

All round performance...

Asian Paints' (APL) strong Q1FY20 performance was led by solid growth in decorative paint volume (I-direct estimate: up 15% YoY). Volume growth was led by strategic dealer push, low base (due to GST led de-stocking by dealers) and intact demand from rural India. The impact of price hike was largely negated by a change in product mix (skewed towards economy products category like distemper & putty). The company has taken a price cut of ~0.4% in solvent based products. Despite this, gross margins improved marginally by 30 bps YoY (~200 bps QoQ). The major saving came in from fall in other expenses as percentage of sales (~87 bps YoY, ~300 bps QoQ). As a result, EBITDA margin increased 136 bps YoY to 22.5% (higher than our estimate of 18%). The strong operating performance helped negate the impact of higher non-operating cost like depreciation, interest in Q1FY20, resulting in 18% YoY PAT growth. We believe APL's volume growth will remain higher at ~14% supported by strong demand from tier II, tier III cities, driving revenue at a CAGR of 15% in FY19-21E.

Strong volume growth drives topline...

APL's decorative volume growth at ~15%YoY was much higher than our expectation of ~11%. This was driven by 1) strategic dealer push, 2) low base (due to dealer de-stocking in Q1FY19 owing to GST rate cut, 3) strong demand from rural India and 4) market share gain in bottom of the pyramid products post implementation of GST. We model volume growth of ~14% for FY19-21E (lower than ~15% of Q1FY20) owing to intact demand from tier II, tier III cities and strengthening of the dealer network across India.

Saving in other expenses moves margin higher

EBITDA margins increased ~136 bps YoY (~490 bps QoQ) led by a decline in other expenses as a percent of sales by ~100 bps YoY (300 bps QoQ). The decline may be attributed to saving in freight cost (after starting a new facility in Mysuru and Vizag), low advertisement and promotional activity and forex gains. We believe EBITDA margins will moderate in the near term from current level given the strong growth in the economic product category and low utilisation of new plants (which would lead to lower operating leverage). However, the long term outlook on margin remains intact owing to rising trend of premiumisation and improving plant utilisation.

Valuation & Outlook

We model revenue, earning CAGR of 16%, 23%, respectively, led by ~14% volume growth. We believe pressure on gross margin (due to change in product mix coupled with higher raw material cost) will ease, going forward, supported by a change in mix. However, at the current multiple, the stock offers limited upside. Hence, we change our rating from BUY to **HOLD** with a revised target price of ₹ 1550/share.

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (19-21E)
Net Sales	15062.0	16824.6	19341.5	22445.4	26033.9	16.0
EBITDA	2986.4	3197.6	3762.1	4442.4	5532.4	21.3
EBITDA Margin (%)	19.8	19.0	19.5	19.8	21.3	
Net Profit	2016.3	2097.5	2208.0	2595.1	3327.6	22.8
EPS (₹)	21.0	21.9	23.0	27.1	34.7	
P/E (x)	70.9	68.1	64.7	55.1	42.9	
Price/Book (x)	18.8	17.0	15.0	13.6	11.3	
Mcap/Sales (x)	9.5	8.5	7.4	6.4	5.5	
RoE (%)	26.3	24.4	23.2	24.7	26.3	
RoCE (%)	32.8	31.6	30.4	32.7	34.9	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	142,411.5
Total Debt (FY19) (₹ Crore)	616.0
Cash and Inv (FY19) (₹ Crore)	2,569.7
EV (₹ Crore)	140,457.8
52 week H/L (₹)	1530/1120
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Key Highlights

- Decorative segment volume witnessed 15% growth in Q1FY20
- Lower end of products grew much faster than premium products, weighing on profitability
- Continuous demand traction from tier II and tier III cities
- At the current multiple, the stock offers limited upside. Hence, we change our rating from BUY to HOLD

