

Asian Paints

Reduce



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Over the years, Asian Paints (APL) has transformed from being a product-centric to a consumer and service-oriented brand. With unparalleled dealer network of 70K+, the company has been gaining market share in the domestic paint market as a leader, with product innovation being the hallmark of its strategy. During FY15-20, the company exhibited a strong 8%/14% growth in revenue and net profit respectively. Given the volatile Covid-19 situation, we expect painting demand to remain muted in the short term. However, with >40% share in decorative paint business, diversification into waterproofing and home improvement, and healthy financials; APL would continue to command premium valuations.

Smaller towns to grow faster than urban

Business is gradually picking up in most smaller towns and cities with earlier incomplete painting jobs showing some movement. However, demand from metro and Tier 1 regions, which comprises 50% of sales, remains low due to higher impact of the pandemic and lack of labour availability. Mumbai, Delhi and Chennai are most affected while Bangalore and Hyderabad are doing relatively better. We expect faster demand revival in rural areas due to good agricultural output, expected better monsoon, government measures and lower impact of Covid-19 in those regions. The company will sustain focus on the bottom-of-pyramid segment with new launches to boost rural consumption.

Benign input prices boost profitability

Deflationary trend in crude oil and its derivatives, coupled with cost rationalization in formulations and sourcing led to gross margin expansion of 220bps YoY to 43.7% in FY20. APL does not have a potential risk due to China supply chain disruption (~8-10% of total imports) and has alternate sources and vendors for RM for exigencies in future. Price cut was ~ 1% during FY20. RM benefits may be passed on to the customers over a period of time. Going ahead, we believe that benign RM environment and cost optimization initiatives at various levels would support EBITDA margins.

Foray into hygiene products

Addressing the growing concern around health and hygiene, the company has recently launched Viroprotek range of hand sanitizers and surface disinfectants. The product is being manufactured at Ankleshwar plant in Gujarat. APL plans to set up additional capacity for these products at Haryana plant. Earlier APL had introduced Royale Health Shield, an antibacterial paint, for more hygienic environment at home. Though the company is diversifying from its core business to sanitizer business, we believe that it is a positive strategy considering rising demand (in current situation) and high gross margins.

Expect gradual normalization amidst uncertain demand environment

APL saw partial resumption of operations since early May 2020. Management stated that June demand showed improvement compared to May'20 with consumer confidence coming back. The company has also opened all manufacturing plants and most of its warehouses across the country. Plants are operating at 60-70% of pre Covid levels. APL witnessed encouraging trends of migrant labour returning to work and will continue as situation normalizes. APL launched the 'San Assure' service aggressively to sanitize large number of shops and homes. The company also launched a "Safe Painting" campaign for ensuring safety of its painters and give assurance to customers for a secure painting experience at home. This is likely to revive consumer confidence and drive decorative paint demand.

CMP	Rs 1,688
Target / Upside	Rs 1,740 / 3%
BSE Sensex	36,043
NSE Nifty	10,607

Scrip Details

Equity / FV	Rs 959mn / Rs 1
Market Cap	Rs 1,620bn
	USD 21bn
52-week High/Low	Rs 1,917/Rs 1,345
Avg. Volume (no)	2,840,910
NSE Symbol	ASIANPAINT
Bloomberg Code	APNT IN

Shareholding Pattern Mar'20(%)

