

# Asian Paints

**Rs 1548**
**A brighter future ahead**

BSE Sensex: 37,385

Nifty-50: 11,076

## Asian Paints: Financials

	NET SALES	OPM (%)	OP	PBDIT	INTEREST	PBDT	DEP	PBT BEFORE EO	TAX	PAT	PROFIT #	SHARE OF P/L IN JV.	MI	NET PROFIT	EPS (RS)*
1803 (12)	16824.6	19.0	3197.6	3418.2	35.1	3383.2	360.5	3022.7	1041.0	1981.7	70.0	45.8	58.6	2038.9	21.3
1903 (12)	19341.5	19.5	3762.1	3995.2	105.7	3889.5	625.6	3263.9	1096.6	2167.3	0.0	40.7	52.1	2155.9	22.5
2003 (12P)	21866.7	20.7	4536.9	4802.5	132.6	4669.8	878.4	3791.5	1296.1	2495.4	0.0	43.1	61.4	2477.1	25.8
2103 (12P)	24709.4	21.0	5189.0	5483.7	145.9	5337.8	966.2	4371.6	1486.4	2885.3	0.0	45.7	70.7	2860.3	29.8

MI: Minority int.# from discontinued business\* Annualized on current equity of Rs 95.92 crore; Face value Re 1 each. (P): Projections. EPS is calculated after excluding the EO and relevant tax. EO: Extra-ordinary item P: Projections. Figures in Rs crore. Source: Capitaline Databases

Asian Paints is India's largest paint company and ranked among the top ten Decorative coatings companies in the world.

Asian Paints along with its subsidiaries have operations in 16 countries across the world with 27 paint manufacturing facilities, servicing consumers in over 65 countries through Berger International, SCIB Paints – Egypt, Asian Paints Berger, Apco Coatings, Taubmans, Kadisco and Causeway.

Asian Paints is also present in the Home Improvement and Décor space in India through Sleek (Kitchens) and Ess Ess (Bath Fittings).

It manufactures a range of paints for decorative and industrial use. Its products include special effects, plain finishes and distempers for interior walls; textures finishes, plain finishes and design for exteriors for exterior walls; wall papers; wood finishes; metal finishes; water proofing solutions; adhesives, and painting tools and implements.

Decorative business - despite the challenging operating environment, Asian Paints is one of the fastest growing companies

Decorative Coatings is largest contributor to revenues. This business features a comprehensive portfolio, including paints, painting tools, water-proofing solutions, wall coverings, and adhesives. Its robust network of 60,000+ dealers, enables it to cater to a wide cross-section of customers across geographies.

Asian Paints has emerged as one of the most preferred paint brands in India. With state-of-the-art manufacturing plants, extensive distribution and cutting-edge marketing initiatives, the company is catering to a wide cross-section of customers with a comprehensive product basket across varied price points.

Its products are categorised under four segments – interior wall, exterior wall, wood finish and metal finish. In order to fuel the paint category, the company has introduced segments like waterproofing to offer solutions to customers and partnered with painting contractors to bring in mechanisation in the paint market by introduction of tools. The company has leveraged its distribution strength by introducing adhesives for decorative purposes.

Despite the challenging operating environment, Asian Paints is one of the fastest growing companies and registered good growth across geographies. The company's Retail Channel business has seen good growth across all regions.



## STOCK DATA

BSE Code	:	500820
BSE Group	:	A
NSE Code	:	ASIANPAINT
Bloomberg	:	APNT IN
Reuters	:	ASPN.BO
Par Value	:	Re 1
52-week High/Low	:	Rs 1622 / Rs 1120
Sector	:	Paints/Varnish

## SHAREHOLDING PATTERN\*

Category	% of equity
Foreign	: 17.92
Institutions	: 8.95
Govt Holding	: 0.1
Corporate Holding	: 7.04
Promoters	: 52.79
Public & Others	: 13.19

\* as on 30-06-2019  
Source: Capitaline Databases

Strong focused work on engagement with painters and contractors, multi-layered dealer network engagement and targeted marketing activations have been the hallmark of the company's growth story.

