

Asian Paints (APNT IN)

Rating: ACCUMULATE | CMP: Rs1,689 | TP: Rs1,722

Play for a long haul, Accumulate

Quick Pointers:

- Metros/Tier 1 cities (40-50% of demand) remain under severe pressure
- New project business to take a hit in near term, only necessary capex in FY21

APNT reported low single digit volume growth as lockdown impacted performance in 4Q. Near term volume pressures are likely to sustain as Metros and Tier1 cities (40-50% of volumes) remain under severe pressure due to Covid 19 impact. APNT has started safe painting campaign and expects labor to return once normalcy is restored. However, slowdown in real estate and guidelines on construction activity will impact sales in near term. Despite near term challenges, we remain positive in the structural growth story due to 1) product portfolio straddling across price points 2) huge scope in entry level paints given deep distribution (2x nearest competitor) and 3) success of new products at 15-20% lower prices. We marginally tweak our estimates given low input costs and lower dividend and capex and estimate 16.5% PAT CAGR over FY20-22. We value the stock at 45x FY22 EPS of 38.7 and arrive at a target price of 1722 (Earlier Rs1687). Retain Accumulate

Concall Takeaways: 1) Operations resumed partially in May at 60-70% utilisation levels. Sales are showing MoM improvement. 2) Tepid demand in metro and Tier I towns (~40-50% industry volume), demand is picking up faster in rural areas. Some states in South and North-East India are doing well. 3) Launched "Safe Painting" campaign however it won't increase the cost of painting to consumers. 4) APNT has been pushing economy segments to expand the market 5) APNT took 1% price reduction in FY20, it will look at price reduction once the demand stabilises 6) No capex in FY21 unless necessary. 7) Performance of international markets in Indian subcontinent are similar to India however geographies like Africa and Middle East performed better as they didn't face prolonged lockdown. 8) APNT launched sanitizers as an extension of health and hygiene segment, which helps in promoting the Safe painting campaign 9) Took several measures to build relationship with partners in the difficult times and will continue efforts to increase distribution network across new and existing geographies.

Consol sales down 7.1%, Adj PAT down 1.8%: Consol sales down 7.1% to Rs 46.35bn (PLe Rs47.3bn) with low single digit volume growth. Gross margins expanded by 410 bps to 45.8% due to benign raw material costs. EBITDA fell 3% to Rs 8.59bn (PLe Rs 8.9bn), EBITDA margins increased 80bps due to 1% increase in employee and 2.6% increase in other expenses. Adj. PAT declined 1.8% to Rs 4.8bn (PLe Rs5bn) due to lower tax rate at 31.5% (34.3% IN 4QFY19).

Standalone sales decreased 8.4% to Rs 38.79bn, Gross margins and EBITDA margins expanded by 400bps and 180bps respectively. Adj. PAT up 1.5% to Rs 4.9bn mainly led by lower tax rate. Imputed sub sales were flat, EBITDA increased 25.7%. Home improvement business (Sleek and ESS) remained impacted due to slowdown in real estate and construction space. IBD growth was aided by Ethiopia, Egypt, UAE and Nepal even as Sri Lanka and Bangladesh were impacted due to the lockdown.

June 23, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,722		1,687	
Sales (Rs. m)	1,97,334	2,40,229	1,97,334	2,40,229
% Chng.	-	-	-	-
EBITDA (Rs. m)	41,656	52,920	41,656	52,920
% Chng.	-	-	-	-
EPS (Rs.)	28.7	38.3	28.2	37.5
% Chng.	1.8	2.1	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	1,93,415	2,02,113	1,97,334	2,40,229
EBITDA (Rs. m)	35,245	41,618	41,656	52,920
Margin (%)	18.2	20.6	21.1	22.0
PAT (Rs. m)	21,502	27,023	27,507	36,706
EPS (Rs.)	22.4	28.2	28.7	38.3
Gr. (%)	8.9	25.7	1.8	33.4
DPS (Rs.)	8.9	18.2	5.0	14.0
Yield (%)	0.5	1.1	0.3	0.8
RoE (%)	24.0	27.5	24.2	26.6
RoCE (%)	32.4	32.8	28.9	31.4
EV/Sales (x)	8.3	8.0	8.0	6.5
EV/EBITDA (x)	45.7	38.7	38.0	29.6
PE (x)	75.3	60.0	58.9	44.1
P/BV (x)	17.0	16.0	12.8	10.8