Promoters	52.8
MF/Banks/FIs	9.2
FIIIs	17.2
Public / Others	20.8

Asian Paints Relative to Sensex



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Annual Report Macro View

Key Management Changes	<p>KBS Anand retired as the Managing Director & CEO of the company w.e.f. 31st March, 2020. Mr. Amit Syngle was appointed as Additional Director/Managing Director & CEO of the company effective 1st April,2020. Prior to this role, Mr. Amit Syngle held theposition of Chief Operating Officer of the company.</p> <p>Mr. Jayesh Merchant retired as the CFO & Company Secretary, President – Industrial JVs of the Company in November’19. Mr. R J Jeyamurugan was appointed as the CFO & Company Secretary of the Company, in November’19.</p>		
Auditors	<p>No changes. M/s. Deloitte Haskins & Sells LLP continue to be the auditors of the Company.</p>		
Pledged Shares	<p>Percentage of Shares Pledged / encumbered to total shares stood at 6.27% in FY20 compared to 6.32% in FY19.</p>		
Credit Ratings	<p>The ratings given by CRISIL for short-term borrowings and long-term borrowings of the company are A1+ and AAA respectively. There was no revision in these ratings during the year.</p>		
Macroeconomic Factors	<p>Both, the advanced as well as developing economies across the world witnessed slowdown during FY20. The escalation of the tariff war between the US and China led to significant pressure on global trade. The Eurozone continued to witness staggered growth due to political uncertainty. Deceleration in Indian economy was led by slowdown in the key construction sector, and persistent downturn in the automotive sector. The Covid-19 pandemic and ensuing lockdowns in most countries added to the woes of the global economy. Crude oil prices exhibited stability for most part of the year before witnessing a sharp fall to historic lows in the last few months of FY20. Paint, being a discretionary product, there is a possibility of customers delaying painting requirement, thereby impacting renovation demand.</p>		
Remuneration	<p>Number of permanent employees on payroll of the company stood at 6,750 as on 31st March, 2020.</p> <p>The median remuneration of all employees per annum was Rs 895,096, an increase of 7.3% YoY. The increase in average salary of employees was 11% YoY to Rs 13,45,882 in FY20.</p> <p>The total remuneration paid to Mr. K.B. S. Anand and Mr. Jayesh Merchant for FY20 including retiral benefits is Rs 207.7mn and Rs 101.7mn respectively.</p>		
Key Holders	Category of Shareholder (%)	FY2020	FY2019
	Promoter Holding	52.79	52.79
	Public		
	i) Mutual Funds	4.47	4.22
	ii) Banks/FI	0.05	0.03
	iii) Insurance Companies	4.72	4.96
	iv) Foreign Institutional Investors	17.21	16.33
	v) Central Government	0.14	0.05
	vi) Individuals	12.17	11.86
	vii) Other	8.45	9.76
Total	100.00	100.00	

Source: Company, DART

Industry Analysis

- India's paint industry consisting of the decorative and industrial paint segment is estimated at ₹500 bn. The organized sector constitutes 65-70% of the overall paint industry.
- The decorative paint segment comprising exterior wall paints, interior wall paints, wood finishes, enamels, undercoats such as primers, putty, etc. account for more than 75% of the paint market.
- The industrial paint segment comprising automotive coatings, marine coatings, packaging coatings, powder coatings, protective coatings, floor coatings and other general industrial coatings constitutes for the remaining 25% of the share.
- The overall demand conditions for the paint industry remained challenging during FY20 due to 1) shorter festival season compared to FY19; 2) extended monsoon season 3) liquidity crunch affecting the financial sector resulting in tight borrowing conditions for the real estate and infrastructure developers 4) continued slowdown in the automotive space 5) nationwide lockdown to contain the spread of the pandemic.
- As the paint demand mirrors the overall GDP growth in the economy, it will revive as overall demand in the economy improves.
- The government's push on real estate and infrastructure development will be critical to spur the demand from these segments.

Financial Analysis

Profit and Loss Statement Analysis

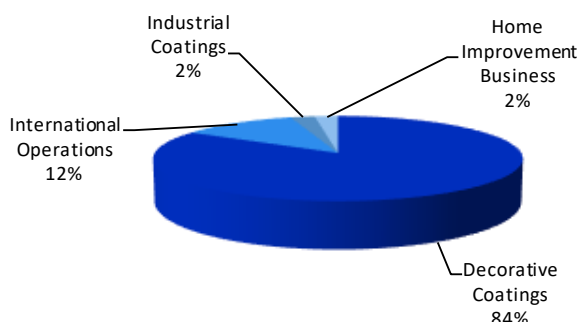
- **Revenue**- APL's revenue (consolidated) grew 5.0% YoY to Rs 202.1bn in FY20, restricted by Covid-19 disruption. Domestic business grew 4.9% YoY to Rs 171.9bn. Decorative business exhibited double digit volume growth in Jan/Feb 2020. Despite the disruption in March'20, the company exhibited double digit volume growth of 11.2% for domestic decorative business in FY20. Difference in value-volume growth is because APL continued to focus on growing the bottom of the pyramid with concentrated push on the upgradation of emulsions and undercoats like primer and putties.
- With soft raw material prices, **gross margin** (GM) expanded 220bps to 43.7%.
- Employee costs grew 10.5% YoY to Rs Rs13.7 bn in FY20. Advertisement costs grew 15.5% YoY to Rs 9.2bn. Freight charges increased 5.4% YoY to Rs 12.1bn.
- APL has been able to maintain its operating profitability by efficiently reducing formulation costs and continued focus on cost control measures, apart from benign input costs.
- **EBITDA margin** expanded by 100bps to 20.6% as decline in RM costs was partially offset by 30/90bps increase in employee costs/ selling & administrative expenses respectively. EBITDA increased 10.5% YoY to Rs 41.6bn.
- The company has contributed Rs 250mn towards COVID-19 pandemic related relief activities.
- **Net profit** after non-controlling interest for the group grew 25.5% YoY to Rs 27.1bn in FY20.