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	5,130.6	4,966.0	4,390.3	16.9	5,018.2	2.2	Sales largely driven by ~15% YoY growth in decorative sales volume
Other Income	73.6	59.6	61.7	19.3	57.2	28.6	
Raw Material Exp	2,897.0	2,782.5	2,492.3	16.2	2,932.6	-1.2	Marginal increase in gross margin (up 30 bps YoY) supported by benign raw material prices
Employee Exp	344.8	346.6	303.4	13.7	330.5	4.3	
Manufacturing & Oth exp	732.6	893.9	664.9	10.2	871.3	-15.9	Saving in freight cost, advertisement expenditure and forex gain leads to saving in other expenses
Total Exp	3,974.4	4,022.9	3,460.6	14.8	4,134.4	-3.9	
EBITDA	1,156.3	943.1	929.7	24.4	883.8	30.8	
EBITDA Margin (%)	22.5	19.0	21.2	136 bps	17.6	492 bps	
Depreciation	192.6	129.1	135.8	41.8	179.5	7.3	Higher depreciation charges owing to Implementation of Ind-As
Interest	26.8	15.7	21.0	27.6	29.7	-9.9	
Exceptional items							
PBT	1,010.4	857.8	834.6	21.1	731.8	38.1	
Total Tax	350.5	291.7	276.1	27.0	251.7	39.2	
PAT	672.1	578.8	570.0	17.9	486.0	38.3	Strong operating performance helped drive PAT growth

Key Metrics

Volume growth (%)	15.5	11.0	13.0		11.0	Led by strategic dealer push, low base (due to GST led de-stocking by dealers) and intact demand from rural India
Realisation growth (%)	1.0	2.0	1.9		0.9	Though the company took a price hike of ~6% in FY19, effective realisation growth was lower owing to a change in product mix (skewed more towards lower end products)

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY20E			FY21E			Comment
	Old	New	% Change	Old	New	% Change	
Revenue	22,382.4	22,445.4	0.3	25,524.5	26,033.9	2.0	We slightly tweak our volume growth estimate to 14% (from earlier 13%). Volume growth would largely be driven by repainting demand and upcoming manufacturing facilities in Mysuru and Vizag
EBITDA	4,169.9	4,442.4	6.5	5,011.0	5,532.4	10.4	
EBITDA Margin (%)	18.6	19.8	119bps	19.6	21.3	165bps	We believe long term margin profile of the company will remain intact on account of improving plant utilisation and change in sales mix more towards premium products
PAT	2582.3	2595.1	0.5	3049.2	3,327.6	9.1	
EPS (₹)	26.9	27.1	0.5	31.8	34.7	9.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY17	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Volume Growth (%)	13.2	11.0	13.2	13.7	13.8	13.4	12.0	We model volume CAGR of 14% in FY19-21E
Realisation Growth (%)	(2.6)	2.4	1.4	2.0	1.9	1.9	1.7	Change in realisation would largely be driven by price hike at different intervals to offset higher raw material prices

Source: Company, ICICI Direct Research

Conference call highlights

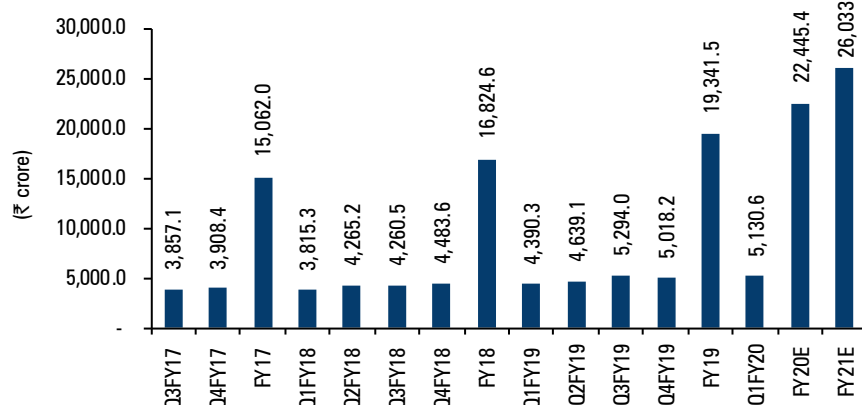
- Strong demand from rural areas, aggressive channel push & low base (destocking by dealers due to GST rate cut from 28% to 18%) has resulted in double digit growth in all product categories. Economy products continued to grow at a faster pace compared to premium products
- The company took a price cut of ~0.4% on select solvent based product categories
- The repainting cycle, which drives decorative paint demand, remained subdued. The management guided at low repainting days pre-Diwali due to extended monsoons
- A slowdown in the automotive sector has impacted the industrial business
- The company faced challenging business conditions in some key markets, especially Egypt, Ethiopia, Bangladesh and Sri Lanka
- The bath & sleek segment, which is performing better in the southern market, is expanding towards the northern market
- Also, 25-30% of the bath business comes from the new construction segment that may get adversely impacted by the sluggish conditions
- Other expenses remained at same levels even after commissioning of two new plants at Mysore & Vizag. This was mainly on account of the decline in advertisement expenditure & forex gains. Expenses may increase based on the utilisation level of new plants
- The company is planning to increase the visibility of waterproofing business, thus making water proofing products an integral part of painting
- Asian Paints has planned a capex of ₹ 700 crore for FY20
- The company aims to increase its dealer network by 10% annually. The dealer network now covers all towns having a population greater than 10,000

