

# Asian Paints' long-term biz opportunities compelling

## JM Financial

ASIAN Paints reported another impressive quarter with domestic volume growth of c13%, as per our workings. Management sounded incrementally more confident on demand conditions, post the rebound in 2H. Gross margin expanded another 392bps (now at the highest-ever level of 48.3%), driving a 25.7% growth in EBITDA-7% ahead of our forecast: a function of both higher volumes (2-3ppt) and better margin (76bps). The company has taken a 2% price-correction effective end-Feb'16 to pass on part of the costs deflation benefits to customers. This, plus the recent rise in commodity prices could mean that gross margin may have peaked for now. Asian Paints' long-term business opportunities remain compelling as a long-term portfolio holding but premium valuation would, in our view, constrict shorter-term stock performance.

Asian Paints' Q4FY16 net sales, EBITDA and adjusted net profit grew 12.3%, 25.7% and 19.3% to ₹39.2 billion, ₹7 billion and ₹4.1 billion respectively. Domestic volume growth momentum was maintained at healthy double-digit level (+13%, as per our workings) which drove an 11.5% growth in domestic revenue (selling prices down c.1-2% y-o-y). Industrial and International revenues grew c12%. As per management, Industrial Liquid Paints and Powder Coatings segments registered decent growth, and Auto OEM segment saw good demand pick-up.