

Strong demand traction in suburban regions...

As expected, Asian Paint's Q1FY21 revenue, earnings declined due to washout of sales in April 2020 but ~14% YoY decorative volume growth in June 2020 was encouraging. Demand was largely supported by a pick-up in repainting/maintenance activities in suburban and rural India, post relaxation from lockdown. According to the management while tier II, tier III cities saw a strong demand recovery in Q1FY21, demand recovery in metros, tier 1 cities (contribute ~40-50% in sales) was slower due to intermediary lockdowns especially in western regions. On the raw material fronts, gross margins expanded ~110 bps YoY but were down QoQ in similar lines mainly due to change in product mix. The favourable raw material prices movement on a month on month basis is likely to keep gross margins elevated for the coming quarter as well. This, coupled with rationalisation of other costs (like rents, advertisement & distribution expenses) would lead to a recovery in EBITDA margin (16.6% in Q1FY21), going forward. We revise our revenue, earnings estimates upside by 10% and 7%, respectively, for FY21E factoring in the current quarter performance. We maintain our positive stance on the stock given its strong balance sheet and robust dealer network.

Double digit volume growth in June 2020

APL saw ~80% volume recovery in May after a washout April due to lockdown. Volume recovery was 62% compared to Q1FY20 led by ~14% YoY volume growth in June 2020. We believe absence of any pricing action and change in product mix kept realisation lower by ~7% YoY in Q1FY21. The other business segments in India including the industrial coatings business and home improvement category also saw a slow recovery in June (post easing of lockdown restrictions). We believe sustained demand in suburban, rural India and demand recovery in metro regions (~50% of sales) would be key factors to watch in upcoming quarters.

Lower operating leverage weighs on EBITDA margin

Better gross margin during Q1FY21E was largely supported by benign raw material prices. The company has taken major initiatives to control cost by rationalising costs associated with rents, freight, distribution, etc, resulting in ~37% YoY decline in other cost in Q1FY21. However, EBITDA margin decline of ~600 bps YoY was largely attributable to low operating leverage.

Valuation & Outlook

Asian Paints with its prudent balance sheet management with stringent control on working capital cycle should easily navigate through this challenging demand condition. **However, we believe most positives are priced in the stock. Hence, we maintain our target price and HOLD rating on the stock.**



Particulars

Particular	Amount
Market Capitalization (₹Crore)	1,63,989.0
Total Debt (FY 20) (₹Crore)	340.1
Cash & Inv (FY 20) (₹Crore)	1,562.2
EV (₹Crore)	1,62,766.9
52 week H/L (₹)	1915/1431
Equity capital (₹Crore)	95.9
Face value (₹)	1.0

Key Highlights

- Total 80% volume recovery in May 2020 compared to same period last year
- Total 62% volume recovery in Q1FY21 compared to same period last year, led by 14% YoY volume growth during June'20
- Strong demand traction from tier II, tier III cities while demand recovery was slower in metros
- Maintain target price at ₹1900/share and HOLD rating on stock

