

Strong performance of decorative segment

Asian Paints reported strong volume growth in the decorative segment (I-direct estimate: ~14% YoY) in Q2FY20, higher than our estimate of 12%. Volume growth was largely driven by demand staying intact in tier II, tier III cities with the early onset of the festive season. Change in product mix (skewed towards economy products category like distemper & putty) and a cumulative price cut of ~0.8% in solvent based products weigh on overall realisation in Q2FY20. The management guided for a possible pick-up in demand for premium category products in coming quarters. We believe this would help drive realisation growth, going forward. On the margin front, higher gross margin was partly offset by a surge in advertisement expenses and other expenses. Finally, PBT increased 13% YoY while sharp growth in PAT was largely on account of transition to new corporate tax rate structure.

Product mix hurts realisation growth...

APL's decorative volume growth at ~14% YoY was much higher than our expectation of ~12%, while change in product mix coupled with slight price cut on select product categories kept realisation growth under check. The consistent growth in decorative segment was largely on account of 1) early onset of festive season, 2) strong demand from tier II and tier III cities and 3) market share gain in bottom of the pyramid products. Though the management reiterated a slowdown in demand in Q2FY20, we believe ~14% volume growth in decorative segment is a good show. We further believe paint demand likely to remain strong (~15% CAGR in FY19-21E) from tier II and tier III cities supported by rising per capita income, addition of new dealers and a lower repainting cycle.

Higher other expense limits margin expansion

The company reported ~250 bps YoY increase in gross margin largely supported by benign raw material prices in Q2FY20. However, the benefit of higher gross margin was partially offset by a sharp jump in other expense by ~155 bps YoY mainly due to higher advertisement expenses and higher other cost associated with new plants (in Mysuru and Vizag). We believe the EBITDA margin would remain elevated owing to stable raw material prices coupled with the managements' focus on improving the mix toward premium category of products.

Valuation & Outlook

We believe despite extended monsoons, the company has recorded strong volume growth in Q2FY20 with margin expansion. We revise our earnings estimate up by 6% and 4% for FY20E and FY21E, respectively. We maintain our **BUY** rating on the stock with a revised target price of ₹ 2050/share.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	169,934.8
Total Debt (FY19) (₹ Crore)	616.0
Cash and Inv (FY19) (₹ Crore)	2,569.7
EV (₹ Crore)	167,981.1
52 week H/L (₹)	1824/1120
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Key Highlights

- Decorative segment volume witnessed 14% growth in Q2FY20
- Lower end of products grew much faster than premium products
- Continuous demand traction from tier II and tier III cities
- Revise our target price from ₹ 1950/share to ₹ 2050/share

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (19-21E)
Net Sales	15062.0	16824.6	19341.5	22252.5	25730.9	15.3
EBITDA	2986.4	3197.6	3762.1	4409.1	5332.6	19.1
EBITDA Margin (%)	19.8	19.0	19.5	19.8	20.7	
Net Profit	2016.3	2097.5	2208.0	3080.9	3693.9	29.3
EPS (₹)	21.0	21.9	23.0	32.1	38.5	
P/E (x)	84.0	80.7	76.7	55.0	45.8	
Price/Book (x)	22.3	20.1	17.8	15.4	12.9	
Mcap/Sales (x)	11.2	10.1	8.8	7.6	6.6	
RoE (%)	26.3	24.4	23.2	28.1	28.2	
RoCE (%)	32.8	31.6	30.4	32.1	33.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis							
	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
Revenue	5,050.7	5,247.8	4,615.5	9.4	5,104.7	-1.1	Strong growth in decorative segment help drive revenue growth in Q2FY20
Other Income	105.2	73.5	64.9	62.1	73.5	43.0	Higher treasury income results in strong growth in other income
Raw Material Exp	2,907.2	3,040.9	2,775.2	4.8	2,876.7	1.1	Increase in gross margin (up 250 bps YoY) supported by benign raw material prices
Employee Exp	347.6	367.3	298.8	16.3	339.9	2.3	
Manufacturing & Oth exp	841.1	850.1	696.8	20.7	730.2	15.2	Sharp increase in other expenditure led by higher advertisement expenditure during Q2FY20 owing to early onset of festive season
Total Exp	4,095.8	4,258.4	3,770.8	8.6	3,946.8	3.8	
EBITDA	954.8	989.4	844.7	13.0	1,157.9	-17.5	
EBITDA Margin (%)	18.9	18.9	18.3	60 bps	22.7	-378 bps	
Depreciation	197.2	193.4	143.6	37.3	191.8	2.8	Higher depreciation charges owing to commencement of new plants
Interest	25.9	26.0	25.7	0.8	26.7	-2.7	
Exceptional items							
PBT	834.0	843.5	739.2	12.8	1,011.0	-17.5	
Total Tax	7.2	212.3	242.5	-97.0	351.1	-97.9	Excercises option of lower tax rate resulting in sharp decline in tax outgo during Q2FY20
PAT	842.1	644.2	504.7	66.8	672.1	25.3	Strong operating performance coupled with lower tax rate help drive PAT growth
Key Metrics							
Volume growth (%)	12.0	10.8	10.3		15.5		Early festive demand helps drive decorative paint growth during Q2FY20. However, industrial paint demand was impacted by slowdown in automotive industry
Realisation growth (%)	-2.3	1.1	-1.3		1.0		Change in product mix (skewed more towards lower end products) coupled with price cut in solvent based products impacted realisation growth in Q2FY20

