

Asian Paints

De-facto king

Asian Paints (52/64% revenue/PAT share) with 2.5-7x active dealers than the next three paint companies remains de-facto king in distribution/supply chain of paints in India. Coupled with better price laddering of products across categories/price points, this has ensured its unhindered dominance over decades. Promising optionality in waterproofing/other adjacent categories (we build in 40-50bp incremental growth from waterproofing) could surprise on the upside. We build in Sales/EBITDA/PAT CAGR of 8/9/10% over FY20-23E. Alas! all pluses seem priced-in at 55x Sept-22 P/E. We initiate coverage with a Reduce Reco and DCF-based TP of Rs. 1,800/sh (implying 50x Sep-22 P/E).

- **Volume Now, Value Later:** GST rate cuts and recent capacity bump-ups (50%+) are known catalysts for APNT's aggressive pivot to low-end paints market (low-end emulsions, distempers, and putty). More importantly, our channel checks/product pricing analysis suggest that APNT has bettered its price laddering across categories/price points (**Price Ladder**). The pandemic-induced plausible down-trading theme in FY21/22 could also be serviced aggressively, given APNT's capacity arbitrage (1.73mn KL/pa). We believe APNT's 'Volume Now' focus could pay future dividends as newly recruited low-end consumers eventually ladder up in paint choices (Value Later).
- **Distribution arbitrage steady as a rock:** APNT has consistently been able to better its distribution lead even within the Top-3, in terms of exclusive network. Of note: despite Colors World growing at 11% CAGR over FY15-20, the throughput/active dealer remains consistent (Rs. 2.9mn per Color World outlet), validating APNT's strong salience across paint segments.
- **Waterproofing—promising optionality:** Commonality in application time and sales channel makes waterproofing products a 'must-have' for paint companies for incremental growth (**Waterproofing Market sizing**). We expect APNT's waterproofing portfolio to outpace category growth, given its distribution arbitrage, and bake in 22% CAGR over FY20-25E (to add ~40-50bp incremental growth to standalone operations).
- **Margin gains likely to be modest over FY21-23:** While demand shock-led benign RM costs are likely to keep GMs elevated in FY21 at 45.1% (up 150bp YoY), the latter is likely to mean revert over FY20-23, given (1) demand recovery and (2) focus on low-end products. Despite this, we build in almost no EBITDAM contraction as (1) capacity utilisation improves, underpinned by volume-led growth, and (2) freight costs reduce in the South.
- **Valuation and outlook:** APNT's dominance remains untouched given its strong distribution/supply chain moat and better-aligned product portfolio. However, at 55x Sept-22 P/E, pluses seem more than priced in, ergo our Reduce Reco. We assign a DCF-based TP of Rs. 1,800/sh (implying 50x Sep-22 P/E). Implied assumptions: (1) 10-year APNT revenue CAGR: 12%, (2) FY20-41 FCFF CAGR: 12.7%, (3) WACC: 10.5%, (4) Terminal growth: 6%.

Financial Summary

	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	193,415	202,113	188,760	230,410	256,587
EBITDA	35,245	41,618	38,689	48,500	53,015
APAT	21,595	27,101	24,211	32,032	36,148
EPS (Rs)	22.5	28.3	25.2	33.4	37.7
P/E (x)	86.9	69.2	77.5	58.6	51.9
EV/EBITDA (x)	53.3	45.0	48.0	38.0	34.5
Core RoCE (%)	25.2	27.7	23.5	31.5	35.0

Source: Company, HSIE Research

REDUCE

CMP (as on 04 Sep 2020)	Rs 1,956
Target Price	Rs 1,800
NIFTY	11,334

KEY CHANGES	OLD	NEW
Rating	-	ADD
Price Target	-	Rs 1,800
EPS %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (Rs bn) / (\$ mn)	1,876/25,660
6m avg traded value (Rs mn)	4,828
52 Week high / low	Rs 2,017/1,431

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.7	5.8	27.4
Relative (%)	6.8	6.0	23.0

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	59.52	59.50
FIs & Local MFs	8.27	9.64
FPIs	23.04	21.95
Public & Others	9.17	8.91
Pledged Shares	6.27	6.18

Source : BSE

Varun Lohchab

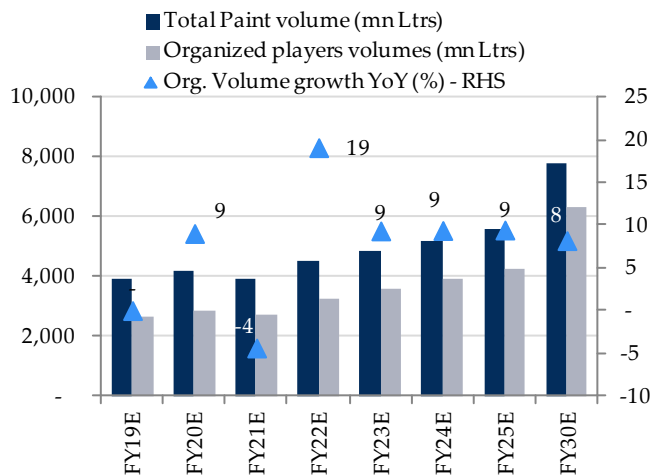
varun.lohchab@hdfcsec.com
+91-22-6171-7334

Jay Gandhi

jay.gandhi@hdfcsec.com
+91-22-6171-7320

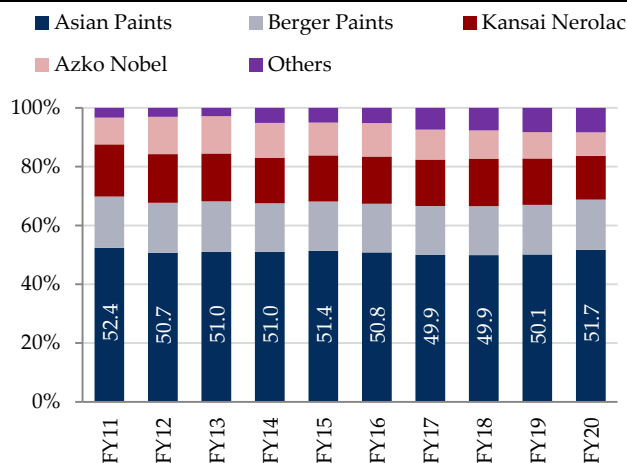
Focus Charts

Industry paint volume forecasts



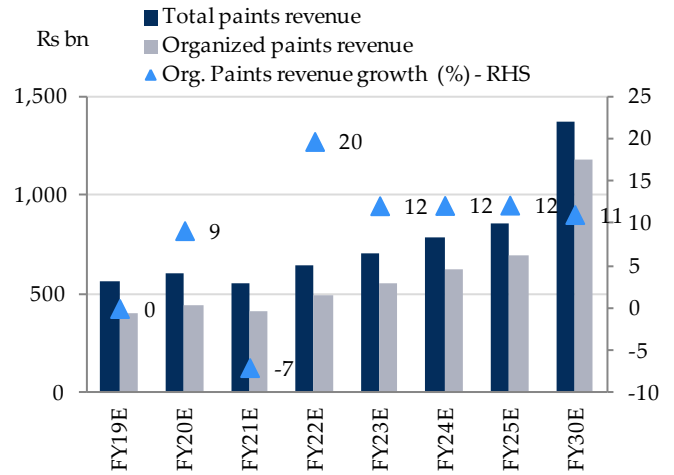
Source: HSIE Research

AP continues to wield dominance in Paints Sector with ~52% revenue market share in the organised pie...



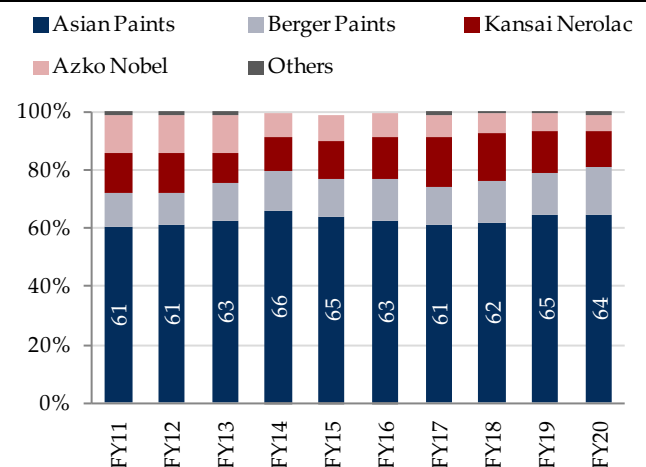
Source: Companies, HSIE Research

Industry and organised paints revenue forecasts



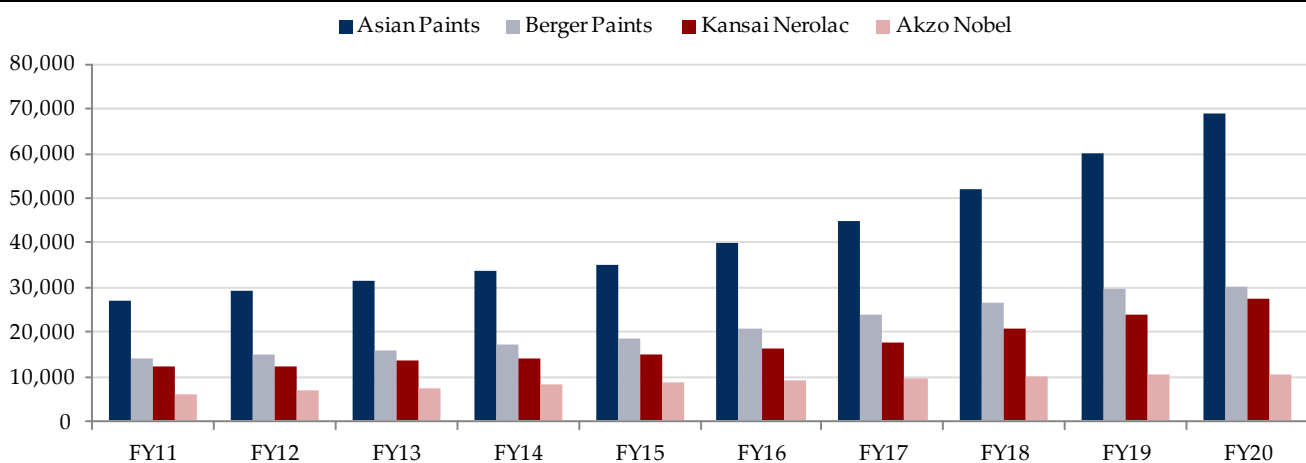
Source: HSIE Research

...and nearly two-thirds PAT share...