Balance Sheet and Cash Flow Analysis

- **Share capital:** The paid-up Equity Share Capital of the company as on March 31, 2020 was Rs 959.2mn. There was no change in the company's share capital during the year under review.
- **Net block** declined to Rs 62.7bn in FY20 from Rs 65.0bn in FY19. Fixed asset turnover improved to 3.2x in FY20 from 3.0x in FY19.
- **Borrowing** declined from Rs 6.2bn in FY19 to Rs 3.4bn in FY20.
- **Dividend:** After the reporting date, in June'20, the BOD has recommended payment of Rs 1.50 per share as final dividend for FY20. If approved, the total dividend for FY20 will be Rs 12 as against the total dividend of Rs 10.50 per share for FY19. Total dividend paid (incl dividend tax) for FY20 (as on reporting date) amounted to Rs 21.2bn against Rs 10.5bn in FY19.
- **Working capital:** Inventories increased 7.6% YoY to Rs 33.9bn due to the lockdown in March'20. Inventory days remained stable at 60 days. Currently, company is back to normal levels in terms of overall inventory. Debtors declined 5.9% YoY to Rs 18.0bn. Debtor days reduced to 32 days in FY20 from 36 days in FY19. Creditors declined 10.8% YoY to Rs 21.3bn. Payable days stood at 39 days from 45 days in FY19.
- **Cash flow from operations** grew 5.0% YoY to Rs 27.2bn in FY20. Capital expenditure declined 67.3% YoY to Rs 3.8bn in FY20. Consequently, FCF grew 63.0% YoY to Rs 23.4bn. We believe that, with improvement in working capital and low capex requirement, APL will generate cumulative FCF of Rs 61.4 bn over FY21-22E.
- **Return Ratios-** ROE improved 350bps YoY to 27.6% in FY20 mainly due to better profitability and higher dividend payout. ROCE increased from 20.2% in FY19 to 23.1% in FY20.

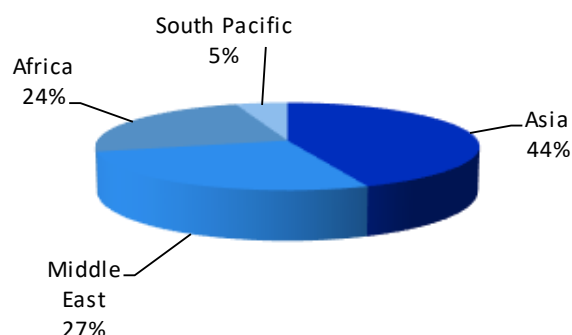
Business Segment Performance

Exhibit 1: Group Revenue share (%)



Source: Company, DART (Only Asian Paints PPG Pvt Ltd. (AP-PPG) revenues are considered in Industrial Coating)

Exhibit 2: International business revenue breakup



Source: Company, DART

Domestic Decorative Business

- Decorative volume growth for domestic business was 11.2% in FY20, much higher than the value growth due to higher sales in economy range like waterproofing, primer and putty.
- Growth was driven not only by the core product categories but also in the newer product categories of waterproofing, adhesives and tools.
- The Retail business saw good volume growth across all regions, especially led by strong growth in the North and East markets. The Company continued to focus on expanding its dealer network by mainly focusing on the lower tier of its network.
- Despite slowdown in the real estate and infrastructure development space, the Company registered strong growth in its Projects business. The Waterproofing and Construction Chemical business performed well.
- Economy range of interior and exterior emulsion products like Tractor Sparc and Ace Sparc offered good value proposition even at a lower price point, helping the Company to not only gain share from local brands but also enhance the upgradation of consumers from distempers.
- APL continued to expand the waterproofing products market with its Damp Sheath Interior and Damp Sheath exterior products, upgrading the market from the conventional primer to preventive waterproofing undercoats.
- In order to cater to consumers' home décor needs, the company has expanded its fulfilment propositions – AP Homes Stores and the Beautiful Homes Service. AP Homes has now expanded to 10 stores; Beautiful Homes Service proposition is expanded to eight cities in India.