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates							
₹ crore)	FY20E			FY21E			Comment
	Old	New	% Change	Old	New	% Change	
Revenue	22,445.4	22,252.5	-0.9	26,033.9	25,730.9	-1.2	We slightly tweak our volume growth estimate to 15% (from earlier 14%). Volume growth would largely be driven by tier II and tier III cities
EBITDA	4,442.4	4,409.1	-0.7	5,299.6	5,332.6	0.6	
EBITDA Margin (%)	19.8	19.8	2bps	20.4	20.7	32bps	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	2901.9	3080.9	6.2	3553.7	3,693.9	3.9	
EPS (₹)	30.3	32.1	6.2	37.1	38.5	3.9	

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	13.6	14.3	13.7	13.8	We model volume CAGR of 15% in FY19-21E
Realisation Growth (%)	(2.6)	2.4	1.4	1.0	1.1	2.0	1.9	Change in realisation would largely be driven by change in product mix

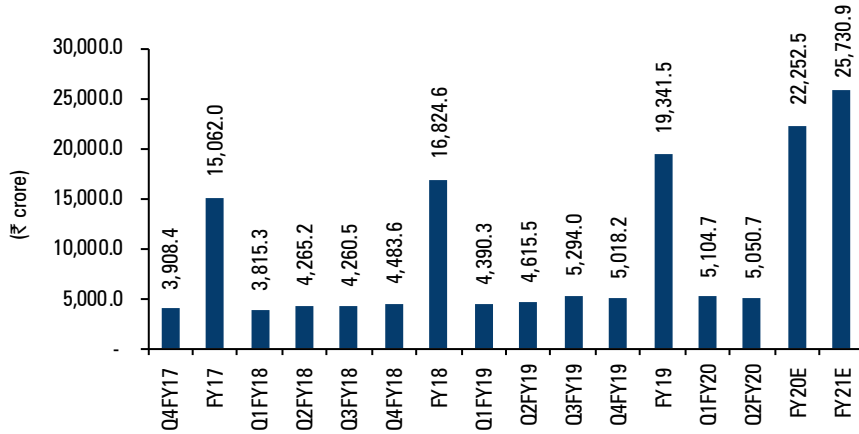
Source: Company, ICICI Direct Research

Conference call highlights

- Demand for coating products adversely impacted by economic slowdown and extended monsoons. Demand for decorative paints came in from tier II and tier III cities
- Economy products continued to grow at a faster pace compared to premium products
- A slowdown in the automotive sector has impacted the industrial business
- The company took a price cut of ~0.4% on select solvent based product categories
- The extended monsoon would result in deferral of repainting by the next festive season
- International business recorded a relatively better performance led by Nepal and a slightly recovery in Egypt
- Raw material prices were benign during Q2FY20 resulting in an increase in gross margin. The management has guided that raw material prices are likely to remain stable in the coming quarter
- Advertisement expenses were higher in Q2FY20 largely on account of early onset of festive season, which was not there in base period
- The management has guided that the mix would change towards premium categories of products in Q3 and Q4
- Asian Paints has planned a capex of ₹ 700 crore for FY20. Of this, 200 crore has been incurred in H1FY20
- According to the management, industry size of putty was at ~₹ 5000 crore while industry size of distemper ranges at ~₹ 12000-15000 crore