Source: Companies, HSIE Research

...as distribution arbitrage continues to remain high (2.5-7x dealers base of immediate peers)



Source: Companies, HSIE Research

Volume Now, Value Later

- The GST rate reduction in paints (Jul-2018: 28% to 18%) did catalyse the unorganised to organised shift, spurring volumes in the decorative business, especially in lower-end emulsions, distempers and putty for the organised paint companies. The pandemic is likely to further this trend as paint companies:
 - (1) Step up aggression in servicing the plausible down-trading theme during/in the aftermath of the pandemic.
 - (2) At least in the near term, attempt at mustering as much volume as possible from the relatively lesser impacted Tier 2/3/4 towns to reduce the FY21 topline/profitability impact.
 - (3) Service the need for healthier paint options at the higher end.
- This necessitates close monitoring of the paint offerings across price points and the distribution/supply chain might of companies. Asian Paints acs these variables. If one reads the table below, it is evident that while APNT remains at a premium to peers, its price laddering is better than peers' in the economy segment (this holds true for other segments as well). Hence, the decision to latch on to the next upgrade gets more palatable to the consumer/influencer.
- We believe Asian Paints' 'Bottom of the Pyramid (Volume Now) focus could further strengthen its competitive advantage and pay future dividends as newly recruited low-end consumers eventually premiumise/ladder up in paint choices (Value Later).
- In the economy segment, Asian Paints' aggression is palpable, as can be seen from its recent launches. The company recently launched the Tractor Aqualock low-end emulsion (cheaper than many distemper options) to attempt at latching on to the upgradation move from distemper to emulsion. The price laddering is also sharper vs peers. This trend is visible even in the faster growing exterior paints segment.
- As per channel checks, the company continues to be aggressive (in terms of incentives) both on the Tractor range (interior emulsion) and the Ace range (exterior emulsion) to gain share at the bottom of the pyramid.

Company-wise offerings in the economy segment

Company wise offerings in the economy segment			
Category	Company	Product	Price per ltr
Economy - Interior	Asian Paints	Tractor Emulsion Shyne	220
		Tractor Emulsion	200
		Tractor Uno	118
		Tractor Aqualock	83
		Tractor Sparc	83
		Tractor Emulsion Advanced	83
	Berger Paints	Bison Acrylic Emulsion	116
		Commando Interior Acrylic Paint	69
		Bison Distemper	47
	Kansai Nerolac	LITTLE MASTER	92
BEAUTY SMOOTH FINISH		68	
BEAUTY ACRYLIC DISTEMPER		49	
Economy - Exterior	Asian Paints	Ace Shyne	181
		Ace Advanced	176
		Ace Exterior Emulsion	166
		Ace Sparc	136
	Berger Paints	Walmasta	187-191
	Kansai Nerolac	SURAKSHA ADVANCED	148
		SURAKSHA PLUS	125
		EXCEL ANTI-PEEL	171
		SURAKSHA	90

Source: Companies, HSIE Research

- In the Standard range, APNT's Apcolite range of products (interior paints) have better price laddering; however, BRGR's Weather Coat and APNT's Apex ranges (exterior paints) are evenly matched in terms of salience and dealer preference (as per channel checks). Note: the highlighted products depict better price laddering vs peers within the standard range.

Category	Company	Product	Price per liter
Standard - Interior	Asian Paints	Apcolite Premium Satin Emulsion	327
		Apcolite Advanced Heavy Duty Emulsion	336
		Apcolite Advanced Shyne	329
		Apcolite Premium Emulsion	290
	Berger Paints	Easy Clean	354
		Rangoli Total Care	255
	Kansai Nerolac	BEAUTY GOLD	203
		PEARLS LUSTRE FINISH	107
		LOTUS TOUCH	164
		PEARLS EMULSION	180
		BEAUTY SILVER	134
Standard - Exterior	Asian Paints	Apex Ultima	322
		Apex Advanced	306
		Asian Paints Ace	138
	Berger Paints	WeatherCoat Anti Dust	358
		WeatherCoat Smooth	326-343
		WeatherCoat Champ	316
		WeatherCoat Smooth Group 1	313
	Kansai Nerolac	Excel Total	290
		EXCEL TILE GUARD	252

Source: Companies, HSIE Research

- APNT's management highlighted that the two segments that seem to be recovering faster are the extreme top and bottom end of the market. Within the premium products, consumers seem to be gravitating more towards paints with anti-bacterial protection such as APNT's Royale Health Shield. Within the premium interior paints basket too, APNT seems to have better-laddered its products vis-a-vis competition (Royale range: Rs 264-652/litre vs BRGR's Silk range: Rs 450-867/litre and KNPL's Impression range: Rs 337-869/litre). APNT's laddering advantage extends to its exterior portfolio too.

Company-wise premium paint products portfolio

Premium – Interior			Premium – Exterior		
Company	Product	Price per ltr	Company	Product	Price per ltr
Asian Paints	Royale Aspira	652	Asian Paints	Apex Ultima Protek Duralife	652
	Royale Lustre	264		Apex Ultima Protek	470
	Royale Health Shield	562		Apex Ultima Protek Lamino	841
	Royale Atmos	548		Apex Ultima	386
	Royale Matt	519		Apex Shyne	288
	Royale Shyne Luxury Emulsion	513		Apex Weatherproof Emulsion	279
	Royale Luxury Emulsion	471	Berger Paints	WeatherCoat Floor Protector	505
Berger Paints	Silk Glamor XP Advanced Silk Glamor Silver Base	867		WeatherCoat All Guard New	473
	Silk Breathe Easy - XP	604		WeatherCoat Smooth	326-343
	Silk Glamor XP Advanced Silk Glamor White	604	Kansai Nerolac	WeatherCoat Champ	316
	Silk Luxury Emulsion	511		EXCEL EVERLAST	218
	Silk Luxury Emulsion - High sheen finish	512		EXCEL MICA MARBLE	234
	Silk Luxury Emulsion	450			
Kansai Nerolac	IMPRESSIONS METALLIC FINISH	869			
	IMPRESSIONS IDEAZ	452			
	IMPRESSION ULTRA HD	422			
	IMPRESSION ULTRA FRESH	412			
	IMPRESSIONS ECO CLEAN	371			
	IMPRESSIONS24 CARAT	337			

Source: Companies, HSIE Research

- **Distemper and putty market closely fought:** Both Asian Paints and Berger Paints seem to have better-laddered products vs peers (for instance, APNT's distempers range from Rs. 46-63 per litre, BRGR's: Rs 46-50 per litre and others Rs 56-68 per litre).

Company-wise Distemper range

Company	Products	Price Per kg
Asian Paints	Tractor Uno Acrylic Distemper	46
	Tractor Acrylic Distemper	67
	Tractor Aqualock	63
Berger Paints	Bison Distemper	46
Nerolac	BEAUTY ACRYLIC DISTEMPER	50
Indigo	Acrylic Distemper Gold	68
	Acrylic Distemper Silver	53
	Acrylic Pouch Distemper	70

Source: Companies, HSIE Research

Company-wise Putty range

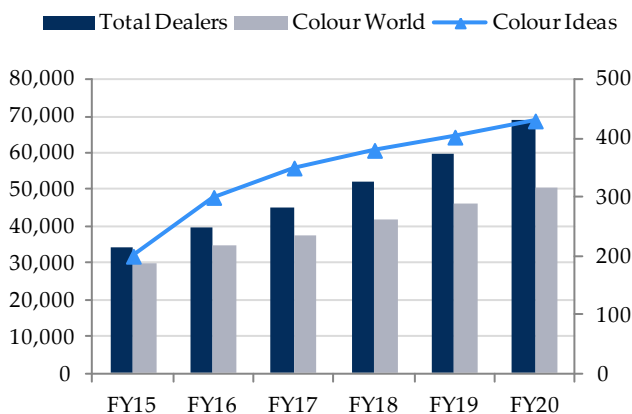
Company	Products	Price Per kg
Asian Paints	Acrylic Wall Putty	59
	TruCare 2x Primer Putty Mix	53
	TruCare Super Putty	21
Berger Paints	Bison Exterior Putty	29
	Bison Wall Putty	26
	Happy Walls Acrylic Wall Putty	56
Kansai Nerolac	Putty Filler Grey Knifing	98
	ReadyMix Primer Putty	45
	Wall Putty Acrylic	44
Dulux Paints	Woodguard Putty	130
Indigo Paints	Acrylic Wall Putty	77
	Polymer Putty	35
	Polymer Putty Gold	37

Source: Companies, HSIE Research

Distribution arbitrage steady as a rock

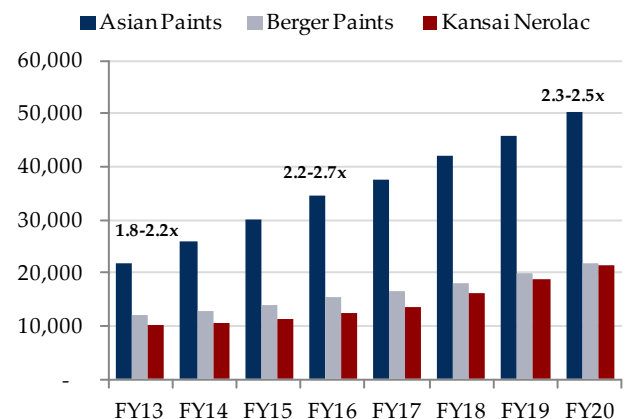
- The voluminous nature of paints, high working capital investments (35-40 inventory days), modest dealer margins (5-10%), 3500+ SKUs to be managed and space constraints make it difficult for paint dealers to stock paint offerings of multiple paint companies. To add insult to injury, a dealer also has to install tinting machines to make paint shades as per consumer needs. Given these bottlenecks, a paint dealer in India typically restricts himself to stocking 1-2 paint brands (this is in contrast to global models, wherein big-box distributors have enough space to stock smaller brands as well).
- It explains why APNT has consistently been able to better its distribution lead even within the Top-3, in terms of the exclusive dealership as the virtuous cycle of better off-take leads to more dealer onboarding, which in turn leads to more influencers vouching for the product, which in turn leads to higher throughput per dealer. It ties back in to more dealers preferring to stock APNT as the anchor brand. Of note: despite Colors World growing at 11% CAGR over FY15-20, the throughput per dealer has not declined (Rs. 2.9mn per Color World outlet).
- While BRGR and KNPL have managed to keep pace on total dealers added and are likely to outpace APNT incrementally on this variable (APNT intends to add 3000 dealers per year), the interesting monitorable would be the incremental throughput achieved for these new dealers over time.