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.1,917 / Rs.1,291
Sensex / Nifty	35,430 / 10,471
Market Cap	Rs.1,620bn / \$ 21,416m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.9260.38m

Shareholding Pattern (%)

Promoter's	52.79
Foreign	17.21
Domestic Institution	9.81
Public & Others	20.18
Promoter Pledge (Rs bn)	101.21

Stock Performance (%)

	1M	6M	12M
Absolute	4.4	(6.6)	22.1
Relative	(9.6)	9.8	35.1

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Charmi Mehta

charmimehta@plindia.com | 91-22-66322256

Heet Vora

heetvora@plindia.com | 91-22-66322381

Exhibit 1: Q4FY20 Results- Consolidated (Rs m): Revenues down 7.1% while Adj PAT down 1.8%

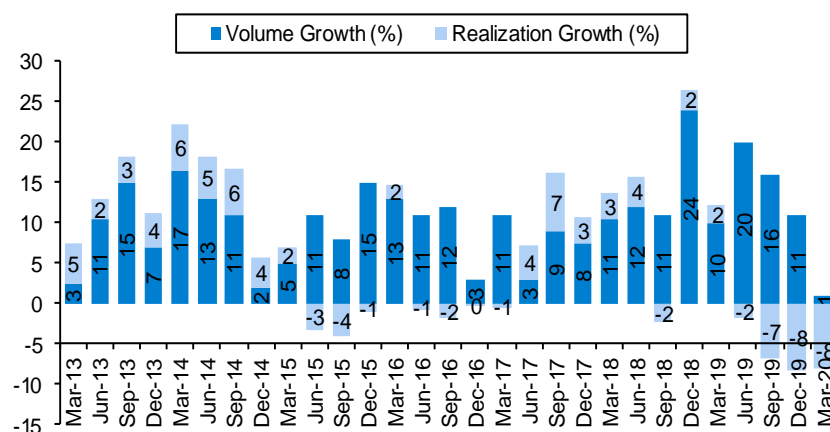
Consolidated	4QFY20	4QFY19	YoY gr. (%)	3QFY20	FY20	FY19	YoY gr. (%)
Net Sales	46,356	49,915	-7.1	54,203	2,02,113	1,92,401	5.0
Gross Profit	21,250	20,819	2.1	23,313	88,278	79,757	10.7
% of NS	45.8	41.7		43.0	43.7	41.5	
Other Expenses	12,654	11,953	5.9	11,419	46,660	42,100	10.8
% of NS	27.3	23.9		21.1	23.1	21.9	
EBITDA	8,596	8,866	-3.0	11,894	41,618	37,657	10.5
Margins %	18.5	17.8		21.9	20.6	19.6	
Depreciation	1,945	1,786	8.9	1,971	7,805	6,221	25.5
Interest	257	296	-13.3	241	1,023	1,053	-2.8
Other Income	558	572	-2.5	698	3,043	2,330	30.6
PBT	6,953	7,356	-5.5	10,381	35,833	32,713	9.5
Tax	2,190	2,523	-13.2	2,776	8,549	10,981	-22.1
Tax rate %	31.5	34.3		26.7	23.9	33.6	
Adjusted PAT	4,803	4,892	-1.8	7,797	27,791	22,140	25.5

Source: Company Data, PL Research

Exhibit 2: Q4FY20 Results - Standalone (Rs m): Revenues down 8.4%, Adj PAT up 1.5%