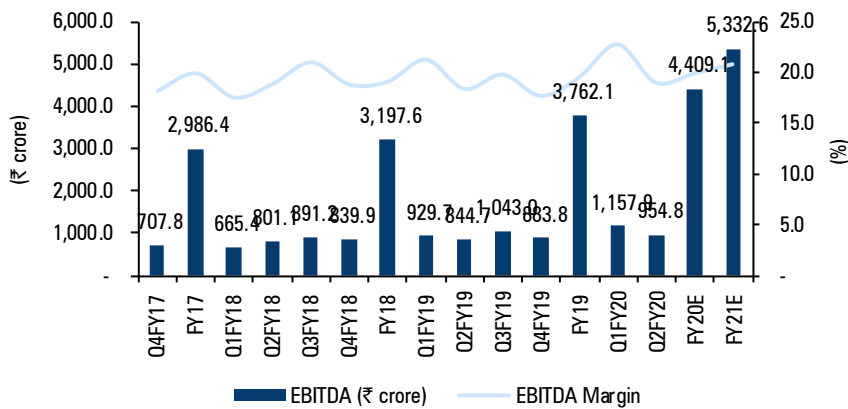
Financial story in charts

Exhibit 4: Revenue growth led by strong volume growth



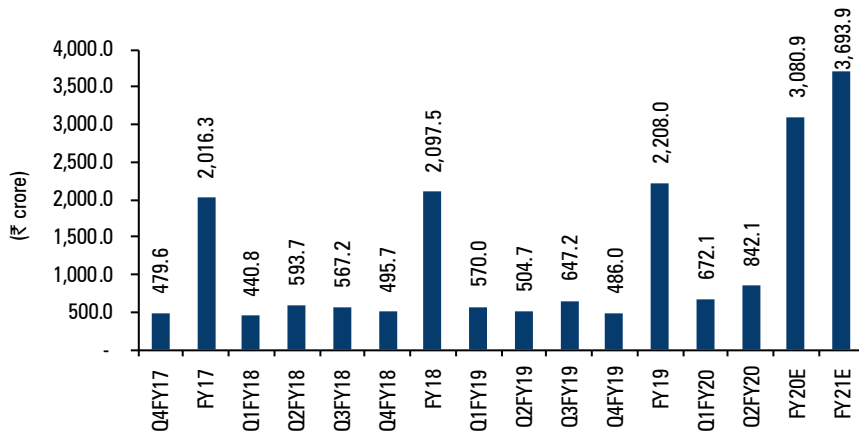
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



