

Asian Paints (APNT IN)

Rating: ACCUMULATE | CMP: Rs1,717 | TP: Rs1,829

July 24, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,829		1,857	
Sales (Rs. m)	2,38,849	2,72,032	2,40,229	2,73,608
% Chng.	(0.6)	(0.6)		
EBITDA (Rs. m)	52,221	58,784	52,920	59,571
% Chng.	(1.3)	(1.3)		
EPS (Rs.)	37.7	43.6	38.3	44.3
% Chng.	(1.5)	(1.5)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	2,02,113	1,99,412	2,38,849	2,72,032
EBITDA (Rs. m)	41,618	41,031	52,221	58,784
Margin (%)	20.6	20.6	21.9	21.6
PAT (Rs. m)	27,023	27,026	36,154	41,835
EPS (Rs.)	28.2	28.2	37.7	43.6
Gr. (%)	25.7	0.0	33.8	15.7
DPS (Rs.)	18.2	5.0	14.0	16.0
Yield (%)	1.1	0.3	0.8	0.9
RoE (%)	27.5	23.8	26.4	25.9
RoCE (%)	32.8	28.5	31.1	30.0
EV/Sales (x)	8.1	8.1	6.7	5.8
EV/EBITDA (x)	39.3	39.3	30.5	26.8
PE (x)	60.9	60.9	45.6	39.4
P/BV (x)	16.3	13.1	11.1	9.4

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.1,917 / Rs.1,395
Sensex / Nifty	38,129 / 11,194
Market Cap	Rs.1,647bn / \$ 22,009m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.9445.22m

Shareholding Pattern (%)

Promoter's	52.79
Foreign	18.21
Domestic Institution	8.95
Public & Others	20.04
Promoter Pledge (Rs bn)	101.39

Stock Performance (%)

	1M	6M	12M
Absolute	(1.7)	(3.9)	15.7
Relative	(10.1)	4.9	14.9

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Long term story on track, Accumulate

Quick Pointers:

- Domestic decorative volumes declined 38%, June volumes increased 14%.
- Strong recovery in Tier2-4 towns even as Metros/Tier1 under pressure

APNT remains optimistic of sustaining June sales trend (14% volume growth) amidst strong demand from Tier2/4 cities (less Covid 19 Impact) and repainting (more time spent at home) even as poor demand from real estate and downtrading remains a near term challenge. Easing of lockdown norms and safe painting campaign has boded well for the company, although Near term pressures in Metros and Tier1 cities, rising spread of Covid19 in smaller cities and sporadic lockdowns remain a key risk. Input cost environment although favorable, is expected to remain volatile. Despite near term challenges, we remain positive in the structural growth story due to 1) product portfolio straddling across price points 2) Scope in entry level paints given deep distribution (2x nearest competitor) and success of new products. We marginally tweak our estimates and expect revenues to grow -1.8% in FY21 and 20% in FY22. We value the stock at 45x Sep-22 EPS of 40.7 and arrive at a target price of 1829 (Earlier Rs1857). Retain Accumulate

Consol sales down 42.7%, Adj PAT down 1.8%: Consol sales down 42.7% to Rs 29.23bn (Est Rs 22.97bn). Gross margins expanded by 110bps to 44.7% (Est 46%). EBITDA fell 58.2% to Rs 4.84bn (Est Rs 2.57bn), EBITDA margins contracted 610bps on increase in employee costs and other expenses by 570bps and 150bps respectively. Adj. PAT declined 67.4% to Rs 2.2bn (Est Rs 890mn)

Standalone sales Standalone sales decreased 44.1% to Rs 24.47bn, Gross margins expanded by 150bps however EBITDA margins contracted by 580bps. Adj. PAT declined 61.4% to Rs 2.52bn on lower taxes and cut in distribution and admin cost. Imputed sub sales declined by 34.3%, EBITDA declined 74.7%.

