

Asian Paints

Performance Highlights

Quarterly Data

(₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	% qoq
Revenue	3,971	3,535	12.3	4,160	(4.5)
EBITDA	704	558	26.2	748	(5.9)
Margin (%)	17.7	15.8	195bp	18.0	(26bp)
Adj. PAT	409	343	19.3	499	(18.0)

Source: Company, Angel Research

Asian Paints posted a healthy performance for 4QFY2016, both on the top-line as well as the bottom-line front. For the quarter, the company's top-line grew by 12.3% yoy to ₹3,971cr while the reported PAT grew 19.3% yoy to ₹409cr.

Key highlights: For 4QFY2016, Asian Paints' consolidated top-line posted a growth of 12.3% yoy to ₹3,971cr on the back of double-digit growth in domestic decorative paints. The company witnessed demand improvement in industrial paints and powder coatings. On the international front, Oman, and Bahrain did not perform well as subdued oil prices hurt their economies while UAE too was short on performance.

On the operating profit front, the company reported a growth of 26.2% yoy on the back of healthy sales growth and lower material prices. The operating profit margin was up by 195bp yoy to 17.7% helped by easing material prices. During the quarter, the company reported an adjusted net profit of 19.3% yoy to ₹409cr.

Outlook and valuation: We expect Asian Paints to post a ~13% and ~9% CAGR in its top-line and bottom-line respectively, over FY2016-18E. At the current market price, the stock is trading at 42.1x its 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	15,534	17,445	19,957
% chg	11.6	9.5	12.3	14.4
Adj. Net profit	1,414	1,762	1,881	2,110
% chg	15.4	24.6	6.7	12.2
EBITDA margin (%)	15.6	17.7	16.8	16.4
EPS (₹)	14.7	18.4	19.6	22.0
P/E (x)	62.9	50.5	47.3	42.1
P/BV (x)	18.7	17.8	16.8	15.8
RoE (%)	29.4	34.6	35.6	37.5
RoCE (%)	37.6	46.6	46.7	49.5
EV/Sales (x)	6.2	5.6	5.0	4.3
EV/EBITDA (x)	39.7	31.5	29.6	26.5

Source: Company, Angel Research; Note: CMP as of May 12, 2016

NEUTRAL

CMP	₹927
Target Price	-

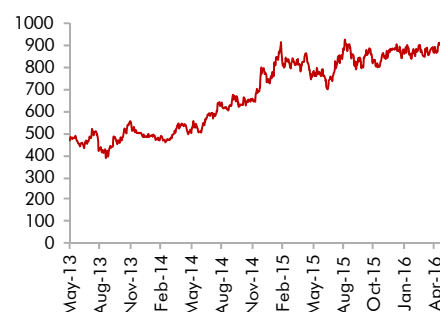
Investment Period	-
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	88,894
Net Debt (₹ cr)	(2,203)
Beta	0.8
52 Week High / Low	932 / 693
Avg. Daily Volume	78,510
Face Value (₹)	1
BSE Sensex	25,790
Nifty	7,900
Reuters Code	ASPN.BO
Bloomberg Code	APNT@IN

Shareholding Pattern (%)	
Promoters	52.8
MF / Banks / Indian FIs	14.8
FII / NRIs / OCBs	19.4
Indian Public / Others	13.0

Abs. (%)	3m	1yr	3yr
Sensex	12.2	(4.0)	31.0
Asian Paints	8.5	22.5	97.5

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Consolidated quarterly performance