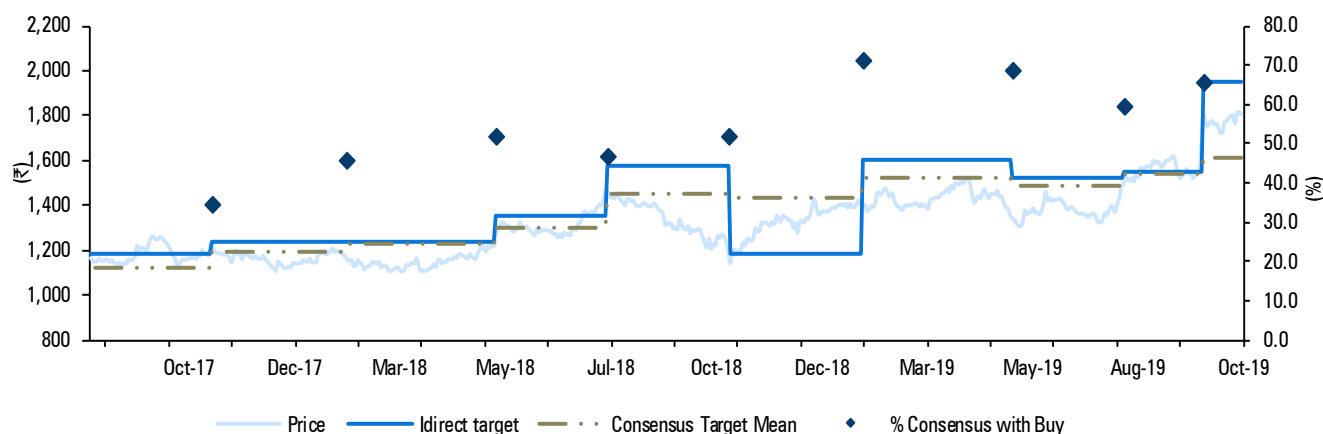
Source: Company, ICICI Direct Research

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	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Smiti Holding & Trading Company Pvt. Ltd.	12-Sep-19	5.7	54.7	0.6
2	Sattva Holding And Trading Pvt. Ltd.	30-Jun-19	5.5	52.9	0.0
3	Geetanjali Trading & Investments Pvt. Ltd.	12-Sep-19	5.0	48.0	-1.3
4	Teesta Retail Pvt. Ltd.	30-Jun-19	4.9	47.0	0.0
5	Elcid Investments, Ltd.	30-Jun-19	3.0	28.3	0.0
6	Life Insurance Corporation of India	30-Jun-19	2.9	28.0	-10.0
7	Vakil (Abhay Arvind)	30-Jun-19	2.4	23.3	0.0
8	Gujarat Organics Ltd	30-Jun-19	2.4	23.2	0.0
9	Sudhanava Investments & Trading Company Pvt. Ltd.	30-Jun-19	2.0	19.0	0.0
10	Rupen Investment & Industries Pvt. Ltd.	30-Jun-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)
Motilal Oswal Asset Management Company Ltd.	54.3	2.4	Life Insurance Corporation of India	-197.0	-10.0
ACC AP Trust	18.5	0.8	Geetanjali Trading & Investments Pvt. Ltd.	-27.4	-1.3
Smiti Holding & Trading Company Pvt. Ltd.	13.5	0.6	DSP Investment Managers Pvt. Ltd.	-8.7	-0.4
Reliance Nippon Life Asset Management Limited	13.5	0.5	ICICI Prudential Asset Management Co. Ltd.	-9.0	-0.4
Kotak Mahindra Asset Management Company Ltd.	13.0	0.5	SBI Funds Management Pvt. Ltd.	-5.0	-0.2

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	52.8	52.8	52.8	52.8	52.8
FII	14.9	15.7	15.7	16.7	16.7
DII	10.0	10.1	10.1	8.9	8.9
Others	22.3	21.5	21.5	21.6	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	22,252.5	25,730.9
Growth (%)		15.0	15.1	15.6
Raw Material Expenses	9,691.2	11,342.3	12,959.4	14,578.4
Employee Expenses	1,115.5	1,257.2	1,437.3	1,682.8
Other expenses	2,820.3	2,979.9	3,446.7	4,137.2
Total Operating Expenditure	13,626.9	15,579.4	17,843.4	20,398.3
Growth (%)		14.3	14.5	14.3
EBITDA	3,197.6	3,762.1	4,409.1	5,332.6
Growth (%)		17.7	17.2	20.9
Depreciation	360.5	625.6	756.6	823.4
Interest	35.1	105.7	100.0	69.6
Other Income	220.6	233.1	333.8	386.0
PBT	3,092.7	3,263.9	3,886.3	4,825.5
Total Tax	1,041.0	1,096.6	859.9	1,201.6
Profit from Associates	45.8	40.7	54.5	70.0
PAT	2,097.5	2,208.0	3,080.9	3,693.9

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	3,080.9	3,693.9
Add: Depreciation	360.5	625.6	756.6	823.4
(Inc)/dec in Current Assets	-639.6	-640.5	-1,489.6	-714.1
Inc/(dec) in CL and Provisions	572.3	567.8	497.9	-1,549.4
Others	35.1	105.7	100.0	69.6
CF from operating activities	2,375.7	2,866.6	2,945.7	2,323.5
(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	-63.6	-78.6
CF from investing activities	-1,471.9	-1,522.2	-613.6	-428.6
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	-1,570.8
Inc/(dec) in Sec. premium	-88.9	2.2	-338.1	-69.6
CF from financing activities	-1,301.1	-1,112.7	-1,851.2	-1,618.5
Net Cash flow	-397.2	231.7	480.9	276.4
Opening Cash	801.5	404.3	636.0	1,116.9
Closing Cash	404.3	636.0	1,116.9	1,393.3