APNT: Colour World accounts for nearly 75% of distribution footprint



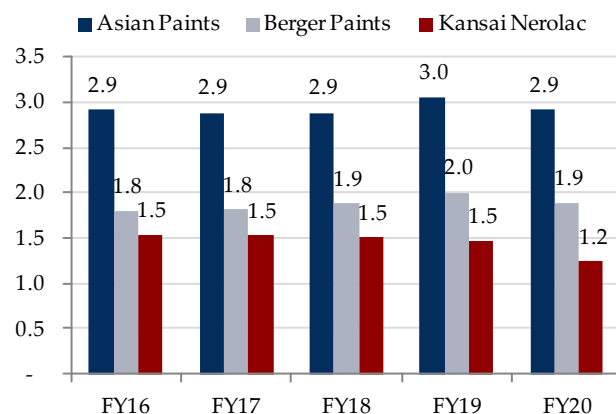
Source: Company, HSIE Research

The exclusive dealership arbitrage has only increased with time



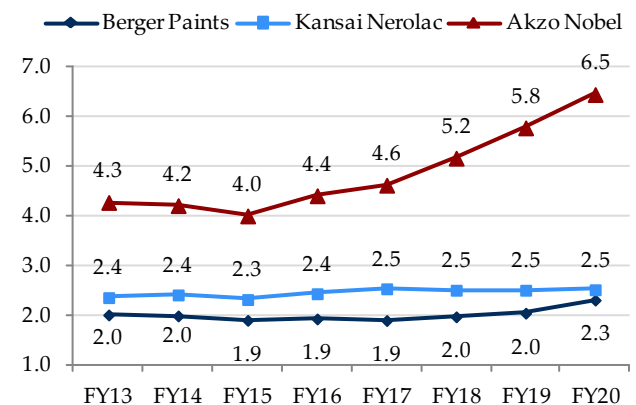
Source: Companies, HSIE Research

Company-wise revenue per active dealer (Rs. mn)



Source: Companies, HSIE Research, NOTE: Revenue adjusted to account for only decorative revenue. 90% of deco rev assigned to active dealers

APNT's dealer multiple vs peers



Source: Companies, HSIE Research, How to Read the chart: Eg: APNT's dealer base has grown from 4.3x of Akzo Nobel in FY13 to 6.5x in FY20, BRGR and KNP L have kept pace.

Promising optionality in waterproofing

- Of the estimated Rs. 85bn construction chemicals pie, the waterproofing segment is pegged at ~Rs19bn (as per channel checks), and penetration of waterproofing solutions remains significantly low (~4%). This offers a significant opportunity for paint companies to penetrate as the products are typically used whilst painting homes, and influencers typically are paint dealer/contractors – Advantage Paint Companies.
- The industry is at a nascent stage and offers significant growth opportunity over the next decade. However, much heavy-lifting in terms of category building and awareness is yet to be done. Given that paint companies have joined big construction chemical players such as Pidilite, BASF, Fosroc, Sika and CICO, category awareness is likely to increase. As intermediary knowledge and consumer understanding improve, we expect the waterproofing category to clock a 17% CAGR over FY20-25E to touch ~Rs.42bn.
- We expect APNT's waterproofing portfolio (~2-3% of revenue) to outpace category growth, given its distribution arbitrage, and bake in 22% CAGR over FY20-25E and add a conservative 40-50bp incremental growth to standalone operations (there could be an upside risk to this estimate).
- The company has been consistently beefing up its waterproofing portfolio since its entry in FY13 with crack-filling offerings and dampness solutions via its *SmartCare* and *Damp Proof* range.
- Note: while the company is present in adhesives, bridging the distribution gap with market leader Pidilite seems unlikely; hence, we remain more circumspect on the adhesives segment of APNT (brands: *Loctite* and *TruGrip*).

Sizing the waterproofing market

	FY20E	FY21E	FY25E	FY30E	10-yr CAGR
Population size (mn)	1,380	1,397	1,465	1,555	1.2
Total coatable area for waterproofing (mn sq ft)	26,163	26,520	28,005	29,991	
Cost per sq ft (Rs) – Waterproofing	20	21	23	26	
Potential addressable market size (Rs mn)	523,250	543,660	633,694	767,821	
YoY (%)		3.9	3.9	3.9	
Construction chemical market (Rs mn)	80,000	80,000	138,704	260,096	12.5
YoY (%)	15	-	14	13	
Contribution of waterproofing in category	22.0	23.0	27.0	32.0	
Waterproofing chemical market (Rs mn)	17,600	18,400	37,450	83,231	16.8
YoY (%)	20.5	4.5	18.4	16.6	
Penetration %	3.4	3.4	5.9	10.8	
Asian Paints Waterproofing revenue (estimate)	5,000	5,500	13,341	33,344	20.9
YoY (%)		10.0	23.0	18.3	
Asian Paints revenue standalone net revenue	166,941	140,334	274,544	532,942	12.3
YoY (%)		-	15.9	11.2	
Asian Paints revenue standalone net revenue (ex-Waterproofing)	161,941	134,834	261,204	499,598	11.9
YoY (%)		-	16.7	10.8	
Waterproof's contribution to standalone growth (bp)		80.1	38.0	44.3	
Market share in Waterproofing (%)	28.4	29.9	35.6	40.1	

Source: Companies, HSIE Research

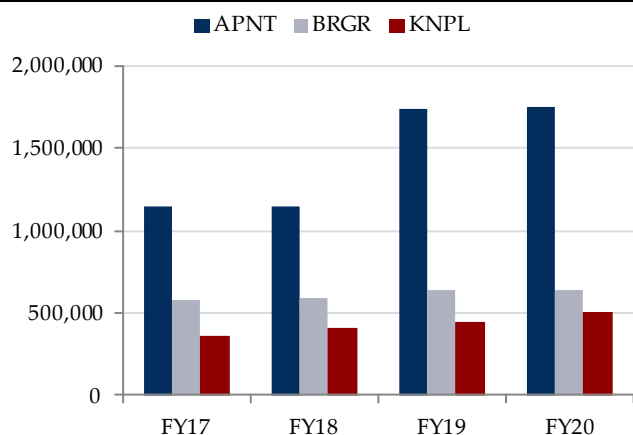
- **Big Capex cycle over, ergo well-placed to play the volume game:** APNT commissioned Phase 1 (capacity 0.3mn KL each) of its plants in Mysuru (Sep-18) and Vizag (4QFY19), increasing its capacity by >50%. This addition, in our view, is expected to benefit the company in its volume-led growth strategy in the medium to long term. Meanwhile, Pre-COVID, BRGR and KNPL operated at 73-75% capacity utilisation. Hence, once demand normalises, post the pandemic, the #2/3 players will require to step on another Capex cycle (perhaps by FY23-24). Hence, to that extent, free cash flow profile may look inferior momentarily vs APNT.
- Of note: The last big Capex cycle happened in FY13, and the industry absorbed the excess within five years.
- We believe this windfall capacity addition would further consolidate volumes in the hands of the Top-3 players.

List of manufacturing plants with capacities

City	State	Installed capacity (KL/per annum)	Products manufactured
Decorative Paint plants			
Mysuru	Karnataka	300,000	Integrated plant - Putty-to-emulsions, Water-based paints and intermediaries, adhesives, sealants. (Capex incurred: INR 23bn)
Visakhapatnam	Andhra Pradesh	300,000	Integrated plant - Putty-to-emulsions, water-based paints and intermediaries, adhesives, sealants. (Capex incurred: INR 17.85bn)
Rohtak	Haryana	400,000	Emulsions
Khandala	Maharashtra	300,000	Emulsions
Sriperumbudur	Tamil Nadu	140,000	Emulsions
Ankleshwar	Gujarat	130,000	Paints, emulsions, synthetic resins plant
Kasna	Uttar Pradesh	80,000	Emulsions
Patancheru	Telangana	80,000	Emulsions
Industrial Paint plants			
Sarigam	Gujarat	7200 MT	Powder coatings
Taloja	Maharashtra	14000 KL	Industrial coatings
Dahej	Gujarat		Resin manufacturing facility for PPG -AP
Chemical plants			
Cuddalore	Tamil Nadu	6720 MT	Pentaerythritol Plant - inputs used to make Alkyd resins
Total capacity		1,730,000	

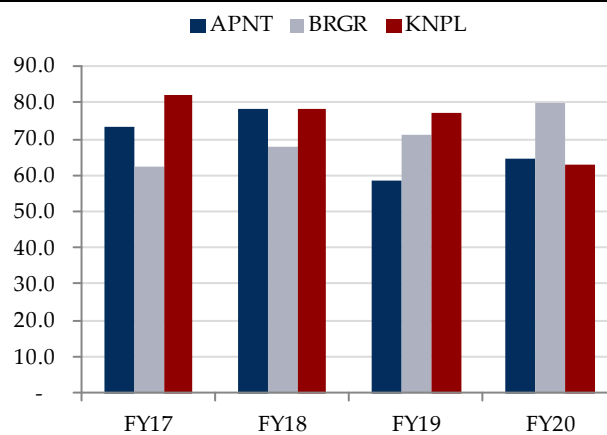
Source: Companies, HSIE Research

Company-wise capacity (KL/pa)



Source: Companies, HSIE Research

Estimated capacity utilisation (%)



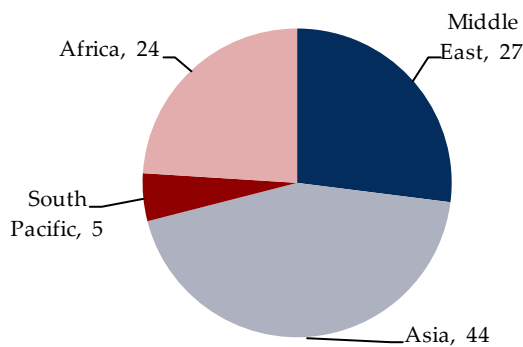
Source: Companies, HSIE Research

International business chugging along

- APNT's international business (12% of consolidated sales) has grown at a decadal 9% LTL growth (slower than the core decorative business, which grew at 12% over FY10-20). This segment of APNT's operations has had quite a roller-coaster journey. In the recent past, the segment has faced issues such as forex shortages for its raw material imports in Ethiopia, high inflation/currency devaluation in Egypt, and geopolitical unrests in Sri Lanka and varying degrees of COVID impact.
- Profitability contracted in FY18 for the international business and has since remained stagnant as macros played spoilt sport; we do not expect any material improvement in profitability as unfavourable operating leverage would offset any GM savings in FY21 due to the pandemic.