Home Improvement Business

- Kitchen Business:** APL forayed into the Kitchen business by acquiring 51% stake in Sleek in FY14. During FY18, the company acquired the remaining 49% stake in Sleek from the previous promoters to make it a wholly owned subsidiary. Sleek has more than 185 stores across the country offering modular kitchen design and installation services. Sleek had a moderately good year until the business got impacted in the last fortnight of March.

- While Sleek registered low double-digit sales growth in FY20, the loss was significantly higher than the previous year.
- During the year, with store expansion, the Full Kitchen Solutions business gained momentum. In FY20, the company expanded its presence in this channel to the southern India market apart from having a strong presence in Mumbai, Delhi and Pune. Downturn in real estate sector significantly impacted performance. Going ahead, given the lackluster overall economic growth coupled with Covid-19 restrictions, the business would take longer to recover.
- The Kitchen Components segment witnessed mixed performance during the year. The segment depends on a lot of imports and there was a custom duty increase in this segment in July. The hardware category witnessed competition from MNCs as well as local players.
- **Bath Business:** Asian Paints forayed into the Bath business by acquiring the front-end business of Ess Ess in FY15. Over the years, the company has expanded its network footprint as well as the range of products. Despite a challenging year, the company successfully added new channel partners and made significant progress in the Sanitaryware business. APL expanded the Projects vertical and established large number of institutional partnerships during the year.

Industrial Coatings

- **Automotive, industrial coatings:** Of the total industrial paint demand, about two-third comes from the automotive sector. Automotive business de-growth was due to persistent headwinds in Auto and two-wheeler markets which de-grew by 15% and 14%, respectively. While PPG-AP registered sales de-growth, the profitability improved due to material deflation, price increases (though with a time lag effect) and new business wins.
- **Non-auto industrial coatings:** The Industrial business witnessed slow growth amidst economic slowdown and strong competitive pressure. AP-PPG continued to focus on geographical network expansion and enhanced product propositions for its customers. Favourable raw material prices and continued control on cost optimization led to significant improvement in profitability in FY20 compared to FY19.

International Business

Asian Paints has operations in 14 countries across four regions of the world – South Asia and Indonesia, the Middle East, South Pacific and Africa. At an overall level, IB registered a ~5% value growth in the year. Performance was dampened by Covid-19 spread in latter half of March and resulting lockdowns.

Building capacity- The expansion project of the existing plant in Indonesia progressed on schedule. Work also commenced on second plant in Bangladesh. Capacity expansion was completed in Sri Lanka, Nepal and the UAE.

- **Africa:** After several years of high inflation Egypt witnessed moderate inflation and currency appreciation versus USD in FY20. While cost and working capital was under control, sales growth continued to be slow. To drive growth, company launched a revamped 'Hero' range of products which received encouraging response. In Ethiopia, the economy continued to be hindered by the lack of USD. However, Ethiopia performance was better than previous year with ramp up in production and enhanced top-line and bottom-line growth.

- **Middle East:** Performance was muted in Oman and Bahrain, with sales and profit lower than FY19, while the UAE unit's growth was very good across all major segments of retail, projects, industrial and exports with increased profit. During the year, APL's subsidiary strengthened and improved operations in Qatar, which had been affected after the GCC embargo on the country. Going ahead, the company expects better performance, primarily due to increased economic activity on account of the FIFA World Cup in Qatar in 2022.
- **Asia (South Asia and Indonesia):** Despite slowdown, Nepal unit exhibited double-digit sales and profit growth. Bangladesh subsidiary grew in single digit due to stiff competition and tough credit conditions. It continues to focus on innovative products in order to scale up its presence in the local market. Sri Lanka unit posted single-digit sales growth and minor profit growth as the economy saw several disruptions due to the Easter bomb blasts, as well as presidential elections. In Indonesia, the overall economy grew by around 5%, but the paint market de-grew during FY20. APL's unit grew well, gaining market share from other players. However, the unit is still sub-scale and it will take few more years to break even.
- **South Pacific:** Economic conditions in Fiji and other South Pacific islands were poor, with negligible GDP growth. Hence, the businesses in the region saw sales and profit de-growth in FY20.