Key takeaways from Annual Report

- Asian Paints' consolidated sales grew ~12% YoY led by ~12% YoY revenue growth in the paint segment (~98% of total revenue) while home improvement segment (kitchen and bathroom fittings) increased 24% YoY
- Despite a challenging year (on account of tightening credit conditions, construction slowdown due to general election, supply chain disturbances due to GST rate reduction from 28% to 18%) Asian Paints witnessed strong volume growth of ~13% YoY in FY19. The volume growth was largely driven by sharp growth in demand of economy product categories such as putty and distemper. At the same time, top-end products like Royale Health Shield, Ultima Protek and wallpapers grew, albeit a slow pace
- The company commissioned two large paint manufacturing units of 300,000 KL/annum each at Mysuru and Visakhapatnam during the year. This takes the company's combined decorative paint production capacity to 1.73 mn KL per annum
- The company added ~3000 dealers during FY19 taking total dealer count at ~60000. APL also increased Colour Idea stores to over 400 and Colourworld network to 46,000
- With the aim of launching ~20-30 new products every year, Asian Paints launched ~23 new products in the paints segment and 15 in the industrial paints segments, respectively
- On the margin front, the company witnessed ~100 bps contraction in gross margin mainly due to a change in product mix, inflationary pressure in international business (contributes ~12% of revenue). This, coupled with higher employee cost and other expenditure (up 14% each YoY due to commissioning of new plants) led to a decline in EBITDA margin by ~100 bps YoY at 18%
- Home improvement segment, which contributes ~2% of group revenue grew 24% YoY at ₹ 417 crore in FY19. The company offers products and solutions in two categories, kitchen and bath fittings. Under the kitchen business, the company is engaged in manufacturing, selling and distribution of complete modular kitchens, kitchen components including wire baskets, cabinets, appliances, accessories, etc. The bathroom segment in India consists mainly of sanitary ware, chrome-plated (CP) fittings and tiles. The company is continuously working on scaling up its home improvement business through launch of a new products range
- The company is in the investment phase in its home improvement segment. Hence, it is making losses at the EBIT level
- A marginal increase in working capital coupled with commissioning of two new plants resulted in higher depreciation and interest charges (up 19%, 45% YoY, respectively). As a result, PAT growth was muted at ~5% YoY in FY19
- Total capex at standalone level for FY19 was about ₹ 1000 crore of which ₹ 800 crore was towards the two new paint manufacturing facilities at Vizag (Andhra Pradesh) and Mysuru (Karnataka). The company envisages a capex of ₹ 700 crore for FY20E at the standalone level