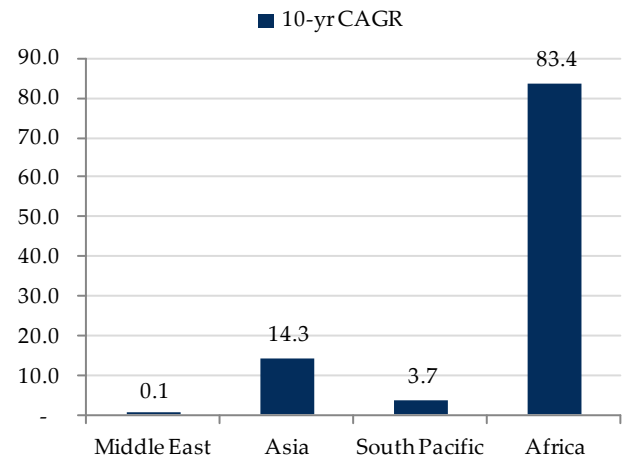
APNT's international portfolio (%)

FY20



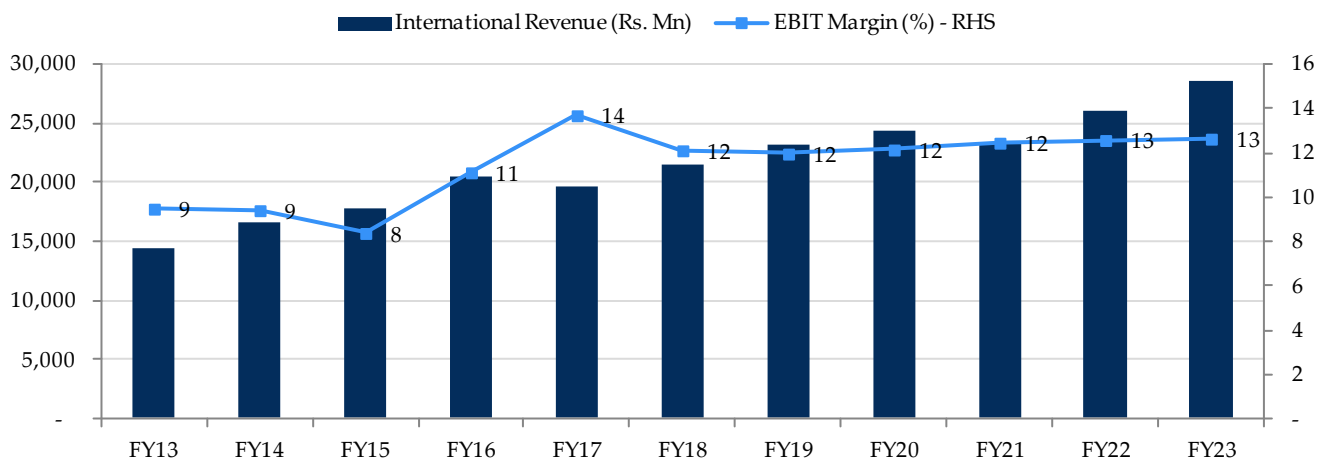
Source: Companies, HSIE Research

APNT's geography-wise international performance



Source: Companies, HSIE Research, Note: Africa CAGR is for FY15-20

Profitability contracted in FY18 and has since remained stagnant for international business as macros played the spoilt sport; we do not expect any material improvement in profitability as GM savings are likely to be offset by negative operating leverage in FY21

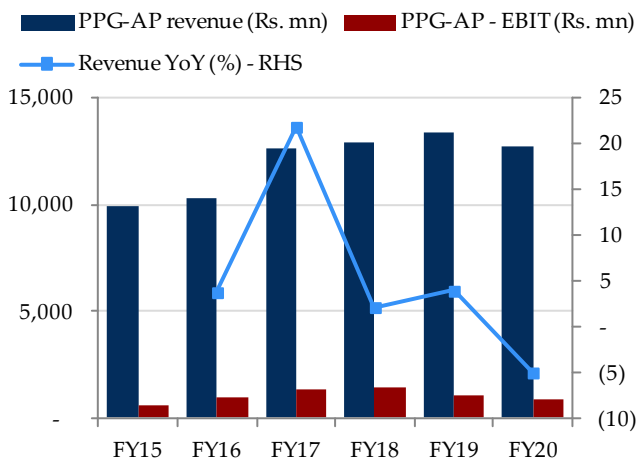


Source: Companies, HSIE Research

Industrial performance to remain severely impacted

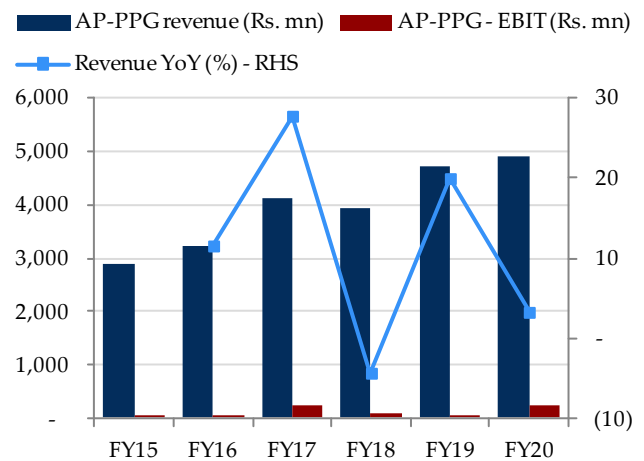
- PPG-AP, APNT's automotive JV with PPG, was already impacted by the auto slowdown since FY18. This JV is likely to see a fresh round of pain, given the pandemic-induced impact on auto volumes in FY21. Impact on profitability is likely to be severe as the ability to raise prices remains restricted or tied in to the performance of clients.
- We expect AP-PPG, the non-auto industrial JV, to relatively do better, given the thrust on protective and powder coating. That said, when juxtaposed with historical performance, AP-PPG is likely to have a soft FY21.

PPG-AP (Auto JV) continues to struggle



Source: Companies, HSIE Research

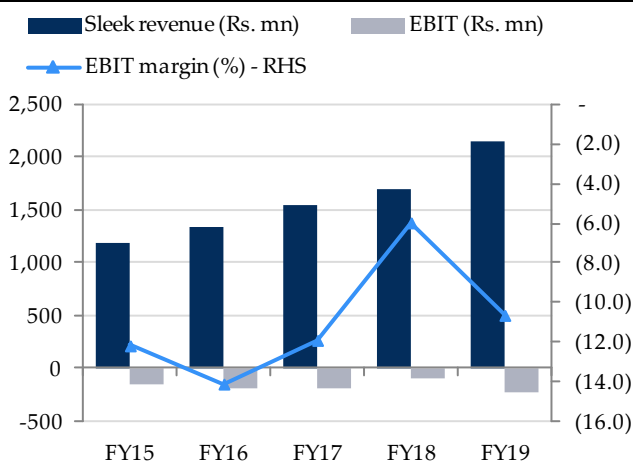
Non-Auto JV AP-PPG has performed sporadically



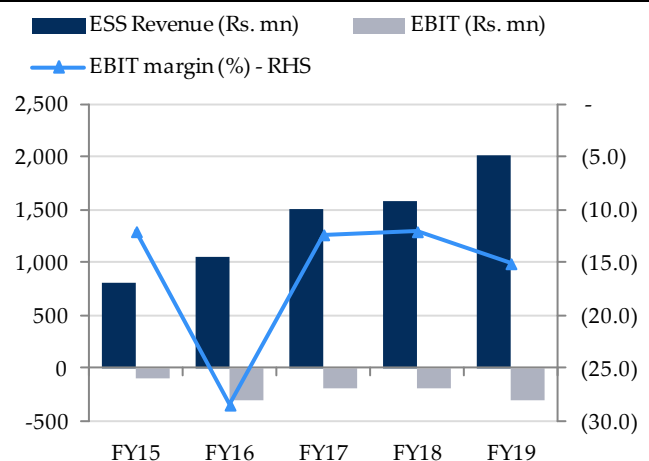
Source: Companies, HSIE Research

- Home improvement businesses (Sleek and Ess Ess bath fittings) continues to ramp up well:** Both the kitchen solutions (Sleek) and bath solutions (Ess Ess) brands have clocked revenue CAGRs of 22/25% over FY15-19 on the back of consistent network expansion. Sleek has 185 stores as of FY20 and has expanded its presence in Southern markets during the same time. In Ess Ess, the company has increased its dealer base by 650 to 1,650 dealers in FY19. We believe growth would moderate in kitchen and bath businesses in FY21/22 and most of it would be new dealer-linked, given the headwinds faced by the real estate sector.