#### **Industrial segment - The company ensures that innovative products are delivered in volumes desired by the customers**

The company is present in the industrial coatings space with high-performance, high-quality offerings that serve to protect surfaces through two 50:50 Joint Ventures with PPG Industries Inc., USA. Asian Paints PPG Pvt. Ltd. (AP-PPG) is an ISO 9001 certified company delivering high-value paints and coatings to industrial Original Equipment Manufacturers (OEMs).

The other JV, PPG Asian Paints Pvt. Ltd. (PPG-AP) is a leading supplier of paint and coatings to customers in automotive OEMs, automotive refinishes, industrial, marine, and packaging. Both the joint ventures benefit from the combined strength of both partners in ensuring technological superiority, quality, and durability.

For industrial OEMs, its offerings are categorised under protective coatings, powder coatings, floor coatings, and road markings. The company ensures that innovative products are delivered in volumes desired by the customers. It is market leader in thermoplastic road markings, as well as in auto refinish segment, and second largest player in the auto OEM segment.

#### **International business spans across 15 countries**

Its international operations span across 15 countries, with significant presence in South Asia and the Middle East. The company is among the top three players in decorative paints in all these regions except in Singapore, Oman and Indonesia.

It continues to expand, as well as consolidate its position with key focus on Africa and Asia.

In FY 2019 the International business did not perform well. High inflation (including currency depreciation), rising raw material costs and poor economic growth affected the performance of units. Ethiopia (currency restrictions), Egypt (economic downturn) and Bangladesh fared badly while Nepal and the Middle East units of Oman, UAE and Bahrain did well.

The company expects a moderate recovery in FY2019-20 as conditions are unlikely to rapidly change in most of the markets but is optimistic about the medium-term growth potential of most of the markets in which it operates.

#### **Home improvement business – Future growth drivers**

Aimed at offering complete décor solutions, the company forayed into this space six years ago and has been stepping up offerings consistently to help customers create their dream homes. Currently operational in the two categories of kitchen and bath fittings comprising ranges of modular kitchens and sanitaryware.

In FY 2019 the Home Improvement businesses- Sleek kitchens and Ess Ess bath fittings did exceptionally well growing by over 20%. The management is now confident that they would be growth drivers of the future.

The company has recently introduced wardrobes. This segment is a focus area for future growth.

#### **Capex completed sufficient to provide for the growth it expects over the next few years**

In FY 2019, the company commissioned 2 large paint manufacturing units of

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300,000 KL /annum each at Mysuru and Visakhapatnam. This additional production capacity would be sufficient to provide for the growth it expects over the next few years.

#### Future strategy

The company's vision of becoming the most inspirational home décor brand is based on the growing consumer preference for curated décor and personalised solutions as the consumer looks at creating a differentiated home space with a unique identity. As an organisation, it will continue to expand product offerings and adapt its business channels – from brick & mortar to digital, to deliver on these consumer aspirations. 'AP Homes' – its flagship décor outlets as well as 'beautifulhomes.com' and 'asianpaints.com' – the digital properties of the company continue to provide critical insights in consumer behaviour.

Its Research & Technology function is fully geared towards this and its various research initiatives have helped it launch several pioneering products with distinctive value proposition for consumers. In FY 2009, the company launched some innovative products like Royale Health Shield, which has been designed to address the safety and health needs, Apcolite Rust Shield to address the challenge of corrosion on metallic surfaces and Ultima Protek Lamino, which offers longer service life and unmatched performance.

#### Outlook

The Indian economy seems to be in the midst of a slowdown with the GDP growth figures trending downwards. The challenging business conditions are reflected in the auto and industrial coatings industry as well. Even on the global front, most of the economies are witnessing lower growth conditions with continued uncertainties around trade wars and currency volatility. However branded paint demand will remain robust in a country like India where per capita consumption is very low and 30% paint market is still unorganized.