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	10,879.6	13,002.6
Total Shareholders funds	8,410.2	9,515.8	10,975.5	13,098.5
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	12,417.3	14,581.5
Gross Block	4,378.1	6,933.7	7,193.4	8,043.4
Less: Acc Depreciation	973.1	1,598.8	2,355.3	3,178.7
Capital WIP	1,405.1	209.7	650.0	500.0
Total Fixed Assets	4,810.1	5,544.6	5,488.0	5,364.6
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	3,657.9	3,947.8
Debtors	1,730.6	1,907.3	2,438.6	2,643.6
Loans and Advances	12.8	94.2	96.2	98.2
Other Current Assets	1,051.0	941.9	1,390.1	1,607.4
Cash	404.3	636.0	1,116.9	1,393.3
Total Current Assets	5,857.1	6,729.2	8,699.7	9,690.2
Liabilities				
Creditors	2,160.0	2,394.3	2,621.5	3,313.3
Provisions	196.7	310.4	238.8	301.8
Other current liabilities	1,742.1	1,961.8	2,304.1	0.0
Total Current Liabilities	4,098.8	4,666.5	5,164.4	3,615.1
Net Current Assets	1,758.3	2,062.7	3,535.3	6,075.1
Other Non Current Assets Tc	647.9	571.3	653.0	750.7
Total Assets	9,684.3	11,069.6	12,417.4	14,581.5

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	32.1	38.5
Cash EPS	25.6	29.5	40.0	47.1
BV	87.7	99.2	114.4	136.6
DPS	12.4	12.6	14.4	16.4
Cash Per Share	10.1	16.7	24.6	33.1
Operating Ratios (%)				
EBITDA Margin	19.0	19.5	19.8	20.7
EBIT Margin	16.9	16.2	16.4	17.5
PAT Margin	12.2	11.4	13.8	14.4
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	32.1	33.6
RoCE	24.4	23.2	28.1	28.2
RoC	48.6	38.5	42.7	42.8
Valuation Ratios (x)				
P/E	80.7	76.7	55.0	45.8
EV / EBITDA	52.7	44.7	38.0	31.4
EV / Net Sales	10.0	8.7	7.5	6.5
Market Cap / Sales	10.1	8.8	7.6	6.6
Price to Book Value	20.1	17.8	15.4	12.9
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 (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Asian Paints (ASIPAI)	1,766	2,050	Buy	169,359	23.0	32.1	38.5	76.7	55.0	45.8	44.7	38.0	31.4	30.4	32.1	33.6	23.2	28.1	28.2
Astral Polytechnik (ASTPOL)	1,131	1,275	Hold	13,544	16.5	17.2	24.3	68.6	65.9	46.6	36.7	29.3	22.3	20.7	22.3	26.0	15.4	17.0	19.7
Bajaj Electricals (BAJELE)	392	320	Reduce	4,000	16.3	14.2	17.7	24.0	27.6	22.1	15.2	14.2	11.8	13.8	13.4	15.2	15.5	13.1	14.5
Havells India (HAVIND)	667	720	Hold	41,614	12.7	14.2	17.8	52.6	46.9	37.5	34.3	30.1	23.7	25.3	27.9	30.1	18.7	20.1	21.5
Kansai Nerolac (KANNER)	532	620	Buy	28,671	8.7	10.1	12.6	61.3	52.7	42.3	35.0	33.2	26.6	20.2	19.9	21.8	13.6	15.1	16.6
Pidilite Industries (PIDIND)	1,326	1,625	Buy	67,981	18.8	19.2	22.4	70.5	69.1	59.2	50.4	39.5	33.7	29.6	33.6	34.5	22.7	26.9	27.3
Essel Propack (ESSPRO)	118	95	Reduce	3,708	6.2	7.1	8.0	19.0	16.5	14.8	7.5	6.8	5.9	16.9	16.6	18.5	13.9	13.9	14.9
Supreme Indus (SUPIND)	1,198	1,420	Buy	15,218	35.3	43.3	52.0	33.9	27.6	23.0	19.9	17.1	14.3	25.0	27.2	28.4	18.7	23.2	23.7
Symphony (SYMLIM)	1,223	1,295	Hold	8,556	13.0	23.0	34.1	94.0	53.2	35.9	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	242	230	Hold	10,301	3.9	5.0	5.7	62.1	48.4	42.5	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	622	700	Hold	20,572	15.5	27.2	23.8	40.0	22.8	26.2	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	61	70	Hold	1,379	9.0	9.3	10.9	6.8	6.5	5.6	4.5	4.2	4.0	14.9	15.0	14.3	12.2	12.1	11.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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