APNT's Homes improvement category Sleek & Ess remain a work-in-progress



Source: Companies, HSIE Research



Source: Companies, HSIE Research

The quarter gone by: Demand catches the flu

- **Underlying demand recovery still a question mark:** APNT's 1QFY21 results were better than street's expectations owing to better recovery in May/June volume growth trends (80% of base/~14% YoY respectively) and benign raw material trends (gross margin was up ~110bps YoY). Domestic Decorative paints business volume declined ~38%. However, we remain circumspect of any real progression in volume recovery as the May/June recovery is mostly a function of (1) pent-up demand and (2) incentivised channel up-stocking.
- **Tier 2/3/4 cities outperformed metros and Tier 1 cities:** Management highlighted that Tier 2/3/4 cities witnessed better recovery than metros/Tier 1 cities due to lower severity and paranoia of the pandemic and better crop harvest. West India, along with metro/ Tier 1 cities (comprising 45-50% of sales), saw significant demand destruction, courtesy the pandemic, and Management does not discount the possibility of downtrading in FY21. Dealer expansion did happen in Tier 3/4 cities but was more tapered than normal run-rates.
- **Industrial segment remains severely impacted:** Auto coatings JV, PPG-AP faced a double whammy of sorts – (1) COVID19-induced lockdown and (2) already slowing auto sales. Industrial coatings (AP-PPG JV) business too remained impacted; however, the momentum in protective coatings and powder coatings has progressively improved June-2020 onwards.
- **International business – demand in Asia remains challenged, Middle East/Africa did well:** Demand across all markets improved progressively during 1Q, APNT reported double-digit volume growth in June in the international business after a decline in April and May. Asia remained most impacted due to COVID19-led lockdown and associated challenges in Nepal in April and May. The Middle East and Africa markets did relatively better and have been open for business since end-April.
- **Margins:** GM at 44.7% was up 120 bps YoY but down 110 bps sequentially, courtesy a deteriorating mix. EBITDA margin at 16.5% was down 600 bps YoY, mainly due to adverse operating leverage. Employee costs increased 5% YoY due to one-time adjustment to gratuity liabilities. Other costs declined 37% YoY, closely tracking volume decline, indicating significant work done on fixed costs reduction. Net profit declined 67% YoY to Rs2.2 bn.
- **Playing on the front foot in waterproofing:** APNT's continues to play on the front foot in the promising waterproofing category. This segment continues to outpace APNT's decorative paints vertical and the management remains focused on revving up product portfolio and distribution for the category. Management indicated that profitability of waterproofing segment is comparable to decorative paints on the retail side, whereas margins are far lower in the institutional segment.
- **Home improvement business halves:** Modular kitchen (Sleek) and bath fittings (Ess Ess) business declined 50% YoY. Recovery in these segments was a bit soft as compared to decorative paints due to higher dependence on new construction and renovations.
- **Inventory position and Capex commentary:** Dealer inventory as on 1QFY21 remained near normal levels (not exceptionally high). Management highlighted that the big Capex cycle is now over (FY20), and incremental Capex would likely be towards maintenance in FY21.

Quarterly Snapshot - Consolidated

Rs. Mn	1QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21
Net Revenue	51,047	46,356	29,227	(42.7)	(37.0)	202,113	165,139
Total COGS	28,768	25,106	16,150	(43.9)	(35.7)	113,835	90,264
Gross Profit	22,280	21,250	13,077	(41.3)	(38.5)	88,278	74,875
Gross Profit Margin (%)	43.6	45.8	44.7	110 bps	(110 bps)	43.7	45.3
Total Operating expenses	10,701	12,654	8,234	(23.0)	(34.9)	46,660	40,038
Reported EBITDA	11,579	8,596	4,843	(58.2)	(43.7)	41,618	34,837
EBITDA Margin (%)	22.7	18.5	16.6	(611 bps)	(198 bps)	20.6	21.1
Depreciation	1,918	1,945	1,912	(0.3)	(1.7)	7,805	8,126
EBIT	9,661	6,651	2,931	(69.7)	(55.9)	33,813	26,711
EBIT Margin (%)	18.9	14.3	10.0	(890 bps)	(432 bps)	16.7	16.2
Finance cost	267	257	201	(24.5)	(21.6)	1,023	955
Other income	735	558	471	(35.9)	(15.6)	3,043	3,172
PBT	10,130	6,953	3,200	(68.4)	(54.0)	35,833	28,929
Exceptional Item							
Tax Expenses	3,511	2,190	862	(75.5)	(60.7)	8,549	6,943
Effective Tax Rate (%)	34.7	31.5	26.9	(774 bps)	(458 bps)	23.9	24.0
Share of associate earnings	122	40	(143)	(217.1)	(460.6)	507	342
Minority Interest						690	587
EO items	-	-	-			(50)	-
PAT	6,741	4,803	2,196	(67.4)	(54.3)	27,052	21,740
APAT margin (%)	13.2	10.4	7.5	(569 bps)	(285 bps)	13.4	13.2
Operating Expenses (Rs mn)	10701	12654	8234	(23.0)	(34.9)	46660	40038
Employee expenses	3399	3356	3615	6.4	7.7	13661	14037
Other expenses	7302	9298	4619	(36.7)	(50.3)	32999	26001

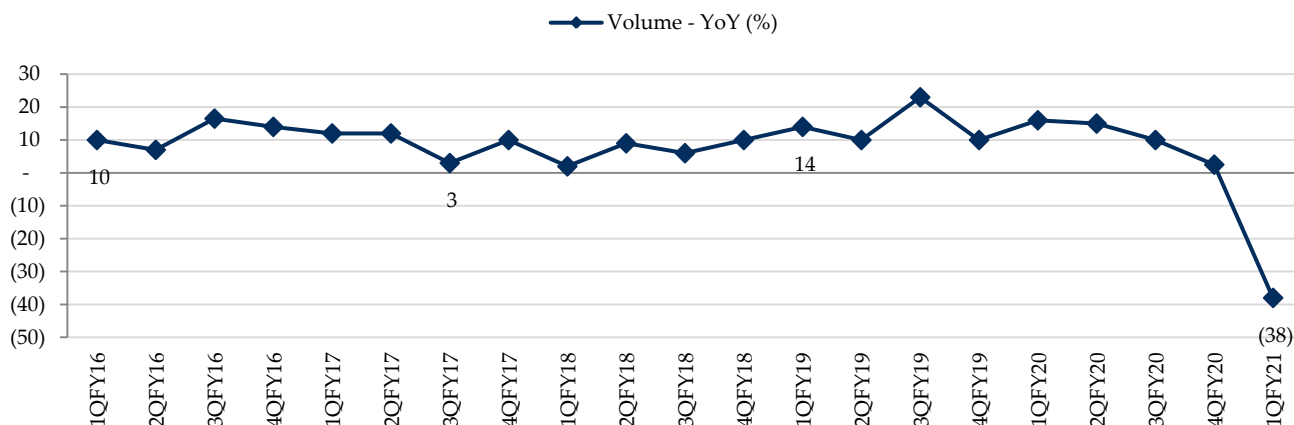
Source: Companies, HSIE Research

Quarterly Snapshot -Standalone

Rs. Mn	1QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	1QFY21E	FY20
Net Revenue	43,802	38,790	24,466	(44.1)	(36.9)	24,466	171,941
Total COGS	24,180	20,560	13,128	(45.7)	(36.1)	13,128	95,062
Gross Profit	19,622	18,230	11,337	(42.2)	(37.8)	11,337	76,879
Gross Profit Margin (%)	44.8	47.0	46.3	154 bps	(66 bps)	46.3	44.7
Total Operating expenses	8,723	10,472	6,668	(23.6)	(36.3)	6,668	38,309
Reported EBITDA	10,899	7,758	4,670	(57.2)	(39.8)	4,670	38,570
EBITDA Margin (%)	24.9	20.0	19.1	(579 bps)	(91 bps)	19.1	22.4
Depreciation	1,698	1,722	1,669	(1.7)	(3.0)	1,669	6,900
EBIT	9,201	6,037	3,001	(67.4)	(50.3)	3,001	31,671
EBIT Margin (%)	21.0	15.6	12.3	(874 bps)	(330 bps)	12.3	18.4
Finance cost	193	193	149	(22.4)	(22.8)	149	784
Other income	855	651	518	(39.4)	(20.4)	518	3,575
PBT	9,863	6,495	3,370	(65.8)	(48.1)	3,370	34,462
Exceptional Item							
Tax Expenses	3,339	1,642	851	(74.5)	(48.2)	851	7,591
Effective Tax Rate (%)	33.8	25.3	25.3	(860 bps)	(3 bps)	25.3	22.0
Share of associate earnings	-	-	-	#DIV/0!	#DIV/0!	-	-
Minority Interest	-	-	-			-	-
EO items	-	332	-			-	(332)
PAT	6,525	4,521	2,519	(61.4)	(44.3)	2,519	27,204
APAT							27,536
APAT margin (%)	14.9	11.7	10.3	(460 bps)	(136 bps)	10.3	15.8
Operating Expenses (Rs mn)	8723	10472	6668	(23.6)	(36.3)	6668	38,309
Employee expenses	2475	2372	2719	9.8	14.6	2719	9,854
Other expenses	6248	8100	3949	(36.8)	(51.3)	3949	28454