Concall Takeaways: 1) Decorative Volumes stood at 80% of base in May'20 and grew 14% in June'20. 2) Demand from Tier 2-4 cities remains very strong with metro's and Tier I cities also improving. 3) Sporadic lockdowns due to increase in cases will impact demand. 4) Automotive coating remains impacted by slowdown in auto industry, Industrial coatings witnessing improving trends in protective and powder coating. 5) Home improvement categories stood at 50% of base due to slow progress in new construction 6) Safe Painting and terrace waterproofing campaigns reduced consumer fear helping improve demand. 7) Health and Hygiene segment which includes Royal health shield and Viroprotek gained momentum during Q1 8) Downtrading from super luxury products to value for money and premium products visible 9) Material prices were lower sequentially, expected to remain volatile going forward 10) Dealer network in Tier 2-4 cities expanded but at a lower level. 13) Employee Cost higher on account of one time charge in gratuity 14) Performance of international markets like Sri Lanka and Bangladesh are similar to India however Africa and Middle East recorded double digit volume growth in June as they were less impacted by lockdowns, Ethiopia recorded low single digit growth.

Exhibit 1: Q1FY21 Results- Consolidated (Rs m): Revenues down 42.7% while EBIDA/Adj PAT down 58.2%/67.4%

Consolidated	1QFY21	1QFY20	YoY gr. (%)	4QFY20	FY20	FY19	YoY gr. (%)
Net Sales	29,227	51,047	-42.7	46,356	2,02,113	1,92,401	5.0
Gross Profit	13,077	22,280	-41.3	21,250	88,278	79,757	10.7
% of NS	44.7	43.6	1.1	45.8	43.7	41.5	2.2
Other Expenses	8,234	10,701	-23.0	12,654	46,660	42,100	10.8
% of NS	28.2	21.0		27.3	23.1	21.9	
EBITDA	4,843	11,579	-58.2	8,596	41,618	37,657	10.5
Margins %	16.6	22.7	-6.1	18.5	20.6	19.6	1.0
Depreciation	1,912	1,918	-0.3	1,945	7,805	6,221	25.5
Interest	201	267	-24.5	257	1,023	1,053	-2.8
Other Income	471	735	-35.9	558	3,043	2,330	30.6
PBT	3,200	10,131	-68.4	6,953	35,833	32,713	9.5
Tax	862	3,511	-75.5	2,190	8,549	10,981	-22.1
Tax rate %	26.9	34.7		31.5	23.9	33.6	
Adjusted PAT	2,196	6,742	-67.4	4,803	27,023	21,527	25.5

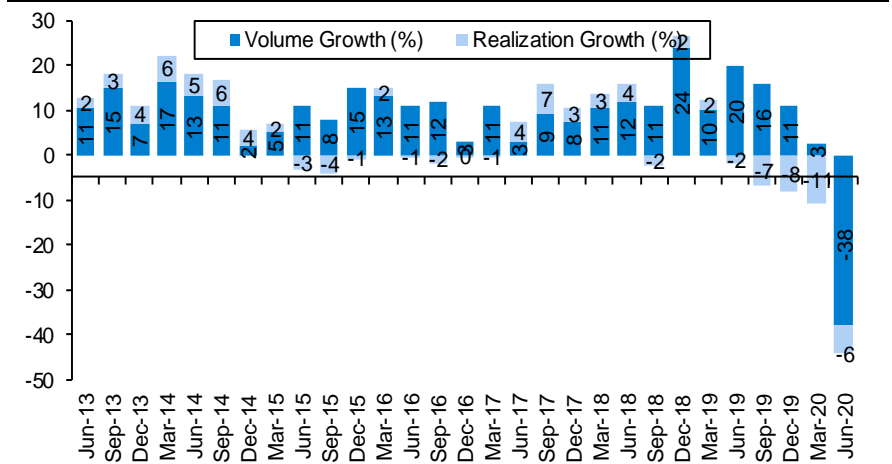
Source: Company Data, PL Research

Exhibit 2: Q1FY21 Results - Standalone (Rs m): Revenues down 44.1%, while EBIDA/Adj PAT down 57.2%/61.4%