Other Highlights

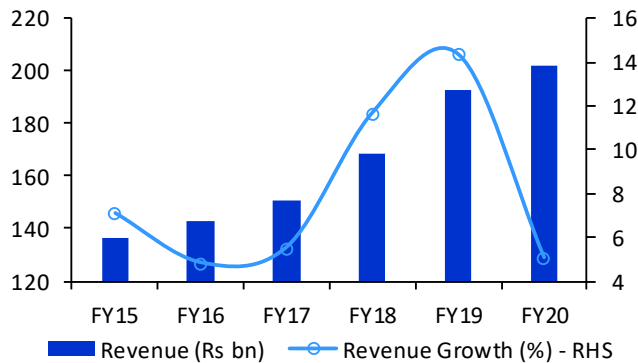
- The BOD approved the Scheme of Amalgamation of Reno Chemicals Pharmaceuticals & Cosmetics Private Limited (Reno), wholly owned subsidiary of the company with the company, subject to necessary statutory and regulatory approvals, including approval of the NCLT, Mumbai.
- Asian Paints International Pvt Ltd, Singapore (APIPL), wholly owned subsidiary of the company divested its entire stake in Berger Paints Singapore Pte Limited, Singapore (BPS), wholly owned subsidiary of APIPL to Omega Property Investments Pty Ltd, Australia, for a consideration of ~Rs 208 mn. BPS had a limited presence in the Singapore coatings market and was not material in overall company's international operations.

Some new launches

- APL introduced a unique patented product 'GloMax', targeting the unorganised 'Polish' market. It is priced at a price point 40% cheaper than its biggest competitor.
- The company forayed into the admixture category for cement concrete with the launch of its innovative product line i.e. Asian Paints MaximoPlast PX range of admixtures.
- Water proofing solution continue to be a focus area. SmartCare Ultron', was launched in waterproofing liquid applied membrane category with performance warranty for 20 years.
- Apcolite Rust Shield has been introduced to the market to address the challenge of corrosion in household metallic structures.
- Apcolite Spray Paint, a glossy enamel paint offered in an aerosol spray pack introduced for the first time by Asian Paints.
- APL launched Nilaya Naturals, a completely pure and organic paint which comes with a 10-year performance warranty.
- Ace Sparc and Tractor Sparc' – two new products in economy segments with unique features of emulsion paint targeted to upgrade consumers from distempers.

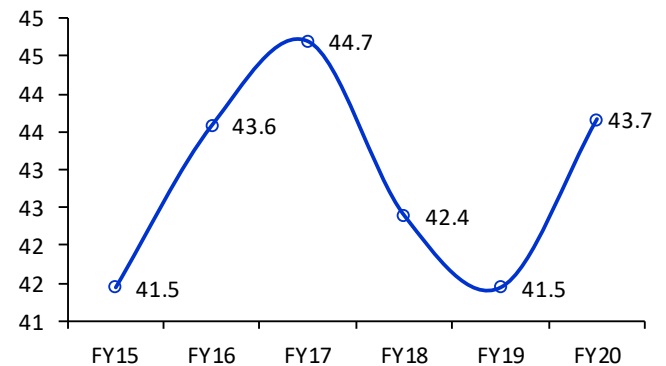
Annual Charts

Exhibit 3: Net revenue trend



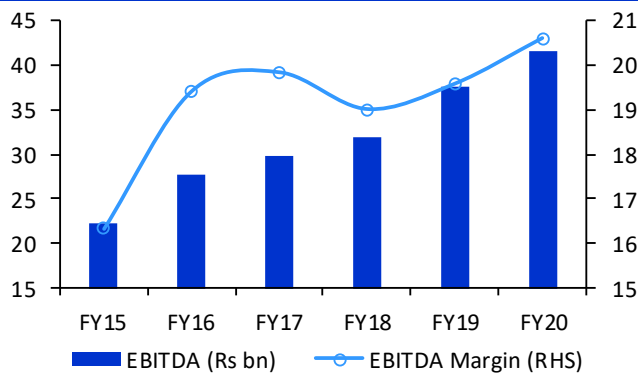
Source: Company, DART

Exhibit 4: Gross margin trend (%)