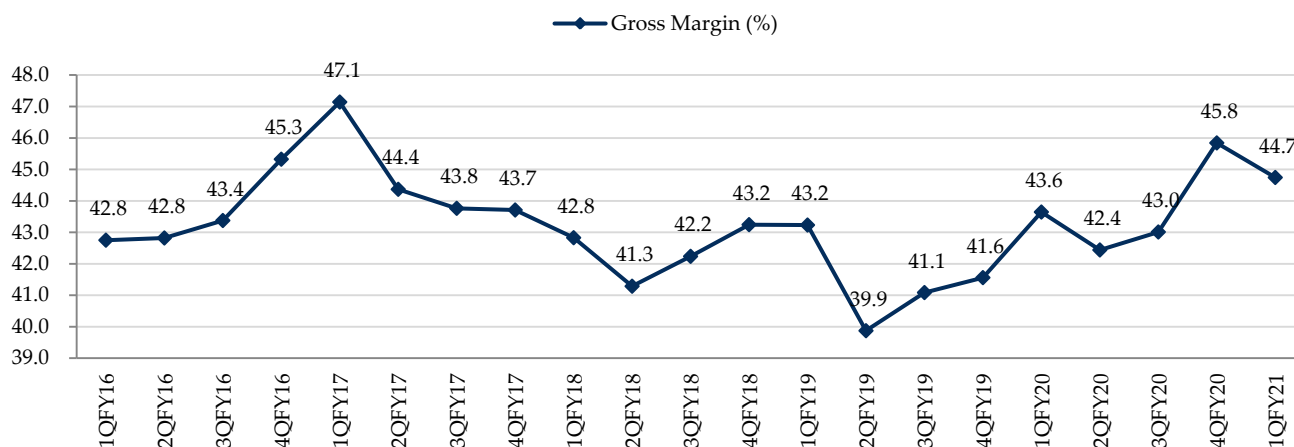
Source: Companies, HSIE Research

1QFY21: Volume declines by 38% YoY



Source: Companies, HSIE Research

1QFY21: Gross margins dip sequentially due to deteriorating mix



Source: Companies, HSIE Research

Key assumptions

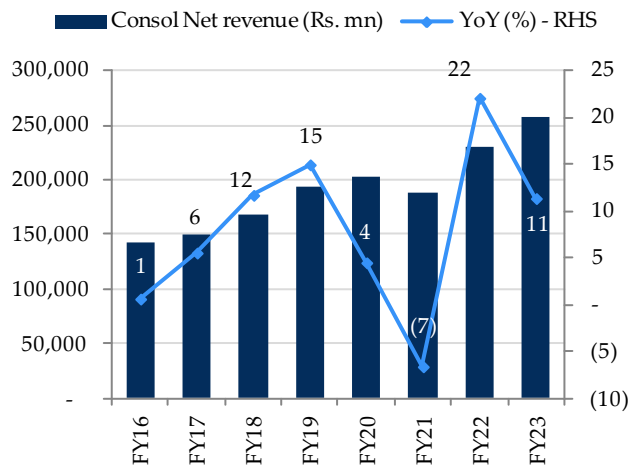
Key assumptions	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Standalone volume growth (%)	12.0	9.5	7.0	14.0	11.2	(3.0)	30.0	13.0
Standalone realisation growth (%)	(3.4)	(1.8)	(4.7)	(0.7)	(4.1)	(4.0)	(4.0)	(2.0)
Revenue growth (%)	2.2	7.7	1.4	12.6	4.9	(7.0)	23.8	11.5
International sales growth (%)		(3.7)	8.9	8.2	5.0	(4.6)	11.6	9.9
International EBIT margin (%)	13.7	12.1	12.0	12.1	12.5	12.6	12.6	12.7
Gross margin (%)	43.6	44.7	42.4	41.4	43.7	45.1	43.6	43.4
EBITDA margin (%)	19.4	19.8	19.0	18.2	20.6	20.5	21.0	20.7

Source: Companies, HSIE Research

Financial analysis

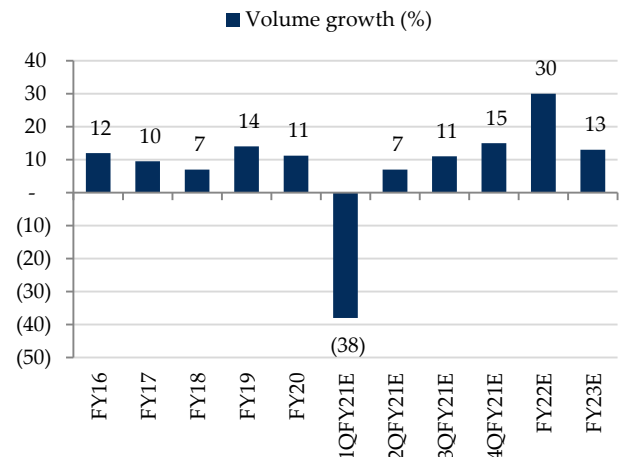
- We build in a moderate ~8% revenue CAGR for APNT over FY20-23 as the industry bellwether spends the rest of FY21 (9M) recouping lost 1QFY21 volumes. We expect APNT to lose 3% of its FY20 base volumes in FY21 (-7% revenue decline in standalone operations), courtesy the pandemic-led demand destruction. Value is likely to continue lagging volumes as focus shifts on revving up volumes in lower-end products and in Tier 2/3/4 cities/towns/geographies, which are relatively less impacted.

Baking in 8% revenue CAGR over FY20-23



Source: Companies, HSIE Research

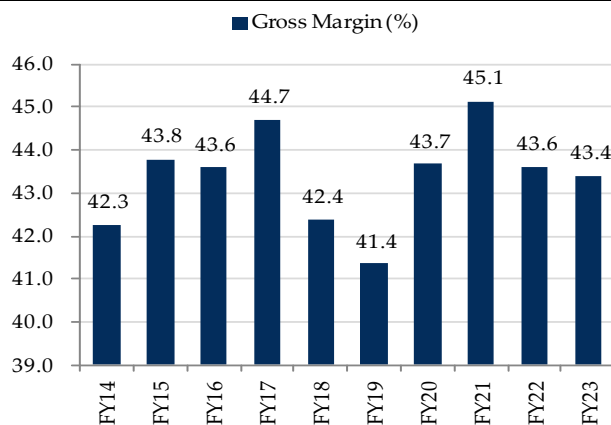
APNT: Volume trajectory



Source: Companies, HSIE Research

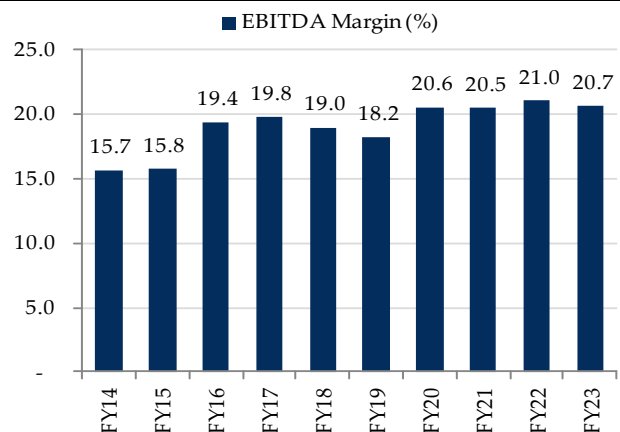
- Raw material prices have significantly corrected (TiO₂ and crude-linked derivatives, which account for 80% of raw material costs for paint companies, are down 18-22% YoY). We believe the flow-through in material costs may remain relatively low in FY21 vs street expectations (modest 150bp savings factored in GMs for APNT for FY21) as a better part of 1H is likely expected to be about clearing high-cost inventory and, as demand gradually recovers 2H onwards, raw material costs are likely to firm up. Also, a part of GM savings may find its way to incentivise the dealer network for up-stocking.

Modest material cost savings factored in FY21 as key raw materials could firm up once demand recovers...



Source: Companies, HSIE Research

...while GMs are likely to mean-revert, we expect the cost of operations to come down due to higher capacity utilisation and lower freight costs in the South



Source: Companies, HSIE Research

APNT: RM Cost Index

Key RMs have corrected significantly

Asian Paints RM Cost Index



TIO2 China



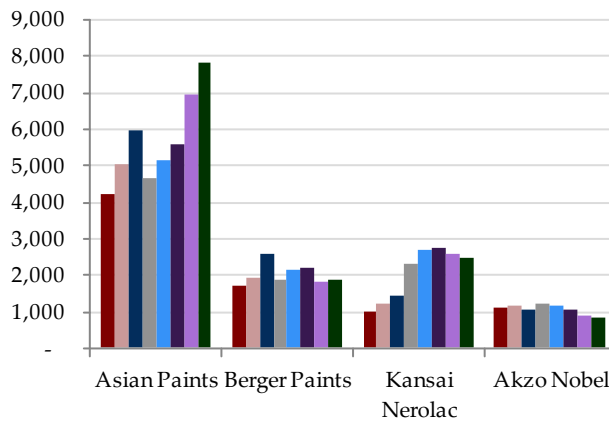
Brent Crude oil (USD)



APNT continues to be relatively aggressive on A&P spends to improve portfolio salience, immediate peers have stepped off aggression FY17 onwards

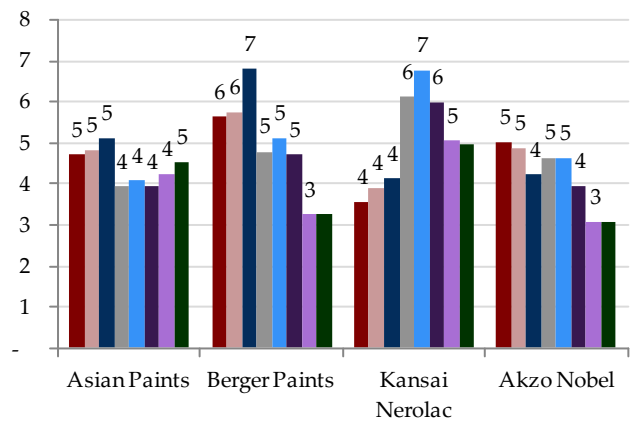
A&P spends (as a percentage of revenue)

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20



Source: Companies, HSIE Research

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20

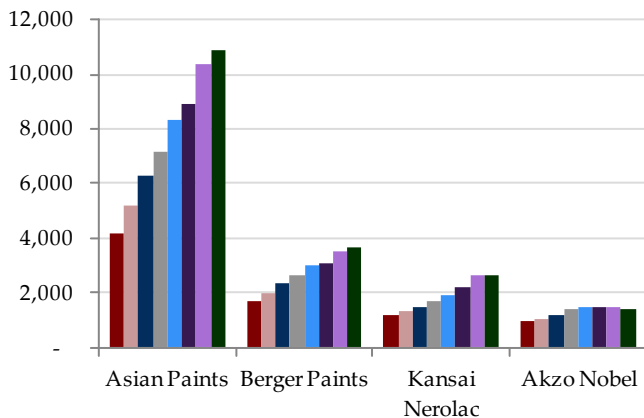


Source: Companies, HSIE Research

Company-wise F&H expenses (Rs. mn)

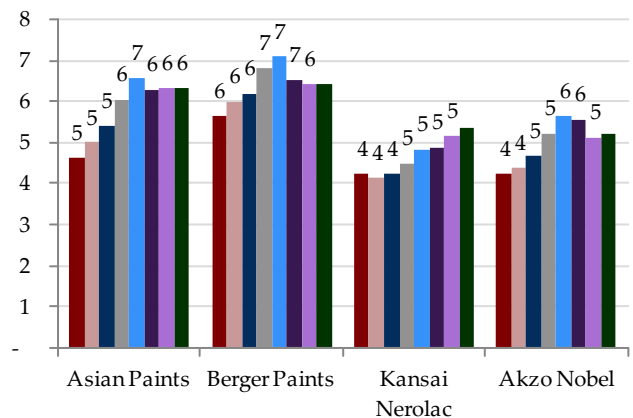
FY17 onwards, F&H expenses have largely mimicked sales for the Top 4