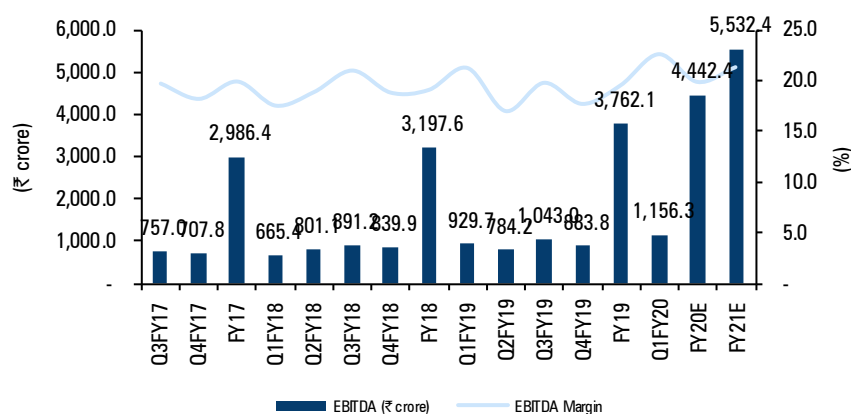
Financial story in charts

Exhibit 4: Revenue growth led by strong volume growth



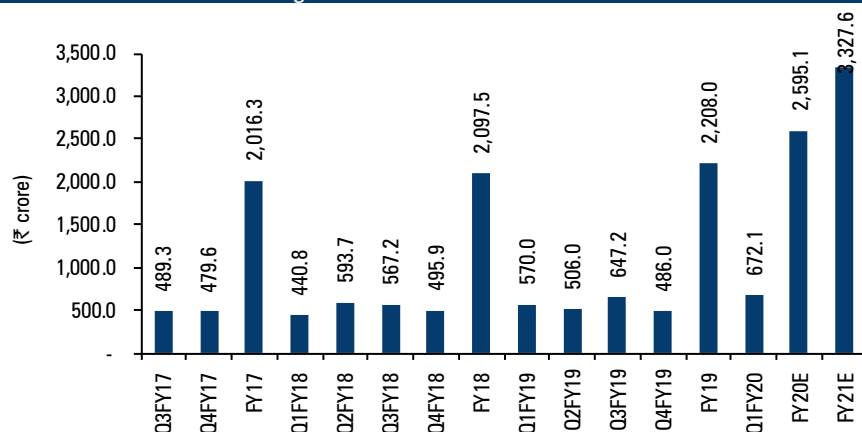
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement

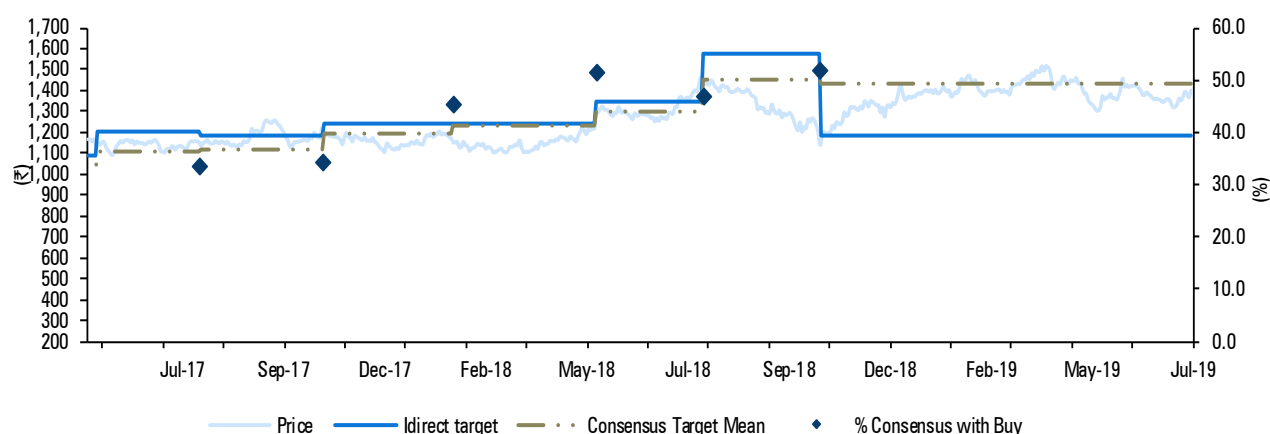


Source: Company, ICICI Direct Research

Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Smiti Holding & Trading Company Pvt. Ltd.	31-Mar-19	5.6	54.1	0.0
2	Sattva Holding And Trading Pvt. Ltd.	31-Mar-19	5.5	52.9	0.0
3	Geetanjali Trading & Investments Pvt. Ltd.	31-Mar-19	5.1	49.3	0.0
4	Teesta Retail Pvt. Ltd.	31-Mar-19	4.9	47.0	0.0
5	Life Insurance Corporation of India	31-Mar-19	4.0	38.0	-12.0
6	Elcid Investments, Ltd.	31-Mar-19	3.0	28.3	0.0
7	Vakil (Abhay Arvind)	31-Mar-19	2.4	23.3	0.0
8	Gujarat Organics Ltd	31-Mar-19	2.4	23.2	0.0
9	Sudhanava Investments & Trading Company Pvt. Ltd.	31-Mar-19	2.0	19.0	0.0
10	Rupen Investment & Industries Pvt. Ltd.	31-Mar-19	2.0	18.8	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Fidelity Management & Research Company	36.7	1.8	Life Insurance Corporation of India	-259.6	-12.0
Norges Bank Investment Management (NBIM)	26.2	1.3	Matthews International Capital Management, L.L.C.	-8.8	-0.4
Choksi (Urvashi Ashwin)	16.6	0.8	RBC Global Asset Management (Asia) Limited	-8.1	-0.4
Axis Asset Management Company Limited	8.5	0.4	Grantham Mayo Van Otterloo & Co LLC	-4.9	-0.2
IDFC Asset Management Company Private Limited	7.7	0.4	SBI Funds Management Pvt. Ltd.	-5.0	-0.2

