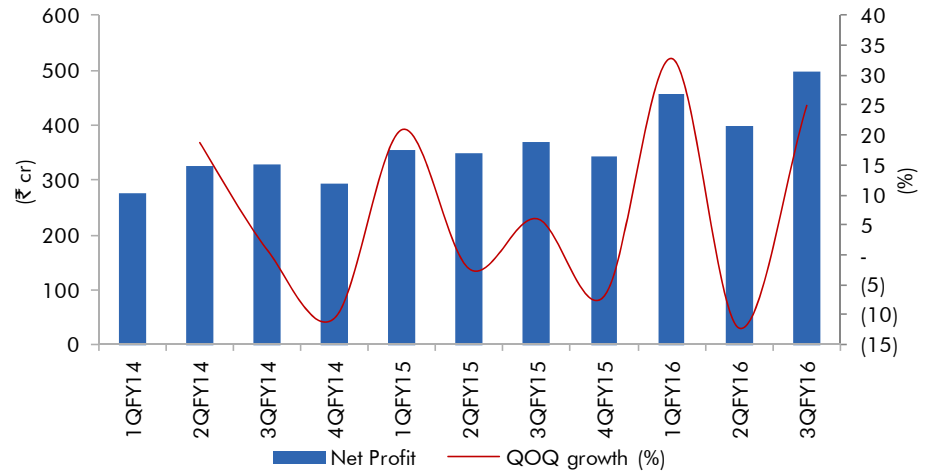


Source: Company, Angel Research

Adjusted PAT grew ~35.4% yoy

During the quarter, the company reported an adjusted net profit of 35.4% yoy to ₹499cr.

Exhibit 4: Net Profit and growth trend



Source: Company, Angel Research

Investment rationale

Market leadership in India

Asian Paints is the largest paint company in India with a leadership position in the decorative paint segment with market share in excess of 50%. The overall weak demand environment in the economy has been impacting the domestic decorative paint market in the recent past. We believe that with gradual recovery in the economy, coupled with increased focus of the government on infrastructure spending, Asian Paints stands to benefit owing to its vast dealer network and strong brand equity.

Stable raw material price to aid margin

Since raw materials are crude derivatives, lower crude prices are positive for paint companies. We believe that with oil prices likely to be stable at current levels in the near term, Asian Paints' margins are likely to expand.

Outlook and valuation

We expect Asian Paints to post a ~10.2% and ~11.9% CAGR in its top-line and bottom-line respectively, over FY2015-18E. At the current market price, the stock is trading at 40.9x FY2018E earnings. **We maintain our Neutral view on the stock.**

Company background

Asian Paints is India's largest paint company, with a market share of ~50%. The company is mainly present in the decorative segment, which contributes over 75% of its sales. The company features among the top 10 decorative paint players globally. It has a large distribution network of over 25,000 dealers and 27,000 'Colour World' outlets across India. The company's international revenue comes from countries in the Caribbean, Middle East, South Pacific and Asian regions.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Total operating income	10,939	12,715	14,183	15,403	17,128	18,978
% chg	13.6	16.2	11.6	8.6	11.2	10.8
Total Expenditure	9,207	10,727	11,976	12,723	14,251	15,866
Raw Materials	6413	7341	7972	8287	9249	10248
Personnel Expenses	624	760	907	1,047	1,199	1,366
Others Expenses	2,170	2,626	3,096	3,389	3,803	4,251
EBITDA	1,732	1,988	2,208	2,680	2,878	3,112
% chg	14.8	14.8	11.1	21.4	7.4	8.2
(% of Net Sales)	15.8	15.6	15.6	17.4	16.8	16.4
Depreciation & Amortisation	155	246	266	291	313	336
EBIT	1,577	1,742	1,942	2,389	2,564	2,777
% chg	13.7	10.5	11.5	23.0	7.3	8.3
(% of Net Sales)	14.4	13.7	13.7	15.5	15.0	14.6
Interest & other Charges	37	42	35	36	38	40
Other Income	114	134	170	190	220	240
(% of PBT)	6.9	7.3	8.2	7.5	8.0	8.1
Share in profit of Associates	-	-	-	-	-	-
PBT (reported)	1,655	1,834	2,077	2,543	2,746	2,977
Tax	496	572	650	788	851	923
(% of PBT)	29.9	31.2	31.3	31.0	31.0	31.0
PAT (reported)	1,160	1,263	1,427	1,755	1,895	2,054
Less: Minority interest (MI)	46	44	32	50	60	70
PAT after MI (reported)	1,114	1,219	1,395	1,705	1,835	1,984
Prior Period & Extra. Exp./ (Inc.)	-	(7)	(19)	-	-	-
ADJ. PAT	1,114	1,226	1,414	1,705	1,835	1,984
% chg	12.7	10.0	15.4	20.6	7.6	8.1
(% of Net Sales)	10.2	9.6	10.0	11.1	10.7	10.5
Basic & diluted EPS (₹)	11.6	12.8	14.7	17.8	19.1	20.7
Adjusted EPS (₹)	11.6	12.8	14.7	17.8	19.1	20.7
% chg	12.7	10.0	15.4	20.6	7.6	8.1