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (20-22E)
Net Sales	16824.6	19240.1	20211.3	19074.6	23018.2	6.7
EBITDA	3197.6	3765.5	4161.8	3553.3	4900.5	8.5
EBITDA Margin (%)	19.0	19.6	20.6	18.6	21.3	
Net Profit	2097.5	2213.8	2779.1	2087.3	3130.6	6.1
EPS (₹)	21.9	23.1	29.0	21.8	32.6	
P/E (x)	78.2	74.1	59.0	78.6	52.4	
Price/Book (x)	19.5	17.3	16.2	15.3	14.1	
Mcap/Sales (x)	9.7	8.5	8.1	8.6	7.1	
RoE (%)	24.4	23.4	27.4	19.4	26.9	
RoCE (%)	31.6	28.9	30.5	22.6	31.0	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	2,922.7	2,212.8	5,104.7	-42.7	4,635.6	-37.0	Impacted by lockdown in the month of April'20
Other Income	47.1	55.3	73.5	-35.9	55.8	-15.6	Lower treasury income led decline in other income
Raw Material Exp	1,615.0	1,192.4	2,876.7	-43.9	2,510.6	-35.7	Increase in gross margin (up 110 bps YoY) supported by benign raw material prices
Employee Exp	361.5	276.6	339.9	6.4	335.6	7.7	
Manufacturing & Oth exp	461.9	380.6	730.2	-36.7	929.8	-50.3	Cost rationalisation on the rent, advertisement, freight cost pull down other expenditures meaningfully
Total Exp	2,438.4	1,849.6	3,946.8	-38.2	3,776.0	-35.4	
EBITDA	484.3	363.2	1,157.9	-58.2	859.6	-43.7	
EBITDA Margin (%)	16.6	16.4	22.7	-611 bps	18.5	198 bps	Lower operating leverage drags the margin
Depreciation	191.2	194.4	191.8	-0.3	194.5	-1.7	
Interest	20.1	10.3	26.7	-24.5	25.7	-21.6	
Exceptional items							
PBT	320.0	213.8	1,011.0	-68.3	695.3	-54.0	
Total Tax	86.2	53.7	351.1	-75.5	219.0	-60.7	
PAT	219.6	163.0	672.1	-67.3	480.3	-54.3	Lower sales result in PAT decline during Q1FY 21 though much better than our estimate
Key Metrics							
Volume growth (%)	-38.0	-52.0	15.5		2.0		Volume recovery was ~62% as compared to Q1FY 20 led by ~14% YoY decorative volume growth in the month of June'20
Realisation growth (%)	-7.7	-7.6	0.6		-9.0		Change in product mix (skewed more towards lower end products) overall product portfolio impacted realisation

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY21E			FY22E			Comment
	Old	New	% Chg	Old	New	% Chg	
Revenue	17422.0	19074.6	9.5	22463.0	23018.2	2.5	We have adjusted our estimates, taking in consideration of current quarter impact
EBITDA	3283.5	3553.3	8.2	4870.0	4900.5	0.6	
EBITDA Margin (%)	18.8	18.6	-17bps	21.7	21.3	-41bps	We believe, benign raw material prices likely to keep margin at elevated level
PAT	1952.5	2087.3	6.9	3120.0	3130.6	0.3	
EPS (₹)	20.4	21.8	6.9	32.5	32.6	0.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Volume Growth (%)	11.0	13.2	10.4	(4.6)	19.5	(14.1)	23.4	We model flatish volume CAGR of ~6% in FY 20-22E
Realisation Growth (%)	2.4	1.4	(5.5)	(0.9)	0.9	0.5	4.4	We believe realisation growth would be limited on account of change in product mix