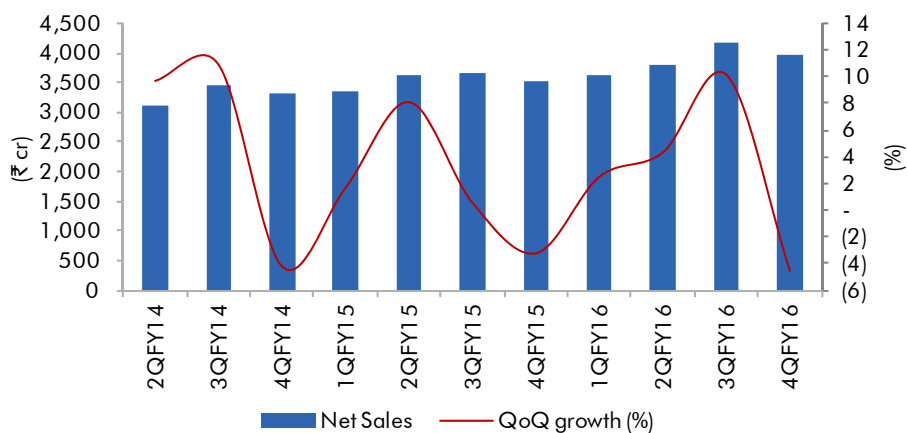
Y/E March (₹ cr)	4QFY16	4QFY15	% yoy	3QFY15	% qoq	FY2016	FY2015	% chg
Net Sales	3,971	3,535	12.3	4,160	(4.5)	15,534	14,183	9.5
Consumption of RM	2,027	1,942	4.4	2,200	(7.9)	8,206	7,971	2.9
(% of Sales)	51.0	54.9		52.9		52.8	56.2	
Staff Costs	277	216	27.8	247	12.0	1,018	932	9.2
(% of Sales)	7.0	6.1		5.9		6.6	6.6	
Other Expenses	964	819	17.7	965	(0.1)	3,555	3,071	15.7
(% of Sales)	24.3	23.2		23.2		22.9	21.7	
Total Expenditure	3,268	2,978	9.7	3,412	(4.2)	12,778	11,975	6.7
Operating Profit	704	558	26.2	748	(5.9)	2,756	2,208	24.8
OPM	17.7	15.8		18.0		17.7	15.6	
Interest	15	10	44.9	8	94.1	41	35	16.5
Depreciation	75	67	12.1	73	3.8	288	266	8.3
Other Income	34	42	(18.4)	36	(5.1)	201	170	18.3
PBT (excl. Ext Items)	648	522	24.1	704	(8.0)	2,628	2,077	26.6
Ext (Income)/Expense	-	-				-	-	
PBT (incl. Ext Items)	648	522	24.1	704	(8.0)	2,628	2,077	26.6
(% of Sales)	16.3	14.8		16.9		16.9	14.6	
Provision for Taxation	225	170		229		849	650	30.7
(% of PBT)	34.8	32.5		32.5		32	31	
Reported PAT	422	352	20.0	475	(11.1)	1,779	1,427	24.7
PATM	10.6	10.0		11.4		11.5	10.1	
Minority Interest After NP	13.5	11.0		11.7		53.1	32.2	
Extra-ordinary Items	-	(2)		(35)		(36)	(19)	
Reported PAT	409	343	19.3	499	(18.0)	1,762	1,414	24.6
Equity shares (cr)	96	96		96		96	96	
FDEPS (₹)	4.3	3.6	19.3	5.2	(18.0)	18.4	14.7	24.6

Source: Company, Angel Research

Healthy top-line growth

For 4QFY2016, Asian Paints' consolidated top-line posted a growth of 12.3% yoy to ₹3,971cr on the back of double-digit growth in domestic decorative paints. The company witnessed demand improvement in industrial paints and powder coatings. On the international front, Oman, and Bahrain did not perform well as subdued oil prices hurt their economies while UAE too was short on performance.

Exhibit 2: Top-line growth trend

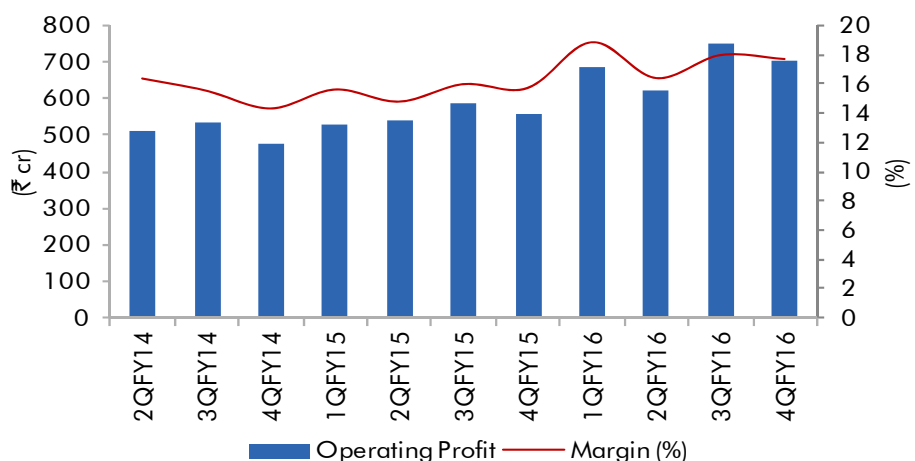


Source: Company, Angel Research

Operating margin up due to lower material prices

On the operating profit front, the company reported a growth of 26.2% yoy supported by healthy sales growth and lower material prices. The operating profit margin was up by 195bp yoy to 17.7% due to easing material prices.