Exhibit 5:

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	96	96	96	96	96	96
Reserves & Surplus	3,288	3,943	4,646	4,880	5,174	5,491
Shareholders Funds	3,384	4,039	4,742	4,976	5,270	5,587
Minority Interest	161	246	264	264	264	264
Total Loans	251	249	418	420	420	420
Deferred Tax Liability	195	231	247	247	247	247
Total Liabilities	3,991	4,765	5,671	5,906	6,200	6,517
APPLICATION OF FUNDS						
Gross Block	3,429	3,804	4,112	4,442	4,772	5,102
Less: Acc. Depreciation	979	1,223	1,438	1,728	2,042	2,377
Less: Impairment of Assets	9	19	15	15	15	15
Net Block	2,441	2,562	2,660	2,699	2,716	2,710
Capital Work-in-Progress	59	72	196	196	196	196
Investments	296	1,424	1,588	1,588	1,588	1,588
Current Assets	3,989	4,019	4,468	5,104	5,875	6,652
Inventories	1,830	2,070	2,259	2,532	2,909	3,380
Sundry Debtors	981	1,110	1,180	1,350	1,596	1,768
Cash	737	229	204	266	308	328
Loans & Advances	313	454	511	616	685	759
Other Assets	128	156	315	339	377	418
Current liabilities	2,834	3,353	3,308	3,747	4,241	4,696
Net Current Assets	1,155	665	1,160	1,357	1,633	1,957
Deferred Tax Asset	41	43	67	67	67	67
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,991	4,765	5,671	5,906	6,200	6,517

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	1,655	1,834	2,077	2,543	2,746	2,977
Depreciation	155	256	268	291	313	336
Change in Working Capital	(159)	(159)	(168)	(450)	(135)	(235)
Interest / Dividend (Net)	(7)	(10)	(37)	(47)	36	38
Direct taxes paid	(438)	(480)	(633)	(788)	(851)	(923)
Others	(19)	(39)	(320)	398	(99)	(66)
Cash Flow from Operations	1,187	1,402	1,188	1,947	2,011	2,127
(Inc.)/ Dec. in Fixed Assets	(522)	542	(301)	(343)	(344)	(345)
(Inc.)/ Dec. in Investments	59	(1,128)	(164)	-	-	-
Cash Flow from Investing	(463)	(586)	(465)	(343)	(344)	(345)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(102)	(37)	153	2	-	-
Dividend Paid (Incl. Tax)	(4,000)	(2,811)	(3,245)	(1,432)	(1,541)	(1,667)
Interest / Dividend (Net)	3,490	1,525	1,648	(112)	(84)	(95)
Cash Flow from Financing	(611)	(1,324)	(1,445)	(1,542)	(1,625)	(1,762)
Inc./ (Dec.) in Cash	112	(508)	(722)	62	42	20
Opening Cash balances	624	737	926	204	266	308
Closing Cash balances	737	229	204	266	308	328

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	72.8	66.1	57.3	47.5	44.2	40.9
P/CEPS	61.7	53.7	47.9	39.6	36.7	33.9
P/BV	23.9	20.1	17.1	16.3	15.4	14.5
Dividend yield (%)	4.9	3.5	4.0	1.8	1.9	2.1
EV/Sales	7.3	6.3	5.6	5.2	4.6	4.2
EV/EBITDA	46.3	40.1	36.1	29.7	27.7	25.6
EV / Total Assets	11.8	9.8	8.9	8.2	7.6	7.1
Per Share Data (₹)						
EPS (Basic)	11.6	12.8	14.7	17.8	19.1	20.7
EPS (fully diluted)	11.6	12.8	14.7	17.8	19.1	20.7
Cash EPS	13.7	15.7	17.7	21.3	23.0	24.9
DPS	41.7	29.3	33.8	14.9	16.1	17.4
Book Value	35.3	42.1	49.4	51.9	54.9	58.2
Returns (%)						
ROCE	43.4	40.6	37.6	44.3	45.1	46.2
ROE	32.9	30.2	29.4	34.3	34.8	35.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.2	3.3	3.4	3.5	3.6	3.7
Inventory / Sales (days)	61	59	58	60	62	65
Receivables (days)	33	32	30	32	34	34
Payables (days)	49	51	41	40	40	40
WC cycle (ex-cash) (days)	44	41	47	52	56	59

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange of India Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. Angel/analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market making activity of the company covered by Analyst.

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.

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 Pvt. 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 Pvt. 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 Pvt. Limited endeavors 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.

Neither Angel Broking Pvt. 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 Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Hindustan Unilever
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 (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15%)
---	-------------	--	-------------------------------------