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20



Source: Companies, HSIE Research, F&H – Freight & Handling

FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20



Source: Companies, HSIE Research

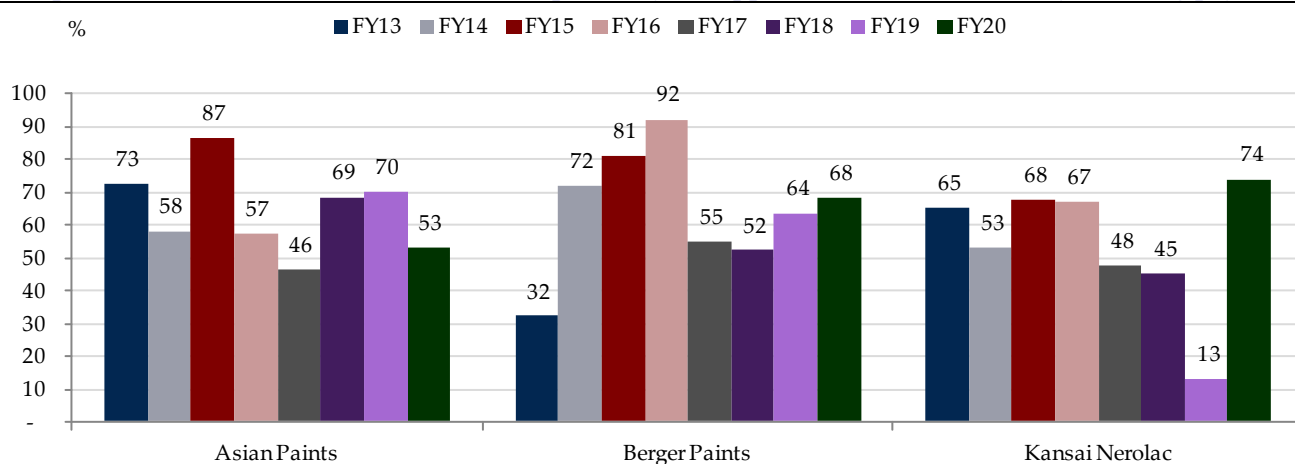
APNT continues to lead the pack in quality of working capital (read: least support from creditors)

Asian Paints	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	60	58	56	50	63	56	58	60
Receivables	26	25	23	23	29	29	28	24
Trade payables	49	53	41	41	48	48	46	37
Core CC Cycle	37	31	38	32	44	38	39	46

Berger Paints	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20
Inventory days	70	67	62	65	77	73	76	75
Receivables	39	41	42	44	44	46	38	36
Trade payables	42	53	49	60	65	72	64	65
Core CC Cycle	67	55	55	49	56	47	50	46

Kansai Nerolac	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20
Inventory (days)	68	74	56	56	63	64	74	69
Debtors (days)	54	52	51	51	52	54	48	50
Payables (days)	50	51	33	53	50	54	45	38
Core CC Cycle	72	76	74	54	65	63	77	80

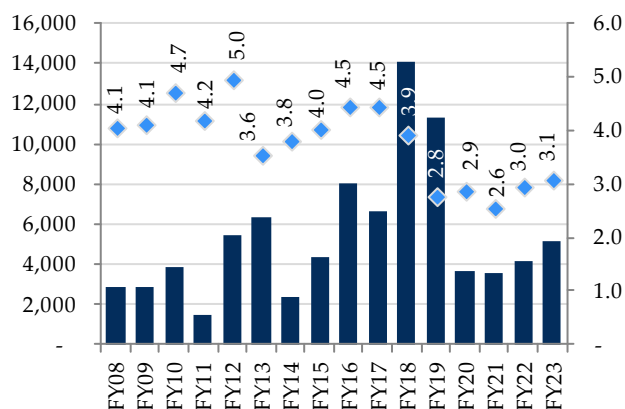
The drop in APNT's CFO/EBITDA conversion is primarily to support the dealer network by reducing payable days



Source: Companies, HSIE Research

Large Capex cycle over, incremental Capex to be earmarked for maintenance

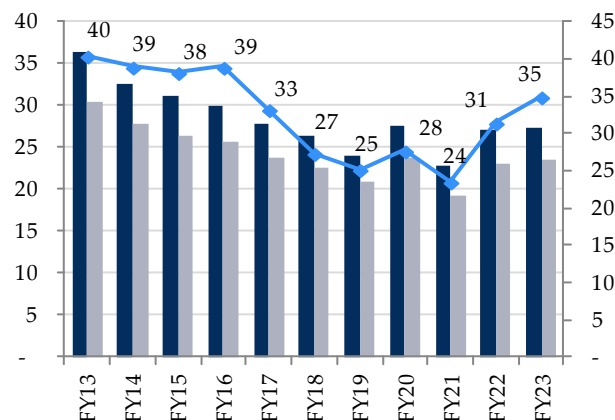
■ Capex (Rs. mn) ♦ Asset turnover (x) - Gross Rev/GFA - RHS



Source: Companies, HSIE Research

Return profile to decline in the pandemic-stricken FY21...expect a V-shaped recovery over FY20-23E

■ RoE (%) ■ RoCE (%) — RoIC (%)



Source: Companies, HSIE Research

APNT's capital allocation has moved like clockwork

	FY15	FY16	FY17	FY18	FY19	FY20
Sources of funds (Rs bn)						
Cash from Operations (excl WC change)	16,379	20,452	21,301	21,931	26,417	33,690
Other Income	1,520	1,605	1,809	1,150	1,189	1,200
Total	17,899	22,056	23,111	23,081	27,605	34,890
Application of funds (Rs bn)						
Working Capital	4,502	(1,978)	6,028	797	4,274	7,371
Capex	4,377	8,022	6,672	14,088	11,336	3,669
Investments	(381)	1,478	948	(1,170)	(1,304)	2,536
Dividend	6,947	7,642	9,473	12,178	10,487	21,207
Borrowings	(1,531)	1,103	(2,134)	440	(631)	2,614
Others	2,647	512	976	5,400	(633)	1,040
Net change in cash	1,338	5,277	1,148	(8,650)	4,076	(3,547)
Total	17,899	22,056	23,111	23,081	27,605	34,890
Cumm. WC + Capex as % of sources of funds	47.1	43.7	41.9	45.1	51.1	46.1

Source: Companies, HSIE Research

Valuation

- Our DCF-based target price of Rs. 1800/sh (implying 50x Sep-21 P/E) assumes: (1) 10-year APNT revenue CAGR: 11.9%, (2) EBITDA margin expansion of ~100bp over FY20-30E, (3) FY20-41 FCFF CAGR: 12.74% (FY20-30E FCFF CAGR: 14%, FY30-41E CAGR: 11.6%), (4) WACC: 10.5%, (5) Terminal growth: 6%, 3-yr rolling FCFF/EBITDA conversion of 63% over FY20-30E.

DCF Valuation:

	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30E	FY31E	FY35E	FY41E
EBIT*(1-t)	29,866	33,005	37,190	42,937	49,869	58,620	68,799	81,205	91,545			
Less: Capex	(4,132)	(5,191)	(5,310)	(6,697)	(7,737)	(11,643)	(6,514)	(6,640)	(6,925)			
Add: Depreciation	8,428	8,908	9,449	10,067	10,812	11,159	11,741	11,779	11,770			
Change in NWC	(2,830)	(3,472)	(4,526)	(5,437)	(6,273)	(7,147)	(7,946)	(8,634)	(5,697)			
FCF	31,332	33,251	36,802	40,870	46,672	50,989	66,081	77,709	90,693	104,964	172,942	280,918
FCF growth yoy (%)	16.9	6.1	10.7	11.1	14.2	9.2	29.6	17.6	16.7	15.7	11.8	6.0
Year-ending	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	31-Mar-28	31-Mar-29	31-Mar-30	31-Mar-31	31-Mar-35	31-Mar-41
Discounting period	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	13.51	19.51
Discounting factor	0.95	0.86	0.78	0.70	0.64	0.58	0.52	0.47	0.43	0.39	0.26	0.14
Discounted FCF	29,810	28,630	28,669	28,812	29,776	29,439	34,518	36,735	38,799	40,637	44,896	40,039
FCF/EBITDA (%)	105	101	99	95	94	87	96	96	99			
DCF as on (date)	30-Sep-21											
WACC (%)	10.5											
Terminal growth (%)	6.0											
Terminal FCF multiple (X)	23.6											
PV-Explicit Period	759,589											
PV-Terminal Value	943,136											
EV	1,702,726											
Net debt/(cash)	(23,931)											
Equity value	1,726,656											
# of shares (mn)	959											
Equity value (Rs/share)	1,800											
CMP (Rs/share)	1,956											
Upside/(Downside)	(8.0)											
Implied Sep-22E P/E (x)	50.6											

Source: Companies, HSIE Research

Sensitivity Analysis

		WACC (%)				
		9.5	10.0	10.5	11.0	11.5
Terminal growth rate (%)	5.0	1,989	1,752	1,561	1,403	1,271
	5.5	2,173	1,892	1,669	1,488	1,339
	6.0	2,410	2,066	1,800	1,590	1,419
	6.5	2,725	2,289	1,965	1,714	1,515
	7.0	3,167	2,587	2,176	1,869	1,633

Company Profile

- Asian Paints (APNT; APNT IN) is the third-largest paints company in Asia and ninth-largest in the world. It is a market leader in the paints industry in India. The company's rich experience of more than 70 years allows it to understand its consumers better and innovate to fulfil their needs.
- Globally, it operates in 16 countries with 27 manufacturing facilities in total. The international business accounts for ~12% of the company's total revenue. In the decorative paints space, the company operates in all four segments: (i) interior wall finishes, (ii) exterior wall finishes, (iii) enamels and (iv) wood finishes. Approximately, the decorative segment generates 85% of the company's revenue. Through two joint ventures, PPG AP and AP PPG, the company also has a small presence in the automotive and industrial coating segments, which make up for roughly 3% of its total revenue. A small portion is contributed by kitchen and bath fittings under the Sleek and Ess Ess brands.