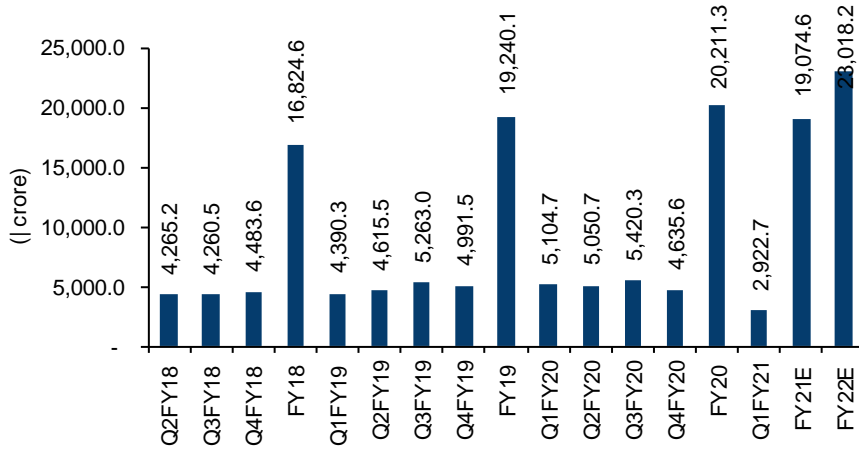
Source: Company, ICICI Direct Research

Conference call highlights

- Total 80% volume recovery in May 2020 was largely backed by pent up demand. Volume growth of 14% in June was largely led by repainting and maintenance works. Overall there was 62% of volume recovery in Q1FY21 compared to same period last year
- Strong demand traction from tier II, tier III cities while intermediary lockdown in the metro and tier 1 cities impacted the recovery process. Demand recovery in western regions was low due to higher number of Covid-19 infections
- Inventory level has normalised at the dealer level. The company has not witnessed any exceptional inventory level at channel
- New products sanitisers and PPE have very miniscule revenue contribution at the current level
- The fear factors are getting normalised and people are adjusting to the fear of infections. Hence, we expect future demand to remain at the level of June 2020
- The product mix is likely to remain skewed towards economic range of products. Economy products (distemper, putty, economic enamels) continued to grow at a faster pace compared to premium products
- Water based products contribute large part of the portfolio. However some raw materials (like monomers) used in manufacturing process are prone to crude oil price movements. Hence, movement in crude oil prices impact the water based product portfolios also
- Water proofing industry in India is pegged at ~₹ 6000 crore, however, much lower compared to China wherein the size is pegged at US\$22 billion. The company sees significant growth potential in this segment, going forward
- Favourable operating conditions in markets in Middle East and Africa though key markets of Nepal and Bangladesh in Asia were impacted by pandemic lockdowns
- Raw material prices were benign in Q1FY21 resulting in an increase in gross margin YoY. The management has guided that raw material prices are likely to remain stable in the coming quarter

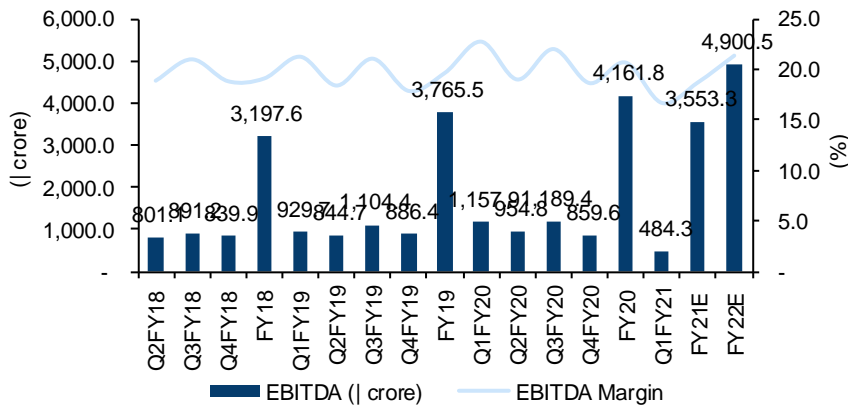
Financial story in charts

Exhibit 4: Recovery in volume growth from H2FY21E supported by festive demand



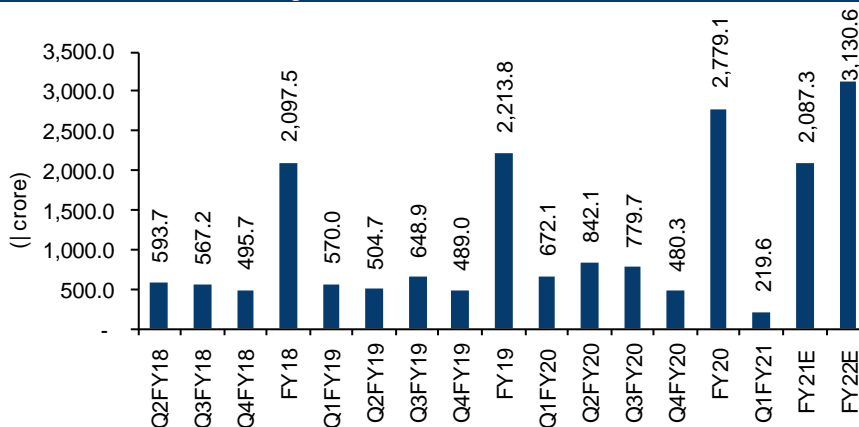
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