Exhibit 3: Operating profit and margin trend

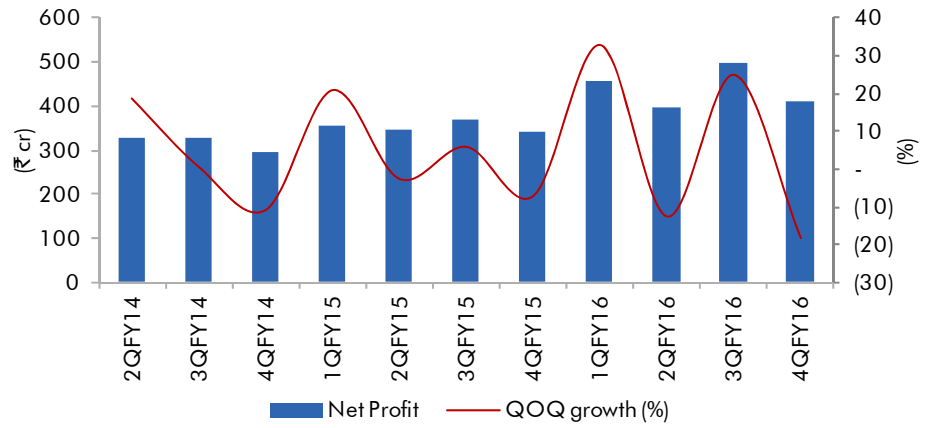


Source: Company, Angel Research

Adjusted PAT grew 19.3% yoy

The company reported an adjusted net profit of 19.3% yoy to ₹409cr for the quarter.

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 and with a 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 would stand to benefit given its strong brand equity and vast dealer network.

Stable raw material prices to aid margin

Since raw materials consumed by the company are mainly crude derivatives, soft crude prices are positive for the company. We believe that with oil prices likely to be stable at current levels in the near term, Asian Paints' margins would likely expand.

Outlook and valuation

We expect Asian Paints to post a ~13% and ~9% CAGR in its top-line and bottom-line respectively, over FY2016-18E. At the current market price, the stock is trading at 42.1x its 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	FY2016	FY2017E	FY2018E
Total operating income	10,939	12,715	14,183	15,534	17,445	19,957
% chg	13.6	16.2	11.6	9.5	12.3	14.4
Total Expenditure	9,207	10,727	11,976	12,778	14,514	16,684
Raw Materials	6413	7341	7972	8206	9420	10777
Personnel Expenses	624	760	907	1,018	1,221	1,437
Others Expenses	2,170	2,626	3,096	3,555	3,873	4,470
EBITDA	1,732	1,988	2,208	2,756	2,931	3,273
% chg	14.8	14.8	11.1	24.8	6.3	11.7
(% of Net Sales)	15.8	15.6	15.6	17.7	16.8	16.4
Depreciation & Amortisation	155	246	266	288	313	336
EBIT	1,577	1,742	1,942	2,468	2,617	2,937
% chg	13.7	10.5	11.5	27.1	6.0	12.2
(% of Net Sales)	14.4	13.7	13.7	15.9	15.0	14.7
Interest & other Charges	37	42	35	41	35	35
Other Income	114	134	170	201	230	250
(% of PBT)	6.9	7.3	8.2	7.6	8.2	7.9
Share in profit of Associates	-	-	-	-	-	-
PBT (reported)	1,655	1,834	2,077	2,628	2,812	3,152
Tax	496	572	650	849	872	977
(% of PBT)	29.9	31.2	31.3	32.3	31.0	31.0
PAT (reported)	1,160	1,263	1,427	1,779	1,941	2,175
Less: Minority interest (MI)	46	44	32	53	60	65
PAT after MI (reported)	1,114	1,219	1,395	1,726	1,881	2,110
Prior Period & Extra. Exp./ (Inc.)	-	(7)	(19)	(36)	-	-
ADJ. PAT	1,114	1,226	1,414	1,762	1,881	2,110
% chg	12.7	10.0	15.4	24.6	6.7	12.2
(% of Net Sales)	10.2	9.6	10.0	11.3	10.8	10.6
Basic & diluted EPS (₹)	11.6	12.8	14.7	18.4	19.6	22.0
Adjusted EPS (₹)	11.6	12.8	14.7	18.4	19.6	22.0
% chg	12.7	10.0	15.4	24.6	6.7	12.2