Standalone	1QFY21	1QFY20	YoY gr. (%)	4QFY20	FY20	FY19	YoY gr. (%)
Net Sales	24,466	43,802	-44.1	38,790	1,71,941	1,63,918	4.9
Gross Profit	11,337	19,622	-42.2	18,230	76,879	69,812	10.1
% of NS	46.3	44.8		47.0	44.7	42.6	
Other Expenses	6,668	8,723	-23.6	10,472	38,309	34,764	10.2
% of NS	27.3	19.9		27.0	22.3	21.2	
EBITDA	4,670	10,899	-57.2	7,758	38,570	35,048	10.0
Margins %	19.1	24.9	-5.8	20.0	22.4	21.4	1.1
Depreciation	1,669	1,698	-1.7	1,722	6,900	5,408	27.6
Interest	149	193	-22.4	193	784	786	-0.3
Other Income	518	855	-39.4	651	3,575	2,848	25.5
PBT	3,370	9,863	-65.8	6,495	34,462	31,703	8.7
Tax	851	3,339	-74.5	1,642	7,591	10,381	-26.9
Tax rate %	25.3	33.8		25.3	22.0	32.7	
Adjusted PAT	2,519	6,525	-61.4	4,853	26,872	21,322	26.0

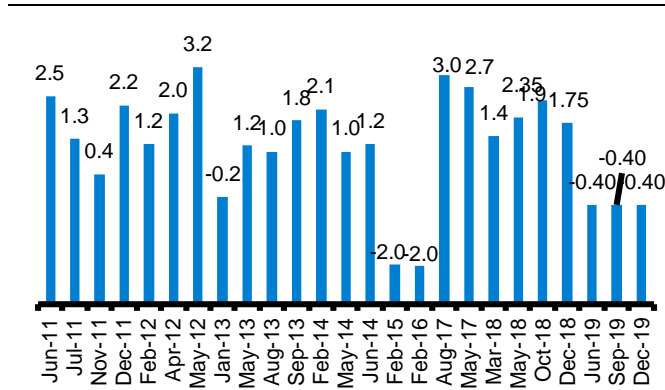
Source: Company Data, PL Research

Exhibit 3: 1Q volumes de-grew 38% due to washout in April'20



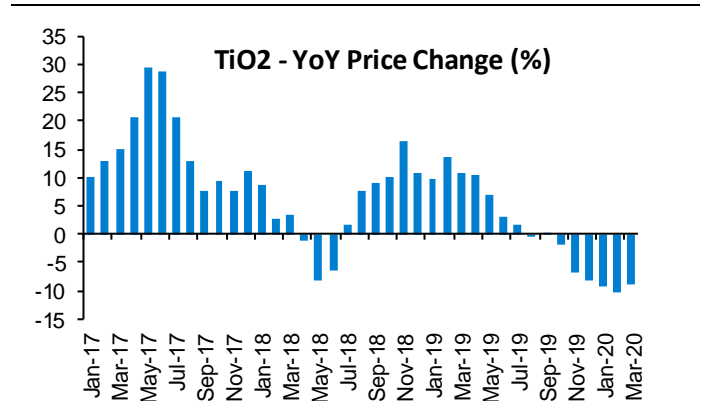
Source: Company, PL

Exhibit 4: Cumulative 1% price cut in FY20



Source: Company, PL

Exhibit 5: TiO2 prices down 7.7% YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,02,113	1,99,412	2,38,849	2,72,032
YoY gr. (%)	4.5	(1.3)	19.8	13.9
Cost of Goods Sold	1,13,835	1,12,399	1,35,262	1,55,577
Gross Profit	88,278	87,013	1,03,587	1,16,455
Margin (%)	43.7	43.6	43.4	42.8
Employee Cost	13,661	14,628	15,964	18,147
Other Expenses	32,999	31,354	35,403	39,524
EBITDA	41,618	41,031	52,221	58,784
YoY gr. (%)	18.1	(1.4)	27.3	12.6
Margin (%)	20.6	20.6	21.9	21.6
Depreciation and Amortization	7,805	7,563	8,171	8,815
EBIT	33,813	33,468	44,050	49,969
Margin (%)	16.7	16.8	18.4	18.4
Net Interest	1,023	803	868	887
Other Income	3,043	3,633	5,410	7,051
Profit Before Tax	35,833	36,298	48,592	56,133
Margin (%)	17.7	18.2	20.3	20.6
Total Tax	8,549	9,256	12,391	14,314
Effective tax rate (%)	23.9	25.5	25.5	25.5
Profit after tax	27,284	27,042	36,201	41,819
Minority interest	769	522	618	604
Share Profit from Associate	507	507	571	620
Adjusted PAT	27,023	27,026	36,154	41,835
YoY gr. (%)	25.7	0.0	33.8	15.7
Margin (%)	13.4	13.6	15.1	15.4
Extra Ord. Income / (Exp)	(50)	-	-	-
Reported PAT	26,973	27,026	36,154	41,835
YoY gr. (%)	25.4	0.2	33.8	15.7
Margin (%)	13.3	13.6	15.1	15.4
Other Comprehensive Income	583	-	-	-
Total Comprehensive Income	27,556	27,026	36,154	41,835
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	28.2	28.2	37.7	43.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	83,658	91,358	1,00,058	1,08,758