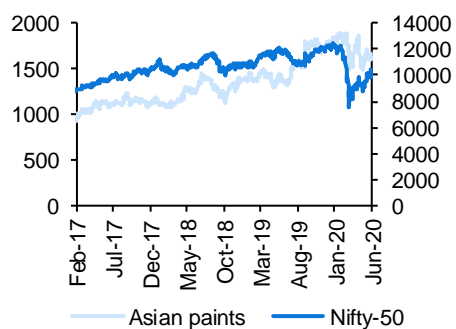
Source: Company, ICICI Direct Research

Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

Exhibit 7: Historical Price Chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	52.8	52.8	52.8	52.8	52.8
FII	16.7	16.7	17.2	17.2	18.2
DII	8.9	10.8	10.3	10.0	9.0
Others	21.6	19.8	19.7	20.1	20.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Revenue	19,240.1	20,211.3	19,074.6	23,018.2
Growth (%)		5.0	-5.6	20.7
Raw Material Expenses	11,264.6	11,383.5	10,636.6	12,625.7
Employee Expenses	1,236.8	1,366.1	1,365.9	1,453.4
Other expenses	2,973.2	3,299.9	3,518.8	4,038.5
Total Operating Expenditure	15,474.6	16,049.5	15,521.3	18,117.6
Growth (%)		3.7	-3.3	16.7
EBITDA	3,765.5	4,161.8	3,553.3	4,900.5
Growth (%)		10.5	-14.6	37.9
Depreciation	622.1	780.5	934.7	920.7
Interest	105.3	102.3	102.3	89.5
Other Income	233.0	304.3	267.0	257.8
PBT	3,271.2	3,583.3	2,783.4	4,148.1
Total Tax	1,098.1	854.9	712.9	1,045.0
Profit from Associates	40.7	50.7	16.8	27.6
PAT	2,213.8	2,779.1	2,087.3	3,130.6
Growth (%)		25.5	-24.9	50.0

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit before Tax	2,213.8	2,779.1	2,087.3	3,130.6
Add: Depreciation	622.1	780.5	934.7	920.7
(Inc)/dec in Current Assets	-457.5	-395.9	-816.9	-951.7
Inc/(dec) in CL and Provision	489.0	-522.0	28.3	635.7
Others	105.3	102.3	102.3	89.5
CF from operating activities	2,972.8	2,744.1	2,335.7	3,824.9
(Inc)/dec in Investments	-427.9	549.7	-500.0	-900.0
(Inc)/dec in Fixed Assets	-2,197.0	-488.1	-400.0	-500.0
Others	856.5	29.6	54.9	-99.3
CF from investing activities	-1,768.3	91.2	-845.1	-1,499.3
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	94.8	-275.5	22.0	22.0
Dividend paid & dividend tax	-1,210.2	-1,383.1	-2,019.7	-2,244.1
Inc/(dec) in Sec. premium	-48.5	-838.8	447.1	-89.5
CF from financing activities	-1,163.9	-2,497.3	-1,550.6	-2,311.6
Net Cash flow	40.6	337.9	-60.0	13.9
Opening Cash	404.3	444.9	782.8	722.9
Closing Cash	444.9	782.8	722.9	736.8

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	9,374.6	10,034.2	10,651.3	11,537.8
Total Shareholders funds	9,470.5	10,130.1	10,747.2	11,633.7
Total Debt	615.6	340.1	362.1	384.1
Deferred Tax Liability	543.3	443.8	443.8	443.8
Minority Interest	361.3	403.5	423.7	444.9
Total Liabilities	11,690.3	12,089.0	12,748.2	13,677.9
Gross Block	7,770.5	8,328.1	8,728.1	9,228.1
Less: Acc Depreciation	1,595.3	2,375.8	3,310.4	4,231.2
Capital WIP	209.7	140.2	140.2	140.2
Total Fixed Assets	6,384.9	6,092.6	5,557.9	5,137.2
Other Investments	405.8	456.6	756.6	1,156.6
Liquid Investments	2,162.8	1,562.2	1,762.2	2,262.2
Goodwill on Consolidation	321.3	320.0	320.0	320.0
Current Assets				
Inventory	3,149.9	3,389.8	3,658.1	4,288.3
Debtors	1,913.4	1,799.4	2,403.9	2,522.5
Loans and Advances	94.2	86.9	88.9	90.9
Other Current Assets	752.8	1,030.0	972.0	1,173.0
Cash	444.9	782.8	722.9	736.8
Total Current Assets	6,355.1	7,088.9	7,845.9	8,811.6
Liabilities				
Creditors	2,394.3	2,136.6	2,247.1	2,522.5
Provisions	231.8	243.2	255.8	287.1
Other current liabilities	1,961.7	1,686.0	1,591.2	1,920.1
Total Current Liabilities	4,587.8	4,065.8	4,094.1	4,729.8
Net Current Assets	1,767.3	3,023.2	3,751.7	4,081.7
Other Non Current Assets	648.2	634.4	599.7	720.2
Total Assets	11,690.3	12,089.0	12,748.2	13,677.9