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	52.8	52.8	52.8	52.8	52.8
FII	14.7	14.9	15.7	16.3	16.7
DII	11.9	10.0	10.1	8.5	8.9
Others	20.6	22.3	21.5	22.4	21.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Revenue	16,824.6	19,341.5	22,445.4	26,033.9
Growth (%)		15.0	16.0	16.0
Raw Material Expenses	9,691.2	11,342.3	12,939.8	14,606.0
Employee Expenses	1,115.5	1,257.2	1,440.2	1,530.8
Other expenses	2,820.3	2,979.9	3,623.0	4,364.7
Total Operating Expenditure	13,626.9	15,579.4	18,003.0	20,501.5
Growth (%)		14.3	15.6	13.9
EBITDA	3,197.6	3,762.1	4,442.4	5,532.4
Growth (%)		17.7	18.1	24.5
Depreciation	360.5	625.6	763.1	833.1
Interest	35.1	105.7	100.3	69.6
Other Income	220.6	233.1	224.5	234.3
PBT	3,092.7	3,263.9	3,803.4	4,864.0
Total Tax	1,041.0	1,096.6	1,255.9	1,599.2
Profit from Associates	45.8	40.7	47.6	62.9
PAT	2,097.5	2,208.0	2,595.1	3,327.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit before Tax	2,047.5	2,208.0	2,595.1	3,327.6
Add: Depreciation	360.5	625.6	763.1	833.1
(Inc)/dec in Current Assets	-639.6	-640.5	-1,554.5	-745.7
Inc/(dec) in CL and Provisions	572.3	567.8	542.6	-1,551.6
Others	35.1	105.7	100.3	69.6
CF from operating activities	2,375.7	2,866.6	2,446.7	1,933.1
(Inc)/dec in Investments	511.3	-429.0	150.0	350.0
(Inc)/dec in Fixed Assets	-1,802.8	-1,360.1	-700.0	-700.0
Others	-180.4	267.0	-69.0	-81.7
CF from investing activities	-1,471.9	-1,522.2	-619.0	-431.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-24.8	95.3	-130.0	22.0
Dividend paid & dividend tax	-1,187.4	-1,210.2	-1,383.1	-1,155.9
Inc/(dec) in Sec. premium	-88.9	2.2	-338.5	-69.6
CF from financing activities	-1,301.1	-1,112.7	-1,851.6	-1,203.6
Net Cash flow	-397.2	231.7	-23.9	297.8
Opening Cash	801.5	404.3	636.0	612.1
Closing Cash	404.3	636.0	612.1	909.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	8,314.3	9,419.9	10,393.8	12,565.5
Total Shareholders funds	8,410.2	9,515.8	10,489.7	12,661.4
Total Debt	520.8	616.0	486.0	508.0
Deferred Tax Liability	417.1	567.7	567.7	567.7
Minority Interest	327.7	363.1	381.2	400.3
Total Liabilities	9,684.2	11,069.5	11,931.5	14,144.3
Gross Block	4,378.1	6,933.7	7,193.4	8,043.4
Less: Acc Depreciation	973.1	1,598.8	2,361.9	3,195.0
Capital WIP	1,405.1	209.7	650.0	500.0
Total Fixed Assets	4,810.1	5,544.6	5,481.5	5,348.4
Other Investments	1,084.0	1,395.2	1,295.2	995.2
Liquid Investments	1,056.7	1,174.5	1,124.5	1,074.5
Goodwill on Consolidation	327.3	321.3	321.3	321.3
Current Assets				
Inventory	2,658.3	3,149.9	3,689.7	3,994.2
Debtors	1,730.6	1,907.3	2,459.8	2,674.7
Loans and Advances	12.8	94.2	96.2	98.2
Other Current Assets	1,051.0	941.9	1,402.1	1,626.3
Cash	404.3	636.0	612.1	909.9
Total Current Assets	5,857.1	6,729.2	8,259.9	9,303.4
Liabilities				