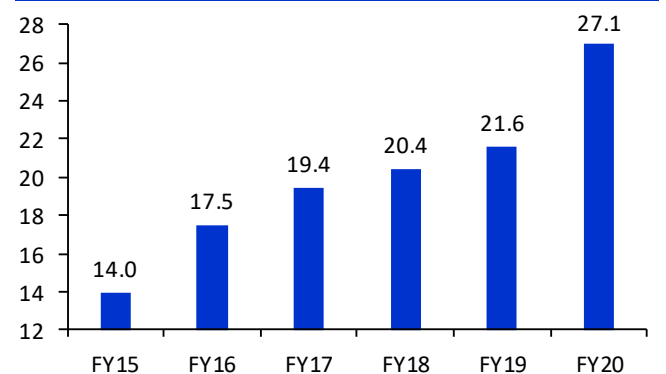
Source: Company, DART

Exhibit 5: Trend in EBITDA and EBITDA margin



Source: Company, DART

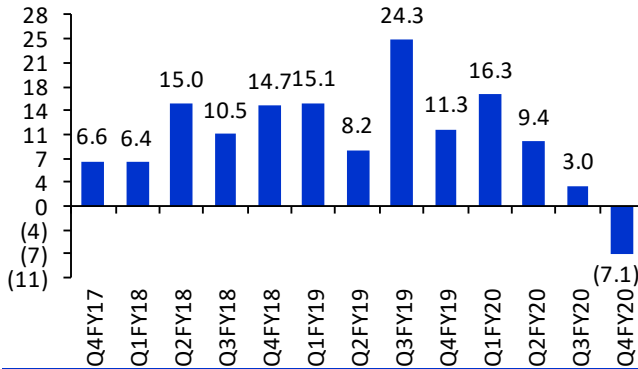
Exhibit 6: Net Profit trend (Rs bn)



Source: Company, DART

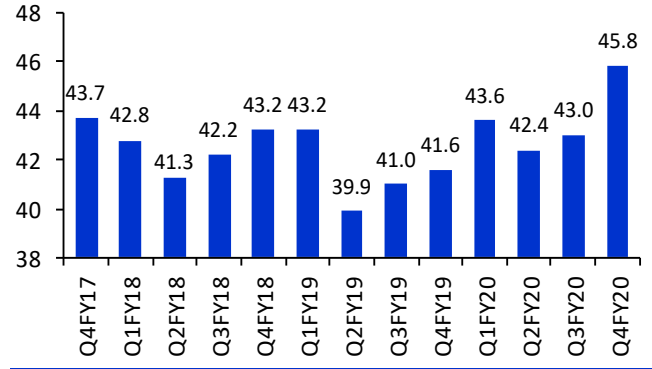
Quarterly Charts

Exhibit 7: Trend in Sales Growth (%)



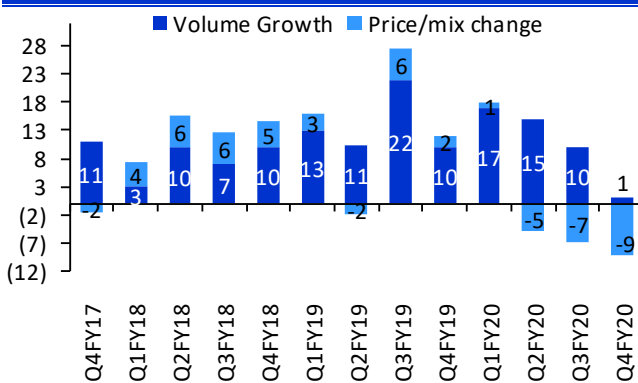
Source: DART, Company

Exhibit 8: Trend in Gross Margin (%)