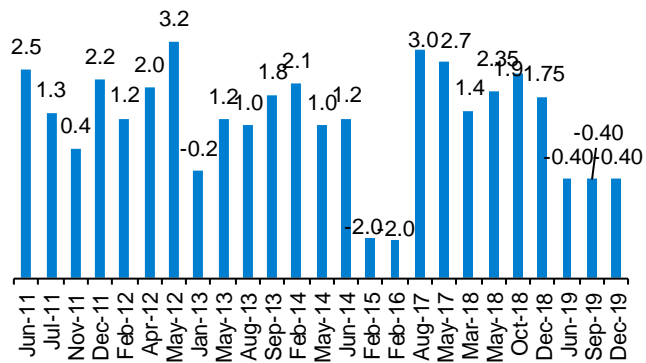
Standalone	4QFY20	4QFY19	YoY gr. (%)	3QFY20	FY20	FY19	YoY gr. (%)
Net Sales	38,790	42,353	-8.4	46,569	1,71,941	1,63,918	4.9
Gross Profit	18,230	18,225	0.0	20,470	76,879	69,812	10.1
% of NS	47.0	43.0		44.0	44.7	42.6	
Other Expenses	10,472	10,026	4.4	9,291	38,309	34,764	10.2
% of NS	27.0	23.7		20.0	22.3	21.2	
EBITDA	7,758	8,199	-5.4	11,179	38,570	35,048	10.0
Margins %	20.0	19.4		24.0	22.4	21.4	
Depreciation	1,722	1,571	9.6	1,737	6,900	5,408	27.6
Interest	193	227	-14.7	196	784	786	-0.3
Other Income	651	723	-9.9	928	3,575	2,848	25.5
PBT	6,495	7,125	-8.8	10,174	34,462	31,703	8.7
Tax	1,642	2,343	-29.9	2,585	7,591	10,381	-26.9
Tax rate %	25.3	32.9		25.4	22.0	32.7	
Adjusted PAT	4,853	4,781	1.5	7,589	26,872	21,322	26.0

