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Equity Research

Asian Paints Limited—Buy—725—INR

Sector — Paints
Regd.Off. — 6A, Shanti Nagar, Santacruz (E), Mumbai, M.H. – 400055
Listed — NSE, BSE.

Company overview—

Company was incorporated in 1942 in a garage on Foras Road, Bombay as a “The Asian Oil & Paint Company”. Company is India’s largest paint company and ranks among the top ten decorative coating companies in the world. Asian Paints operates in 22 countries and has 29 paint manufacturing facilities in the world-servicing consumers in over 65 countries. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International, Apco Coatings and SCIB Chemicals. The company also has a 50:50 joint venture with Pittsburgh Paints and Glass Industries (PPG) of USA. Asian Paints through vertical integration also produces some of its raw materials like phthalic anhydride and pentaerythritol. Asian Paints serves all the segments in the market. The company has an enviable reputation in the corporate world for professionalism, fast track growth, and building shareholder equity. Besides Asian Paints, the group operates around the world through its subsidiaries Berger International Limited, Apco Coatings, SCIB Paints and Taubmans. Forbes Global magazine USA ranked Asian Paints among the 200 Best Small Companies in the World for 2002 and 2003 and presented the 'Best under a Billion' award, to the company. Asian Paints is the only paint company in the world to receive this recognition. One of the country's leading business magazine "Business Today" in Feb 2001 ranked Asian Paints as the Ninth Best Employer in India. Company has talent pool of over 4700 employees across twenty-three countries brings in a unique blend of mindsets and skills.

Products & Services—

Asian Paints manufactures a wide range of paints for Decorative and Industrial use. Company’s product range includes wall paints, metal paints, wood finishes, primers and others. The company has presence in both decorative and industrial coating segment of the paint business. Both these segments constitute 78% of the top-line of APIL in India. The industrial coating segment comprises automotive coating, powder coating and protective coating. In India company has manufacturing facilities at Bhandup, Ankleshwar, Patancheru, Kasna, Sriperumbudur, Sarigam, Baddi etc.

Asian Paints along with PPG Inc, USA, one of the largest automotive coatings manufacturers in the world has a 50:50 joint venture, Asian PPG Industries to service the increasing requirements of the Indian automotive coatings market. Another wholly owned subsidiary, Asian Paints Industrial Coatings Limited has been set up to cater to the powder coatings market which is one of the fastest growing segments in the industrial coatings market. This wholly owned subsidiary of Asian Paints has entered into a tie-up with Canada-based Protech Chemicals, which is one of the top ten powder coatings companies in the world for technological know-how in the area of powder coatings.

The countries that Asian Paints has presence are as follows
South Asia: Bangladesh, Nepal, and Sri Lanka

South East Asia: China, Malaysia, Myanmar, Singapore and Thailand
 Caribbean Islands: Barbados, Jamaica, Trinidad and Tobago
 Middle East: Bahrain, Egypt, Oman and United Arab Emirates
 South Pacific: Australia, Fiji, Solomon Islands, Samoa Islands, Tonga and Vanuatu.

Company's four paint plants and the two chemical plants have the ISO 14001 certification for environment management standards. Company introduced Helpline few years ago is a toll free service where consumers call and ask queries related to painting. The company has now extended this service to ASIAN PAINTS HOME SOLUTIONS, which offers painting services in addition to the paint. This service is available in 10 cities viz - Hyderabad, Bangalore, Kolkata, Delhi, Chennai, Ahmedabad, Mumbai, Pune, Coimbatore & Cochin. Royale Play is another innovative concept introduced by the company. It is a collection of innovative and ready to use special effect finishes for interior walls, comprising a range of special effects. And each of these effects is available in a shade palette that is fitting for that effect in interesting color combinations. The revolutionary product gives wall paint a whole new usage. Now, along with color, it gives dimension, texture and life.

Financials—

01-oct-2006 to 31-dec-2006 (Third Quarter)

Financial Results	Rs.lakhs
Net Sales	70597.10
Other Income	1077.90
Gross Income	71675.00
Increase/Decrease in Stock	1594.60
Consumption of Raw Materials	40584.00
Staff Cost	3796.50
Total Expenditure Excluding Other Expenditure	45975.10
Other Expenditure	14518.50
Total Expenditure	60493.60
Interest	228.40
Profit Before Depreciation & Taxes	10953.00
Depreciation	1123.50
Profit Before Tax	9829.50
Provision for Taxation	3316.10
Net Profit	6513.40
Non Recurring Income	-18.10
Adjusted Net Profit	6531.50
Face Value of Share (in Rs.)	10.00
Paid-up Equity Share Capital	9592.00
Basic EPS (in Rs.)	6.81
Diluted EPS (in Rs.)	6.81

Valuation—

Raw-material prices like crude and titanium dioxide prices are going down from few months. Along with this construction and infrastructure spending will provide strong growth going forward for the company. At CMP, stock is trading at 21.4 X multiple of its FY2008 Estimated earnings. We recommend investors to “BUY” “Asian paints limited” with medium to long-term investment horizon.

We invite Readers to send Valuable feedback, stock and subscription queries at E-mail investment_guru1@yahoo.com

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