Consolidated Balance Sheet

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	4,889	5,190	5,528
Shareholders Funds	3,384	4,039	4,742	4,985	5,286	5,624
Minority Interest	161	246	264	264	264	264
Total Loans	251	249	418	315	315	315
Deferred Tax Liability	195	231	247	247	247	247
Total Liabilities	3,991	4,765	5,671	5,810	6,111	6,449
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	1,726	2,039	2,375
Less: Impairment of Assets	9	19	15	15	15	15
Net Block	2,441	2,562	2,660	2,702	2,719	2,713
Capital Work-in-Progress	59	72	196	196	196	196
Investments	296	1,424	1,588	2,098	2,098	2,098
Current Assets	3,989	4,019	4,468	4,650	5,439	6,377
Inventories	1,830	2,070	2,259	2,064	2,581	3,171
Sundry Debtors	981	1,110	1,180	1,234	1,386	1,586
Cash	737	229	204	420	460	463
Loans & Advances	313	454	511	621	698	798
Other Assets	128	156	315	311	314	359
Current liabilities	2,834	3,353	3,308	3,903	4,407	5,002
Net Current Assets	1,155	665	1,160	747	1,032	1,375
Deferred Tax Asset	41	43	67	67	67	67
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,991	4,765	5,671	5,810	6,111	6,449

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	1,655	1,834	2,077	2,628	2,812	3,152
Depreciation	155	256	268	288	313	336
Change in Working Capital	(159)	(159)	(168)	(450)	628	(244)
Interest / Dividend (Net)	(7)	(10)	(37)	(47)	41	35
Direct taxes paid	(438)	(480)	(633)	(849)	(872)	(977)
Others	(19)	(39)	(320)	1,166	(878)	(96)
Cash Flow from Operations	1,187	1,402	1,188	2,736	2,045	2,205
(Inc.)/ Dec. in Fixed Assets	(522)	542	(301)	(343)	(344)	(345)
(Inc.)/ Dec. in Investments	59	(1,128)	(164)	(510)	-	-
Cash Flow from Investing	(463)	(586)	(465)	(853)	(344)	(345)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	(102)	(37)	153	(103)	-	-
Dividend Paid (Incl. Tax)	(4,000)	(2,811)	(3,245)	(1,480)	(1,580)	(1,772)
Interest / Dividend (Net)	3,490	1,525	1,648	(84)	(81)	(85)
Cash Flow from Financing	(611)	(1,324)	(1,445)	(1,667)	(1,661)	(1,857)
Inc./ (Dec.) in Cash	112	(508)	(722)	215	40	3
Opening Cash balances	624	737	926	204	420	460
Closing Cash balances	737	229	204	420	460	463

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	79.8	72.5	62.9	50.5	47.3	42.1
P/CEPS	67.7	58.9	52.5	43.0	39.5	35.4
P/BV	26.3	22.0	18.7	17.8	16.8	15.8
Dividend yield (%)	4.5	3.2	3.6	1.7	1.8	2.0
EV/Sales	8.1	6.9	6.2	5.6	5.0	4.3
EV/EBITDA	50.9	44.0	39.7	31.5	29.6	26.5
EV / Total Assets	12.9	10.8	9.7	8.9	8.2	7.6
Per Share Data (₹)						
EPS (Basic)	11.6	12.8	14.7	18.4	19.6	22.0
EPS (fully diluted)	11.6	12.8	14.7	18.4	19.6	22.0
Cash EPS	13.7	15.7	17.7	21.6	23.5	26.2
DPS	41.7	29.3	33.8	15.4	16.5	18.5
Book Value	35.3	42.1	49.4	52.0	55.1	58.6
Returns (%)						
ROCE	43.4	40.6	37.6	46.6	46.7	49.5
ROE	32.9	30.2	29.4	34.6	35.6	37.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.2	3.3	3.4	3.5	3.7	3.9
Inventory / Sales (days)	61	59	58	49	54	58
Receivables (days)	33	32	30	29	29	29
Payables (days)	49	51	41	40	40	40
WC cycle (ex-cash) (days)	44	41	47	38	43	47

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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%)
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