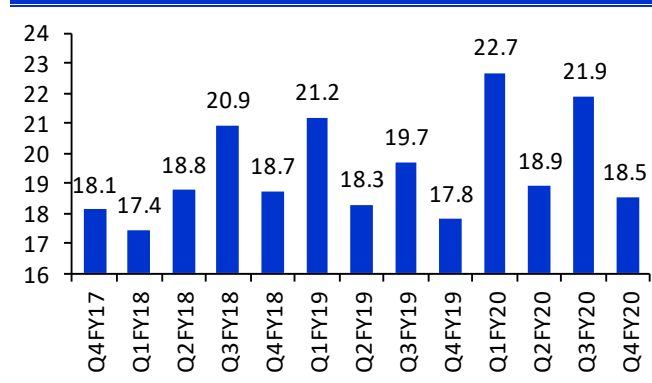
Source: DART, Company

Exhibit 9: Trend in Domestic Volume Growth (%)



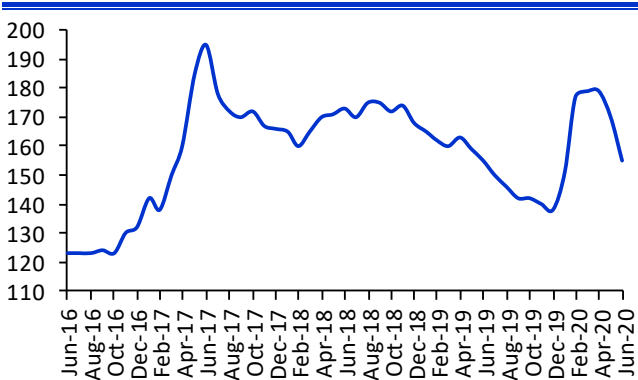
Source: DART, Company

Exhibit 10: Trend in EBITDA margins (%)



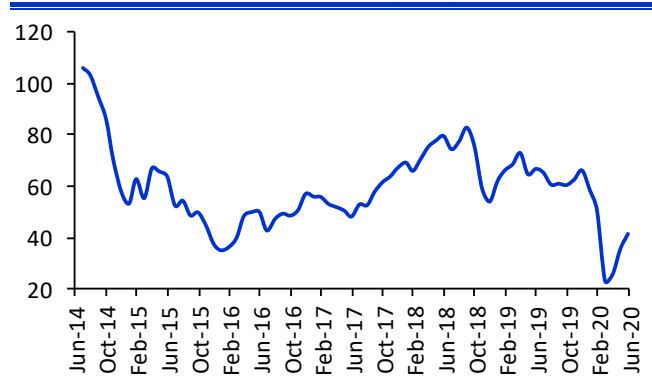
Source: DART, Company

Exhibit 11: Trend in Titanium Dioxide Price (INR/KG)



Source: DART, Company

Exhibit 12: Trend in Brent Price (USD)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	192,401	202,112	199,931	233,892
Total Expense	154,746	160,494	160,567	185,616
COGS	112,645	113,835	112,405	132,375
Employees Cost	12,368	13,662	13,904	15,539
Other expenses	29,732	32,997	34,257	37,702
EBIDTA	37,656	41,619	39,365	48,276
Depreciation	6,221	7,805	8,296	8,857
EBIT	31,434	33,814	31,069	39,419
Interest	1,053	1,023	1,062	1,177
Other Income	2,330	3,042	3,123	3,526
Exc. / E.O. items	(58)	(50)	0	0
EBT	32,654	35,783	33,130	41,769
Tax	10,981	8,549	7,604	9,493
RPAT	21,560	27,052	25,368	32,095
Minority Interest	114	183	157	181
Profit/Loss share of associates	0	0	0	0
APAT	21,618	27,101	25,368	32,095

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	959	959	959	959
Minority Interest	3,631	4,030	4,187	4,368
Reserves & Surplus	93,740	100,340	110,936	124,277
Net Worth	94,699	101,299	111,895	125,236
Total Debt	6,151	3,401	3,401	3,401
Net Deferred Tax Liability	5,397	4,430	4,430	4,430
Total Capital Employed	109,877	113,160	123,913	137,435

Applications of Funds

Net Block	64,972	62,699	61,903	60,546
CWIP	2,097	1,400	1,400	1,400
Investments	13,940	15,050	15,050	15,050
Current Assets, Loans & Advances	80,006	82,240	90,225	112,112
Inventories	31,499	33,890	31,359	36,694
Receivables	19,073	17,950	16,313	18,898
Cash and Bank Balances	4,440	7,830	21,634	33,448
Loans and Advances	9,421	14,607	12,850	14,891
Other Current Assets	3,833	2,843	2,949	3,060
Less: Current Liabilities & Provisions	51,138	48,229	44,665	51,672
Payables	23,930	21,350	21,120	24,707
Other Current Liabilities	27,208	26,879	23,545	26,965
sub total				
Net Current Assets	28,869	34,012	45,560	60,440
Total Assets	109,877	113,160	123,913	137,435