Tangibles	79,287	86,787	95,287	1,03,787
Intangibles	4,371	4,571	4,771	4,971
Acc: Dep / Amortization	33,335	38,873	44,918	51,500
Tangibles	31,639	36,663	42,171	48,193
Intangibles	1,696	2,210	2,747	3,307
Net fixed assets	50,322	52,484	55,140	57,257
Tangibles	47,648	50,124	53,116	55,594
Intangibles	2,675	2,361	2,023	1,663
Capital Work In Progress	1,402	6,000	4,000	4,000
Goodwill	3,200	3,200	3,200	3,200
Non-Current Investments	18,271	19,617	21,115	22,692
Net Deferred tax assets	(4,270)	(4,072)	(3,810)	(3,509)
Other Non-Current Assets	12,383	12,128	13,105	13,673
Current Assets				
Investments	5,125	31,631	47,531	65,785
Inventories	33,898	31,687	37,300	42,482
Trade receivables	17,952	19,668	23,230	26,458
Cash & Bank Balance	7,828	7,668	9,103	10,861
Other Current Assets	2,856	4,188	5,016	5,713
Total Assets	1,61,548	1,94,350	2,25,973	2,60,330
Equity				
Equity Share Capital	959	959	959	959
Other Equity	1,00,342	1,24,858	1,47,583	1,74,071
Total Network	1,01,302	1,25,817	1,48,542	1,75,030
Non-Current Liabilities				
Long Term borrowings	186	43	26	15
Provisions	1,808	1,793	1,958	2,226
Other non current liabilities	46	46	46	46
Current Liabilities				
ST Debt / Current of LT Debt	3,215	4,590	4,687	4,796
Trade payables	21,366	24,635	29,646	34,099
Other current liabilities	19,223	23,202	27,082	30,409
Total Equity & Liabilities	1,61,548	1,94,350	2,25,973	2,60,329

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	36,191	36,298	48,592	56,133
Add. Depreciation	7,630	7,563	8,171	8,815
Add. Interest	930	803	868	887
Less Financial Other Income	3,043	3,633	5,410	7,051
Add. Other	-	-	-	-
Op. profit before WC changes	44,752	44,664	57,631	65,835
Net Changes-WC	(2,663)	(20,701)	(23,207)	(25,961)
Direct tax	(8,324)	(9,256)	(12,391)	(14,314)
Net cash from Op. activities	33,765	14,707	22,033	25,560
Capital expenditures	(1,947)	(14,322)	(8,826)	(10,932)
Interest / Dividend Income	-	-	-	-
Others	(649)	(754)	(649)	(697)
Net Cash from Invst. activities	(2,595)	(15,077)	(9,475)	(11,629)
Issue of share cap. / premium	(833)	1,763	(618)	(604)
Debt changes	(5,540)	4,241	3,397	2,889
Dividend paid	(20,988)	(4,796)	(13,429)	(15,347)
Interest paid	(930)	(803)	(868)	(887)
Others	-	-	-	-
Net cash from Fin. activities	(28,291)	405	(11,518)	(13,950)
Net change in cash	2,879	36	1,040	(19)
Free Cash Flow	31,818	385	13,206	14,627