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	23.1	29.0	21.8	32.6
Cash EPS	29.6	37.1	31.5	42.2
BV	98.8	105.6	112.1	121.3
DPS	12.6	14.4	21.1	23.4
Cash Per Share	16.6	24.8	34.5	44.1
Operating Ratios (%)				
EBITDA Margin	19.6	20.6	18.6	21.3
EBIT Margin	16.3	16.7	13.7	17.3
PAT Margin	11.5	13.8	10.9	13.6
Activity Ratios				
Inventory days	59.8	61.2	70.0	68.0
Debtor days	36.3	32.5	46.0	40.0
Creditor days	45.4	38.6	43.0	40.0
Return Ratios (%)				
RoE	28.9	30.5	22.6	31.0
RoCE	23.4	27.4	19.4	26.9
RoIC	39.8	39.1	28.5	41.9
Valuation Ratios (x)				
P/E	74.1	59.0	78.6	52.4
EV / EBITDA	43.0	38.9	45.6	32.9
EV / Net Sales	8.4	8.0	8.5	7.0
Market Cap / Sales	8.5	8.1	8.6	7.1
Price to Book Value	17.3	16.2	15.3	14.1
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.1	0.1
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.3	1.6	1.7	1.7
Quick Ratio	0.6	0.7	0.8	0.8
Target P/E	82.3	65.6	87.3	58.2

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Asian Paints (ASIPA)	1,712	1,900	Hold	1,64,181	29.0	21.8	32.6	59.1	78.7	52.4	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0	
Astral Polytechnik (ASTP)	926	900	Hold	13,951	16.6	14.2	20.0	55.9	65.0	46.2	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4	
Amber Enterprises (AM)	1,477	1,565	Hold	4,645	52.2	15.1	54.9	28.3	97.7	26.9	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7	
Bajaj Electricals (BAJEL)	411	495	Buy	4,673	0.0	4.1	14.8	NM	100.4	27.8	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2	
Berger Paints (BERPA)	524	570	Hold	50,891	6.8	6.0	10.0	77.6	87.5	52.3	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7	
Essel Propack (ESSPRC)	194	190	Hold	5,518	6.7	6.0	7.9	29.0	32.3	24.6	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2	
Havells India (HAVIND)	607	575	Buy	37,871	11.7	7.8	13.2	51.7	77.5	45.9	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1	
Kansai Nerolac (KANNE)	434	415	Buy	23,389	9.9	7.8	10.4	43.7	55.6	41.7	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7	
Pidilite Industries (PIDINI)	1,378	1,485	Hold	70,647	21.9	18.3	26.2	63.0	75.2	52.6	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6	
Polycab India (POLI)	819	950	Buy	12,193	51.4	42.2	55.4	15.9	19.4	14.8	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0	
Supreme Indus (SUPIND)	1,135	1,040	Hold	14,418	38.5	36.8	27.6	39.7	30.8	41.1	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5	
Symphony (SYMLIM)	846	1,055	Buy	5,918	26.0	23.7	35.1	32.5	35.7	24.1	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9	
Time Techno (TIMTEC)	39	42	Hold	882	7.5	3.2	9.0	5.2	12.3	4.3	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7	
V-Guard Ind (VGUARD)	169	210	Buy	7,194	4.4	3.5	5.1	38.8	47.8	33.2	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2	
Voltas Ltd (VOLTAS)	595	635	Buy	19,679	15.8	9.5	21.4	37.8	62.6	27.8	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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