



# LSE Securities

## Asian Paints - Buy

Asian Paints Limited was established way back in 1942 and today stands as India's largest paint company and Asia's third largest paint company with an annual turnover of Rs 5,463 crore.

Presently the company is having its presence in 22 countries with 28 manufacturing locations, over 2500 SKU's, Integrated SAP - ERP & i2 - SCM solution. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International, Apco Coatings, SCIB Paints and Taubmans.

The company manufactures paints in the category of Decorative, Automative and Industrial segment. Apart from these the company also manufactures various Acessories like, Wall Primar, Wood Primer, Putty and Stainers etc.

## Management

The management of the company is led by Ashwin Choksi -Chairman. Ashwin Dani- Vice Chairman. Abhay Vakil and P M Murty are the Managing Director, while Dipakar Basu, Mahendra Choksi, Deepak Satwalekar, R A Shah, Amar Vakil, Hasit Dani and Mahendra Shah are the other directors of the company.

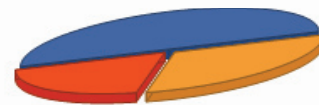
## Business Overview

Asian Paints along with its subsidiaries has operations in 20 countries across the world and 28 paint manufacturing facilities, servicing consumers in 65 countries through Berger International, SCIB Paints-Egypt, Asian Paints, Apco Coatings and Taubmans. Asian Paints operates in 5 regions across the world viz. South Asia, South East Asia, South Pacific, Middle East and Caribbean region through the five corporate brands viz. Asian Paints, Berger International, SCIB Paints, Apco Coatings and Taubmans. In 10 markets, it operates through its subsidiary, Berger International Limited; in Egypt through SCIB Paints; in 5 markets in the South Pacific it operates through Apco Coatings and in Fiji and Samoa it also operates through Taubmans.

The company is having its strategically located Indian plants at Bhandup (Maharashtra), Kasna (Uttar Pradesh) and Sriperumbudur (Tamil Nadu),

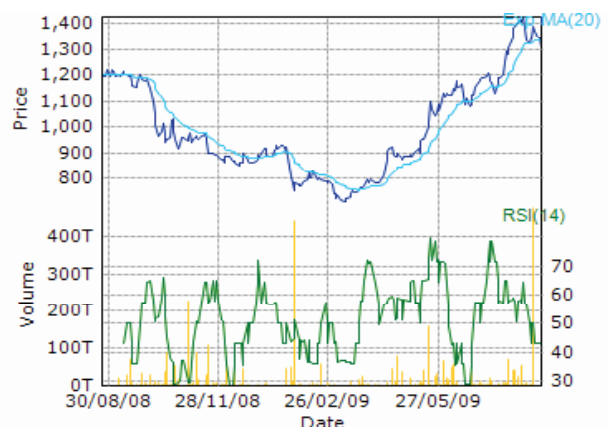
Stock Data		24/08/09
Current Mkt Price (Rs)		1332.00
52 Week High		1448.00
52 Week Low		680.90
Mkt Cap (Rs. in Million)		127765.15
Return in last one Month (%)		1.98

## Share Holding



49.98 Indian Promotor	28.12 Total Institutions
21.9 Total Non-Institutions	

## Performance in last one year



## Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	44777.20	35868.90	24.84
Other Income	605.90	625.80	-3.18
Total Expenditure	39114.70	30276.90	29.19
Operating Profit	6268.40	6217.80	0.81
Interest	159.10	134.60	18.20
Profits After Tax	3643.10	3765.90	-3.26
Reserve & Surplus	0.00	0.00	19.93
Reported EPS(Rs)	37.38	39.26	-4.79
Core EBITDA Margin (%)	12.47	15.23	-18.12



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Ankleshwar (Gujarat), Patancheru (Andhra Pradesh) and the newly built plant at Rohtak (Haryana).

The company is having state-of-the-art supply chain system using cutting edge technology to integrate all its plants, regional distribution centres, outside processing centres and branches in India. All the company's paints plants in India, two chemical plants, 18 processing centres, 350 raw material and intermediate goods suppliers, 140 packing material vendors, 6 regional distribution centres, 72 depots are integrated.

The company is having a big and experienced R&D team which has successfully managed to develop High-end exterior finished and wood finishes in-house, which was earlier imported into the country. These products are currently marketed under Asian Paints Elastomeric Hi-Stretch Exterior paint and Asian Paints PU wood finish respectively.

The company is having three subsidiaries viz, Apco Coatings - it is a subsidiary of Asian Paints in the South Pacific islands. The company operates in Australia, Fiji, Tonga, Solomon Islands and Vanuatu under the brand name of Apco Coatings.

The other subsidiary of the company is Asian Paints Industrial Coatings Limited which has been set up to cater to the powder coatings market which is one of the fastest growing segments in the industrial coatings market.

Berger International Limited in November 2002, became a part of the Asian Paints Group. Today, the name of Berger is synonymous with quality and innovation. BIL has presence across three regions viz. Middle East, Caribbean and South East Asia.