Overall the paint industry is resilient even with weak macros led by Urbanization supported by schemes like Affordable Housing, Housing for All and Pradhan Mantri Awaas Yojana. Moreover home paint replacement cycle is also shrinking.

In the medium and long term various Infrastructure projects provide additional growth triggers, besides any recovery in auto and industrial segment will also augur well.

While raw material prices remain volatile, they remain at reasonable levels. Moreover 10% cut in GST rate last year has given enough leeway to paint industry to increase prices if raw material prices go up. Implementation of GST has also moved demand from unorganized to organised sector especially in lower segments.

Consolidated Performance – good show in challenging scenario

For quarter ended June 2019, net sales rose 17% to Rs 5130.63 crore. OPM improved 140 bps to 22.5%. As a result OP grew 24% to Rs 1156.25 crore.

Other income rose 19% to Rs 73.56 crore. Interest cost increased 28% to Rs 26.75 crore. Depreciation rose 42% to Rs 192.63 crore. PBT as a result grew 21% to Rs 1010.43 crore. Tax rose 27% to Rs 350.53 crore. The effective tax rate rose to 34.7% compared to 33.1%. Thus PAT grew 18% to Rs 659.90 crore. Share of profit of associate grew 6% to Rs 12.19 crore and minority interest grew 26% to Rs 16.65 crore after which net profit grew 18% to Rs 655.44 crore.

"The decorative business segment in India registered a high double digit volume growth and delivered strong performance across regions. The Automotive coatings

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JV (PPG-AP) business was effected by the severe slowdown being witnessed in the automobile industry. Even the Industrial Coatings JV (AP-PPG) business was impacted by demand slowdown. Benign raw material prices, however, supported the margins for the entire coatings business.

In the International operations, key units like Egypt and Sri Lanka continued to witness challenging business conditions impacting the overall performance. Both the segments in the Home Improvement category viz. the Kitchen (Sleek) and Bath (Ess Ess) business, performed well in the quarter” said K.B.S. Anand, Managing Director & CEO, Asian Paints Limited.

### Valuation

In FY 2020 and FY 2021 the company can report consolidated EPS of Rs 25.8 and Rs 29.8 respectively. Current price of Rs 1548 discounts FY 2021 projected consolidated EPS by 51.9 times.

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## ASIAN PAINTS: CONSOLIDATED RESULTS

	1906 (3)	1806 (3)	VAR. (%)	1903 (12)	1803 (12)	VAR. (%)
Net Sales	5130.63	4398.59	17	19341.52	16824.55	15
OPM (%)	22.5	21.1		19.5	19.0	
OP	1156.25	929.7	24	3762.11	3197.61	18
Other Inc.	73.56	61.66	19	233.05	220.62	6
PBDIT	1229.81	991.36	24	3995.16	3418.23	17
Interest	26.75	20.96	28	105.65	35.07	201
PBDT	1203.06	970.4	24	3889.51	3383.16	15
Dep.	192.63	135.81	42	625.62	360.47	74
PBT before EO	1010.43	834.59	21	3263.89	3022.69	8
EO	0.00	0.00	—	0.00	0.00	—
PBT after EO	1010.43	834.59	21	3263.89	3022.69	8
Tax	350.53	276.1	27	1096.58	1040.96	5
PAT	659.90	558.49	18	2167.31	1981.73	9
Profit from discontinued business	0.00	0.00	—	0.00	70.00	-100
Share of P/L in JV.	12.19	11.53	6	40.73	45.79	-11
Minority int.	16.65	13.17	26	52.12	58.59	-11
Net profit	655.44	556.85	18	2155.92	2038.93	6
EPS (Rs)*	#	#		22.5	21.3	

\* Annualized on current equity of Rs 95.92 crore; Face value Re 1 each. (P): Projections. #EPS can not be annualized due to seasonality in business EPS is calculated after excluding the EO and relevant tax. EO: Extra-ordinary item P: Projections. Figures in Rs crore. Source: Capitaline Databases