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	28.2	28.2	37.7	43.6
CEPS	36.3	36.1	46.2	52.8
BVPS	105.6	131.2	154.9	182.5
FCF	33.2	0.4	13.8	15.2
DPS	18.2	5.0	14.0	16.0
Return Ratio(%)				
RoCE	32.8	28.5	31.1	30.0
ROIC	28.6	31.9	38.5	41.4
RoE	27.5	23.8	26.4	25.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	55	49	47	47
Valuation(x)				
PER	60.9	60.9	45.6	39.4
P/B	16.3	13.1	11.1	9.4
P/CEPS	47.3	47.6	37.2	32.5
EV/EBITDA	39.3	39.3	30.5	26.8
EV/Sales	8.1	8.1	6.7	5.8
Dividend Yield (%)	1.1	0.3	0.8	0.9

Source: Company Data, PL Research

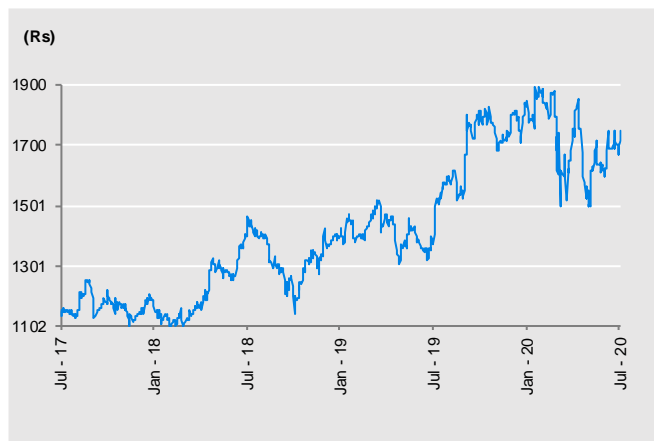
Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	50,507	54,203	46,356	29,227
YoY gr. (%)	8.9	2.4	(7.6)	(42.7)
Raw Material Expenses	29,072	30,890	25,106	16,150
Gross Profit	21,435	23,313	21,250	13,077
Margin (%)	42.4	43.0	45.8	44.7
EBITDA	9,548	11,894	8,596	4,843
YoY gr. (%)	21.8	14.0	4.5	(58.2)
Margin (%)	18.9	21.9	18.5	16.6
Depreciation / Depletion	1,972	1,971	1,945	1,912
EBIT	7,577	9,923	6,651	2,931
Margin (%)	15.0	18.3	14.3	10.0
Net Interest	259	241	257	201
Other Income	1,052	698	558	471
Profit before Tax	8,369	10,381	6,953	3,200
Margin (%)	16.6	19.2	15.0	11.0
Total Tax	72	2,776	2,190	862
Effective tax rate (%)	0.9	26.7	31.5	26.9
Profit after Tax	8,296	7,605	4,763	2,339
Minority interest	220	-	-	-
Share Profit from Associates	125	192	40	(143)
Adjusted PAT	8,201	7,797	4,803	2,196
YoY gr. (%)	66.4	22.7	1.5	(66.6)
Margin (%)	16.2	14.4	10.4	7.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,201	7,797	4,803	2,196
YoY gr. (%)	66.4	22.7	1.5	(66.6)
Margin (%)	16.2	14.4	10.4	7.5
Other Comprehensive Income	74	330	170	(493)
Total Comprehensive Income	8,275	8,127	4,972	1,703
Avg. Shares O/s (m)	959	959	-	959
EPS (Rs)	8.6	8.1	-	2.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Accumulate	1,857	1,746
2	23-Jun-20	Accumulate	1,722	1,689
3	13-Apr-20	Accumulate	1,687	1,651
4	22-Jan-20	Accumulate	1,815	1,779
5	03-Jan-20	Accumulate	1,822	1,751
6	23-Oct-19	Accumulate	1,855	1,767
7	03-Oct-19	Accumulate	1,640	1,749

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,857	1,746
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	287	241
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	521	598
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	194
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	337	352
17	Nestle India	Reduce	14,609	16,912
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

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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