Asian Paints participates in the Industrial Coatings segment directly, through a 50:50 JV with PPG Inc. of US as well as through a 100% subsidiary

## Result analysis for the fiscal 2008-09

- Net sales of the company for the quarter ended June 30, 2009 were up by 17.04% to Rs 1164.82 crore from Rs 995.24 crore in the June 2008 quarter.
- Profit after tax of the company reported a huge rise of 66.87% for the quarter to Rs 164.45

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	11648.20	9952.40	17.04
Expenditure	9206.80	8515.60	8.12
Other Income	162.20	159.50	1.69
EBITDA	2603.60	1596.30	63.10
Interest	28.50	22.60	26.11
Net Profit	1644.50	985.50	66.87
EBITDA Margin (%)	0.22	0.16	39.36
NPM (%)	0.14	0.10	43.38
EPS	17.14	10.22	67.71

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	44777.20	35868.90	24.84
Total Income	45383.10	36494.70	24.36
Total Expenditure	39114.70	30276.90	29.19
Operating Profit	6268.40	6217.80	0.81
Profits After Tax	3643.10	3765.90	-3.26

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	959.20	959.20	0.00
Reserve & Surplus	9985.50	8325.80	19.93
Total Liabilities	11690.00	10232.00	14.25
Investments	2347.70	4228.80	-44.48
Current Liabilities	7719.00	7851.10	-1.68
Net Current Assets	2703.70	926.20	191.91
Total Assests	11690.00	10232.00	14.25

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	37.38	39.26
Core EBITDA Margin (%)	12.47	15.23
EBIT Margin (%)	11.22	14.16
ROA (%)	31.16	36.81
ROE (%)	33.29	40.56
ROCE (%)	48.23	56.49
Price/Book (x)	6.89	12.40
Net Sales Growth (%)	24.84	21.27
EBIT Growth (%)	-2.46	37.02
PAT Growth (%)	-3.26	39.51
Total Debt/Mcap (%)	0.01	0.01



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crore from Rs 98.55 crore in the corresponding previous quarter.

- Other income of the company was marginally up by 1.69% to Rs 16.22 crore from Rs 15.95 crore in the same quarter last year.
- Operating profit margin of the company moved up to 22.35 from 16.04 of June 2008, up by more than 600 basis points while the Net Profit margin moved up to 14.12 from 9.85, up by more than 400 basis points.
- On the consolidated basis the net sales of the company for the quarter ended June 2009 increased by 17.57% to 1460.23 compared to Rs 1242 crore in the same quarter last year.
- The group's PAT increased by 65.07% to Rs 180.06 crore compared to Rs 109.08 crore in the corresponding previous quarter.

## Industry Scenario

The paint industry in India has been long considered as the barometer of Industrial activity in the country. The industry has witnessed buoyant growth during the current decade riding on the boom in real estate and automobile industry. During the current decade, the industry has witnessed a CAGR of 13.5%.

However, despite this growth, the per capita consumption of paints in India remains very low at 0.8 kg per year compared with 4 kg in the South East Asian nations and 22 kg in developed countries. The global average per capita consumption is 15 kg.

A recent study by Indian Paints Association pegs the market size at Rs170 bn, wherein the organized segment is estimated at about Rs90 bn and unorganized Rs 80 bn (1 mn tons volumes). Stricter environmental norms (lower lead levels, limit of 1000 ppm), if implemented, will benefit the organized industry.

## Recent developments

Berger International Ltd, Singapore, a subsidiary of Asian Paints (International) Ltd, which is a 100% subsidiary of Asian Paints Ltd has announced that it has signed a Conditional Share Purchase Agreement for divestment of its entire equity shareholding in

Berger International Sdn. Bhd., Malaysia.

Bombay high court (HC) has sanctioned the scheme of amalgamation of Technical Instruments Manufacturers (India) (TIML), wholly owned subsidiary of the Asian Paints with the company.

## Recommendation Factors

The governments effort to boost the housing demand are slowly showing sign of improvement but the pace is still very low, though the demand for the decorative paints is catching momentum in the smaller and tier I and tier II cities and that has given Asian Paints the market leader, in that segment a good opportunity for growth. The company posted strong operating profit margins, up by a remarkable 500 basis points to 18.9%, and a 60% increase in operating profit in the June 2009 quarter.

The decorative paint segment of the company has witnessed a double digit increase in volumes, because of decline in some key inputs such as titanium dioxide and some oils in the June quarter, the cost of raw materials as a proportion of sales fell nearly 450 basis points, and when the residential housing demand will pick-up the company is likely to see increase in volumes.

The company's Construction of the sixth Plant is on schedule and the first phase should be commissioned by April 2010, apart from this the company is in the process of acquiring land for the 7th plant in Maharashtra.

At CMP of Rs 1,332, the stock is currently trading at PE multiple of about 29.24 and an EPS of 17, the demand prospects of paints is likely to increase substantially in coming days, due to the governments thrust on the housing sector and the company is likely to perform well as it gets its 30% volume from the new homes and rest from re-painting which not witnessing any demand contraction yet. On the international front West Asia has good demand and also growth is seen in Middle East & South Asia that is likely to continue as the economic scenario has started sign of recovery. We would recommend a BUY in the stock with a price target of Rs 1,550 for a medium term outlook.



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