Source: Company Data, PL Research

Exhibit 3: 4Q volumes impacted by March end lockdown


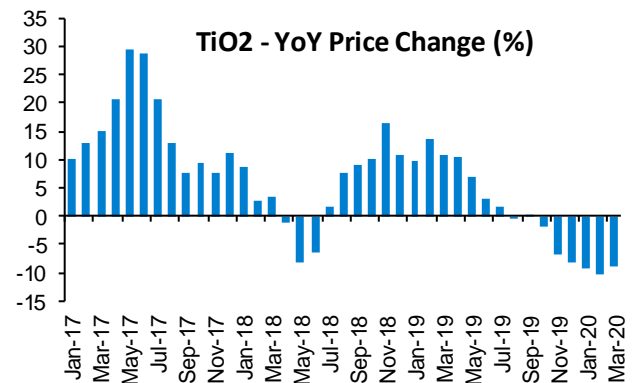
Source: Company, PL

Exhibit 4: Cumulative 1% price cut in FY20



Source: Company, PL

Exhibit 5: Tio2 prices down 3.5% QoQ and 9.5% YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	1,93,415	2,02,113	1,97,334	2,40,229
YoY gr. (%)	15.0	4.5	(2.4)	21.7
Cost of Goods Sold	1,13,423	1,13,835	1,11,205	1,35,962
Gross Profit	79,992	88,278	86,129	1,04,267
Margin (%)	41.4	43.7	43.6	43.4
Employee Cost	12,700	13,661	14,327	16,044
Other Expenses	32,046	32,999	30,145	35,303
EBITDA	35,245	41,618	41,656	52,920
YoY gr. (%)	10.2	18.1	0.1	27.0
Margin (%)	18.2	20.6	21.1	22.0
Depreciation and Amortization	4,307	7,805	7,563	8,171
EBIT	30,939	33,813	34,093	44,749
Margin (%)	16.0	16.7	17.3	18.6
Net Interest	510	1,023	803	868
Other Income	2,271	3,043	3,658	5,468
Profit Before Tax	32,699	35,833	36,948	49,349
Margin (%)	16.9	17.7	18.7	20.5
Total Tax	10,988	8,549	9,422	12,584
Effective tax rate (%)	33.6	23.9	25.5	25.5
Profit after tax	21,711	27,284	27,526	36,765
Minority interest	617	769	526	630
Share Profit from Associate	408	507	507	571
Adjusted PAT	21,502	27,023	27,507	36,706
YoY gr. (%)	8.9	25.7	1.8	33.4
Margin (%)	11.1	13.4	13.9	15.3
Extra Ord. Income / (Exp)	-	(50)	-	-
Reported PAT	21,502	26,973	27,507	36,706
YoY gr. (%)	5.2	25.4	2.0	33.4
Margin (%)	11.1	13.3	13.9	15.3
Other Comprehensive Income	(136)	583	-	-
Total Comprehensive Income	21,366	27,556	27,507	36,706
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	22.4	28.2	28.7	38.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	82,932	83,657	91,357	1,00,057
Tangibles	78,978	79,287	86,787	95,287
Intangibles	3,954	4,370	4,570	4,770
Acc: Dep / Amortization	27,633	33,335	38,872	44,917
Tangibles	26,416	31,639	36,663	42,170
Intangibles	1,217	1,696	2,210	2,747
Net fixed assets	55,299	50,322	52,484	55,140
Tangibles	52,562	47,648	50,124	53,116
Intangibles	2,737	2,675	2,361	2,024
Capital Work In Progress	2,097	1,402	6,000	4,000
Goodwill	3,213	3,200	3,200	3,200
Non-Current Investments	17,006	18,271	19,608	21,121
Net Deferred tax assets	(5,397)	(4,270)	(4,068)	(3,803)
Other Non-Current Assets	2,318	12,383	12,130	13,143
Current Assets				
Investments	11,745	5,125	32,251	48,349
Inventories	31,499	33,898	31,357	37,515
Trade receivables	19,134	17,952	19,463	23,365
Cash & Bank Balance	4,449	7,828	7,669	9,144
Other Current Assets	4,010	2,856	4,144	5,045
Total Assets	1,56,613	1,61,548	1,94,325	2,27,293
Equity				
Equity Share Capital	959	959	959	959
Other Equity	94,238	1,00,342	1,25,339	1,48,616
Total Network	95,197	1,01,302	1,26,298	1,49,575
Non-Current Liabilities				
Long Term borrowings	195	186	43	26
Provisions	1,556	1,808	1,757	1,968
Other non current liabilities	30	46	46	46
Current Liabilities				
ST Debt / Current of LT Debt	6,076	3,215	4,590	4,687
Trade payables	23,943	21,366	24,374	29,800
Other current liabilities	20,270	19,223	22,997	27,214
Total Equity & Liabilities	1,56,613	1,61,548	1,94,325	2,27,294

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	32,699	36,192	36,948	49,349
Add. Depreciation	4,307	7,630	7,563	8,171
Add. Interest	510	930	803	868
Less Financial Other Income	2,271	3,043	3,658	5,468
Add. Other	(172)	-	-	-
Op. profit before WC changes	37,344	44,752	45,314	58,388
Net Changes-WC	(3,852)	(2,663)	(20,985)	(24,044)
Direct tax	(10,988)	(8,324)	(9,422)	(12,584)
Net cash from Op. activities	22,503	33,765	14,907	21,760
Capital expenditures	(13,542)	(1,946)	(14,322)	(8,826)
Interest / Dividend Income	-	-	-	-
Others	(2,134)	(649)	(754)	(649)
Net Cash from Invt. activities	(15,676)	(2,595)	(15,077)	(9,475)
Issue of share cap. / premium	(227)	(834)	1,760	(630)
Debt changes	3,819	(5,540)	4,067	3,687
Dividend paid	(10,272)	(20,988)	(4,796)	(13,429)
Interest paid	(510)	(930)	(803)	(868)
Others	-	-	-	-
Net cash from Fin. activities	(7,189)	(28,292)	227	(11,239)
Net change in cash	(362)	2,879	57	1,046
Free Cash Flow	8,962	31,819	585	12,934

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	22.4	28.2	28.7	38.3
CEPS	26.9	36.3	36.6	46.8
BVPS	99.2	105.6	131.7	155.9
FCF	9.3	33.2	0.6	13.5
DPS	8.9	18.2	5.0	14.0
Return Ratio(%)				
RoCE	32.4	32.8	28.9	31.4
ROIC	25.9	28.6	32.6	39.2
RoE	24.0	27.5	24.2	26.6
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.3)	(0.4)
Net Working Capital (Days)	50	55	49	47
Valuation(x)				
PER	75.3	60.0	58.9	44.1
P/B	17.0	16.0	12.8	10.8
P/CEPS	62.8	46.5	46.2	36.1
EV/EBITDA	45.7	38.7	38.0	29.6
EV/Sales	8.3	8.0	8.0	6.5
Dividend Yield (%)	0.5	1.1	0.3	0.8