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	41.5	43.7	43.8	43.4
EBIDTA Margin	19.6	20.6	19.7	20.6
EBIT Margin	16.3	16.7	15.5	16.9
Tax rate	33.6	23.9	23.0	22.7
Net Profit Margin	11.2	13.4	12.7	13.7
(B) As Percentage of Net Sales (%)				
COGS	58.5	56.3	56.2	56.6
Employee	6.4	6.8	7.0	6.6
Other	15.5	16.3	17.1	16.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	29.9	33.0	29.3	33.5
Inventory days	60	61	57	57
Debtors days	36	32	30	29
Average Cost of Debt	18.3	21.4	31.2	34.6
Payable days	45	39	39	39
Working Capital days	55	61	83	94
FA T/O	3.0	3.2	3.2	3.9
(D) Measures of Investment				
AEPS (Rs)	22.5	28.3	26.4	33.5
CEPS (Rs)	29.0	36.4	35.1	42.7
DPS (Rs)	10.9	22.1	15.4	19.6
Dividend Payout (%)	48.5	78.3	58.2	58.4
BVPS (Rs)	98.7	105.6	116.7	130.6
RoANW (%)	24.1	27.6	23.8	27.1
RoACE (%)	20.2	23.1	20.2	23.3
RoAIC (%)	31.7	32.1	29.9	38.2
(E) Valuation Ratios				
CMP (Rs)	1688	1688	1688	1688
P/E	74.9	59.8	63.8	50.5
Mcap (Rs Mn)	1,619,510	1,619,510	1,619,510	1,619,510
MCap/ Sales	8.4	8.0	8.1	6.9
EV	1,609,480	1,609,961	1,596,156	1,584,342
EV/Sales	8.4	8.0	8.0	6.8
EV/EBITDA	42.7	38.7	40.5	32.8
P/BV	17.1	16.0	14.5	12.9
Dividend Yield (%)	0.6	1.3	0.9	1.2
(F) Growth Rate (%)				
Revenue	14.4	5.0	(1.1)	17.0
EBITDA	17.8	10.5	(5.4)	22.6
EBIT	10.8	7.6	(8.1)	26.9
PBT	5.6	9.6	(7.4)	26.1
APAT	9.8	25.4	(6.4)	26.5
EPS	9.8	25.4	(6.4)	26.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	25,892	27,183	37,138	39,245
CFI	(9,930)	(2,690)	(7,500)	(7,500)
CFF	(15,569)	(21,103)	(15,834)	(19,931)
FCFF	14,362	23,413	29,638	31,745
Opening Cash	4,047	4,440	7,830	21,634
Closing Cash	4,440	7,830	21,634	33,448

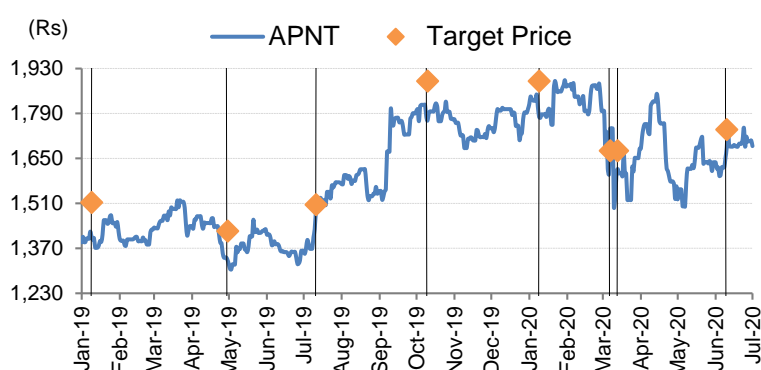
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-19	Accumulate	1,513	1,407
May-19	Reduce	1,424	1,333
Jul-19	Reduce	1,506	1,483
Oct-19	Reduce	1,891	1,767
Jan-20	Reduce	1,891	1,779
Mar-20	Reduce	1,674	1,743
Mar-20	Reduce	1,674	1,617
Jun-20	Reduce	1,740	1,684

*Price as on recommendation date

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