Creditors	2,160.0	2,394.3	2,644.3	3,352.3
Provisions	196.7	310.4	240.8	305.3
Other current liabilities	1,742.1	1,961.8	2,324.1	0.0
Total Current Liabilities	4,098.8	4,666.5	5,209.2	3,657.6
Net Current Assets	1,758.3	2,062.7	3,050.7	5,645.7
Other Non Current Assests To	647.9	571.3	658.4	759.2
Total Assets	9,684.3	11,069.6	11,931.6	14,144.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	21.9	23.0	27.1	34.7
Cash EPS	25.6	29.5	35.0	43.4
BV	87.7	99.2	109.4	132.0
DPS	12.4	12.6	14.4	12.1
Cash Per Share	10.1	16.7	24.6	33.3
Operating Ratios (%)				
EBITDA Margin	19.0	19.5	19.8	21.3
EBIT Margin	16.9	16.2	16.4	18.1
PAT Margin	12.2	11.4	11.6	12.8
Activity Ratios				
Inventory days	57.7	59.4	60.0	56.0
Debtor days	37.5	36.0	40.0	37.5
Creditor days	46.9	45.2	43.0	47.0
Return Ratios (%)				
RoE	31.6	30.4	32.7	34.9
RoCE	24.4	23.2	24.7	26.3
RoIC	48.6	38.5	43.0	44.4
Valuation Ratios (x)				
P/E	68.1	64.7	55.1	42.9
EV / EBITDA	44.4	37.7	31.9	25.6
EV / Net Sales	8.4	7.3	6.3	5.4
Market Cap / Sales	8.5	7.4	6.4	5.5
Price to Book Value	17.0	15.0	13.6	11.3
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.1	0.1
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.3	1.3	1.5	2.3
Quick Ratio	0.7	0.6	0.8	1.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E
Asian Paints (ASIPAI)	1,490	1,550	Hold	142,891	23.0	27.1	34.7	64.7	55.1	42.9	37.7	31.9	25.6	30.4	32.7	34.9	23.2	24.7	26.3
Astral Polytechnik (ASTPOL)	1,212	1,250	Hold	14,514	16.5	20.9	27.9	73.5	57.9	43.4	36.4	29.1	22.8	20.7	22.7	26.0	15.4	16.6	18.3
Bajaj Electricals (BAJELE)	412	470	Hold	4,204	18.9	21.4	26.3	21.9	19.2	15.7	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	696	800	Hold	43,423	12.7	15.7	19.9	54.9	44.4	34.9	40.4	32.6	25.7	25.3	30.0	32.0	18.7	21.7	23.1
Kansai Nerolac (KANNER)	408	455	Hold	21,988	8.7	9.7	11.3	47.0	42.2	36.1	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,220	1,335	Buy	62,542	18.8	18.1	22.8	64.7	67.4	53.6	42.6	34.3	28.4	29.6	32.3	34.0	22.7	24.5	25.6
Essel Propack (ESSPRO)	132	136	Hold	4,147	6.2	6.7	7.9	21.3	19.7	16.6	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,086	1,165	Buy	13,795	35.3	39.3	44.8	30.7	27.6	24.3	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,231	1,110	Hold	8,612	13.0	23.2	31.6	94.6	53.0	39.0	35.9	60.5	33.7	41.3	18.7	30.4	31.5	16.2	27.0
V-Guard Ind (VGUARD)	233	235	Hold	9,918	3.9	4.6	5.8	59.8	50.4	40.1	52.3	44.2	36.0	23.7	23.7	27.3	17.7	18.4	20.8
Voltas Ltd (VOLTAS)	580	645	Hold	19,183	15.5	27.2	23.8	37.3	21.3	24.4	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	80	101	Hold	1,809	9.0	10.6	12.5	8.9	7.6	6.4	6.2	5.7	5.2	14.9	15.0	15.8	12.2	12.1	12.9

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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