Source: Company Data, PL Research

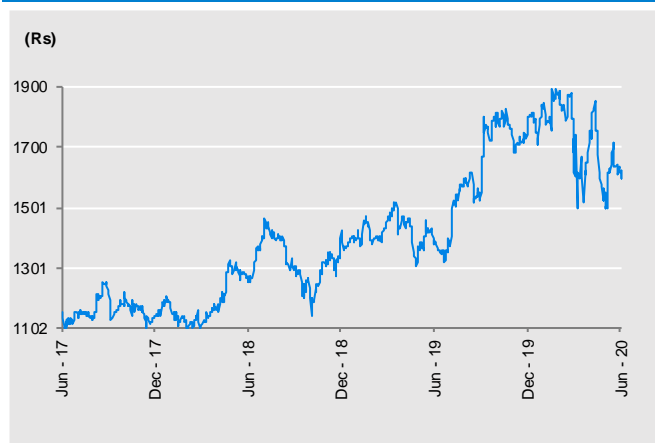
Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	51,047	50,507	54,203	46,356
YoY gr. (%)	16.3	8.9	2.4	(7.6)
Raw Material Expenses	28,767	29,072	30,890	25,106
Gross Profit	22,280	21,435	23,313	21,250
Margin (%)	43.6	42.4	43.0	45.8
EBITDA	11,579	9,548	11,894	8,596
YoY gr. (%)	32.4	21.8	14.0	4.5
Margin (%)	22.7	18.9	21.9	18.5
Depreciation / Depletion	1,918	1,972	1,971	1,945
EBIT	9,662	7,577	9,923	6,651
Margin (%)	18.9	15.0	18.3	14.3
Net Interest	267	259	241	257
Other Income	735	1,052	698	558
Profit before Tax	10,131	8,369	10,381	6,953
Margin (%)	19.8	16.6	19.2	15.0
Total Tax	3,511	72	2,776	2,190
Effective tax rate (%)	34.7	0.9	26.7	31.5
Profit after Tax	6,620	8,296	7,605	4,763
Minority interest	167	220	-	-
Share Profit from Associates	122	125	192	40
Adjusted PAT	6,575	8,201	7,797	4,803
YoY gr. (%)	17.8	66.4	22.7	1.5
Margin (%)	12.9	16.2	14.4	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,575	8,201	7,797	4,803
YoY gr. (%)	17.8	66.4	22.7	1.5
Margin (%)	12.9	16.2	14.4	10.4
Other Comprehensive Income	9	74	330	170
Total Comprehensive Income	6,584	8,275	8,127	4,972
Avg. Shares O/s (m)	959	959	959	-
EPS (Rs)	6.9	8.6	8.1	-

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-20	Accumulate	1,687	1,651
2	22-Jan-20	Accumulate	1,815	1,779
3	03-Jan-20	Accumulate	1,822	1,751
4	23-Oct-19	Accumulate	1,855	1,767
5	03-Oct-19	Accumulate	1,640	1,749
6	24-Jul-19	Accumulate	1,522	1,479
7	04-Jul-19	Accumulate	1,433	1,360

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,687	1,651
2	Avenue Supermarts	Reduce	1,658	2,398
3	Britannia Industries	BUY	3,744	3,510
4	Colgate Palmolive	Reduce	1,224	1,313
5	Crompton Greaves Consumer Electricals	BUY	267	199
6	Dabur India	Hold	422	431
7	Emami	Hold	285	227
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	485	511
11	Hindustan Unilever	Hold	2,017	2,195
12	ITC	BUY	250	189
13	Jubilant FoodWorks	Hold	1,392	1,530
14	Kansai Nerolac Paints	BUY	487	389
15	Marico	Hold	318	284
16	Nestle India	Reduce	13,127	17,462
17	Pidilite Industries	Hold	1,317	1,391
18	Titan Company	Hold	936	997
19	Voltas	Accumulate	564	539

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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