Key Personnel

Name	Designation	Description
Ashwin Dani	Non-Executive Chairman	Mr Dani holds a bachelor's degree in Science and Paint Technology and also a master's degree in Polymer Science from the University of Akron. He joined Asian Paints as a Senior Executive in 1968 and moved through successive senior positions. He served as Vice Chairman and Managing Director from 1997 to 2009 and presently holds the position of Non-Executive Chairman of the Company.
Mr Amit Syngle	Managing Director & Chief Executive Officer	Mr Amit Syngle holds a BE – Mechanical degree from Panjab Engineering College and has done MBA from CBM Panjab University. He joined the company as a Management Graduate and initially spent eight years in Sales. He became the President in 2012 and was responsible for not only the Sales & Marketing at Asian Paints but also headed the Research & Technology function across the organisation. He is now the MD and CEO.
Mr J Jeyamurugan	Chief Financial Officer	Mr Jeyamurugan joined the company in 1991. He is a qualified Chartered Accountant and Company Secretary. During his career spanning 27 years in Accounts, Taxation, Finance and Secretarial, he has held various leadership roles. His current designation is CFO of the company.
Mr Manish Choksi	Non-Executive Vice Chairman	Before being inducted as the Non-Executive Director on the Board of Directors of the Company, Mr Choksi held the position of President-International Business, IT, HR and Chemicals. He holds a Bachelor of Chemical Engineering degree from the University of Houston, US and MBA with specialisation in Entrepreneurial Management and MIS from the University of Houston.

Source: Company, HSIE Research

Key Risks

Name	Description
A sharp rise in input costs	There are several raw materials which are directly driven by crude oil. Approximately 70% of the input costs can be accounted for by crude derivations. The remaining ~30% of the input costs arise from non-crude (TiO ₂) forms. Therefore, any sharp increase in input costs could adversely impact the business
Currency risk	The company imports a significant part of raw materials and capital equipment. Also, it has operations in multiple countries. Any adverse movement in the local currency vis-à-vis the US Dollar can have an impact on its financials.
Correlation of sales with the economy	While the three top paint companies have shown resilience in terms of volume growth over the past few quarters even during the extant economic slowdown, the sustenance of the slowdown could pose a downside risk to our estimates.
Disruption in the supply chain	In a year of high uncertainty in the macroeconomic environment and geopolitical scenario, disruptions in the supply chain are an important risk to monitor. The non-availability of raw materials could impact the estimates negatively.

Source: Company, HSIE Research

Financials

Income Statement

Year End (March)	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
Net Revenues	142,715	150,620	168,246	193,415	202,113	188,760	230,410	256,587
Growth (%)	1	6	12	15	4	(7)	22	11
COGS	80,497	83,289	96,912	113,423	113,835	103,552	129,907	145,198
Employee Expense	9,895	10,337	11,155	12,700	13,661	14,346	15,553	16,935
A&P Expense	5,611	6,193	6,627	7,964	9,175	6,607	9,677	11,290
Freight and handling charges	8,028	9,124	9,801	11,519	12,079	12,269	13,825	15,395
Rent Expense	1,794	2,172	2,393	2,599	426	587	486	541
Other Expenses	9,199	9,641	9,382	9,964	11,319	12,711	12,463	14,213
EBITDA	27,692	29,864	31,976	35,245	41,618	38,689	48,500	53,015
EBITDA Growth (%)	24	8	7	10	18	(7)	0	0
EBITDA Margin (%)	19	20	19	18	21	20	21	21
Depreciation	2,756	3,348	3,605	4,307	7,805	8,035	8,428	8,908
EBIT	24,936	26,516	28,371	30,939	33,813	30,654	40,072	44,107
Other Income (Including EO Items)	2,134	2,624	2,206	2,271	3,043	2,869	4,059	5,327
Interest	407	300	351	510	1,023	745	741	738
PBT	26,663	28,841	30,227	32,699	35,833	32,778	43,389	48,696
Total Tax	8,445	9,433	10,410	10,988	8,549	8,250	11,051	12,257
RPAT before associate earnings	18,218	19,408	19,817	21,711	27,284	24,528	32,338	36,439
Minority Interest	576	768	586	524	690	658	735	807
Share of Associate earnings	334	496	458	408	507	342	429	516
Extraordinary Gain/(loss)	525	(259)	(700)	-	-	-	-	-
Loss)/PAT from discontinued operations	-	-	-	-	(50)	-	-	-
RPAT	17,452	19,394	20,389	21,595	27,052	24,211	32,032	36,148
Adjusted PAT	16,927	19,653	21,089	21,595	27,101	24,211	32,032	36,148
APAT Growth (%)	23.8	16.1	7.3	2.4	25.5	(10.7)	32.3	12.8
Adjusted EPS (Rs)	17.6	20.5	22.0	22.5	28.3	25.2	33.4	37.7
EPS Growth (%)	23.8	16.1	7.3	2.4	25.5	(10.7)	32.3	12.8

Balance Sheet

Year End (March)	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital - Equity	959	959	959	959	959	959	959	959
Reserves	64,289	75,080	83,143	94,238	100,342	110,694	124,319	138,884
Total Shareholders Funds	65,248	76,039	84,102	95,197	101,302	111,653	125,279	139,844
Minority Interest	3,837	3,755	3,277	3,631	4,035	4,352	4,657	4,949
Long Term Debt	2,311	5,044	4,924	5,965	3,215	3,215	3,215	3,215
Short Term Debt	922	559	410	305	186	186	186	186
Total Debt	3,233	5,603	5,334	6,270	3,547	3,547	3,547	3,547
Net Deferred Taxes	2,968	3,592	4,171	5,677	4,438	4,438	4,438	4,438
Lease Liability	-	-	-	-	7,638	7,638	7,638	7,638
Other Non-current Liabilities & Provns	1,338	1,569	1,487	1,625	1,883	1,759	2,147	2,391
TOTAL SOURCES OF FUNDS	76,624	90,558	98,371	112,400	122,843	133,387	147,706	162,807
APPLICATION OF FUNDS								
Net Block	32,174	31,103	34,050	55,299	50,322	45,840	41,543	37,826
CWIP	1,066	2,575	14,051	2,097	1,402	1,402	1,402	1,402
Goodwill	1,990	1,935	3,273	3,213	3,200	3,200	3,200	3,200
Other Non-current Assets	1,761	5,937	6,412	5,652	6,515	6,096	7,404	8,226
RoU Assets	-	-	-	-	9,201	9,201	9,201	9,201
Total Non-current Assets	36,990	41,550	57,785	66,260	70,641	65,739	62,751	59,855
Investments	27,121	26,520	21,407	25,697	20,189	20,189	20,189	20,189
Inventories	19,982	26,269	26,583	31,499	33,898	33,615	38,507	42,706
Debtors	11,868	14,466	17,371	19,134	17,994	18,100	20,832	23,023
Other Current Assets	5,404	7,396	10,638	9,575	10,998	10,271	12,537	13,962
Cash & Equivalents	4,242	8,012	4,047	4,449	7,828	22,353	37,750	52,852
Total Current Assets	41,497	56,143	58,638	64,656	70,718	84,339	109,626	132,542
Creditors	15,651	19,228	21,600	23,943	21,366	20,686	25,093	27,768
Other Current Liabilities & Provns	13,334	14,428	17,860	20,270	17,339	16,193	19,766	22,012
Total Current Liabilities	28,984	33,656	39,460	44,213	38,705	36,879	44,859	49,780
Net Current Assets	12,513	22,487	19,179	20,443	32,014	47,460	64,767	82,763
TOTAL APPLICATION OF FUNDS	76,624	90,558	98,371	112,400	122,843	133,387	147,706	162,807

Source: Company, HSIE Research

Cash Flow Statement

Year ending March	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
Reported PBT	26,139	29,642	31,391	33,107	36,340	32,778	43,389	48,696
Non-operating & EO Items	(826)	(2,781)	(2,608)	(1,687)	(1,387)	(1,019)	(1,800)	(2,812)
Interest Expenses	407	306	351	510	1,025	745	741	738
Depreciation	2,756	3,388	3,605	4,307	7,819	8,035	8,428	8,908
Working Capital Change	1,978	(6,028)	(797)	(4,274)	(7,371)	(626)	(2,830)	(3,472)
Tax Paid	(8,024)	(9,254)	(10,807)	(9,820)	(10,108)	(8,250)	(11,051)	(12,257)
OPERATING CASH FLOW (a)	22,430	15,273	21,134	22,143	26,319	31,662	36,877	39,801
Capex	(8,022)	(6,672)	(14,088)	(11,336)	(3,669)	(3,552)	(4,132)	(5,191)
Free Cash Flow (FCF)	14,408	8,601	7,047	10,807	22,650	28,110	32,745	34,611
Investments	(1,478)	(948)	1,170	1,304	(2,536)	-	-	-
Non-operating Income/Others	837	1,059	(3,075)	795	991	1,019	1,800	2,812
INVESTING CASH FLOW (b)	(8,663)	(6,561)	(15,993)	(9,237)	(5,214)	(2,533)	(2,331)	(2,379)
Debt Issuance/(Repaid)	(1,103)	2,134	(440)	631	(2,614)	-	-	-
Interest Expenses	(402)	(357)	(352)	(512)	(1,009)	(745)	(741)	(738)
FCFE	12,903	10,379	6,255	10,926	19,027	27,365	32,004	33,873
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(7,642)	(9,473)	(12,178)	(10,487)	(21,207)	(13,859)	(18,407)	(21,583)
Others	658	132	(822)	1,539	178	-	-	-
FINANCING CASH FLOW (c)	(8,490)	(7,564)	(13,791)	(8,830)	(24,652)	(14,604)	(19,148)	(22,321)
NET CASH FLOW (a+b+c)	5,277	1,148	(8,650)	4,076	(3,547)	14,525	15,397	15,102
EO Items, Others	(1,035)	6,864	12,696	373	11,376	7,828	22,353	37,750
Closing Cash & Equivalents	4,242	8,012	4,046	4,449	7,828	22,353	37,750	52,852

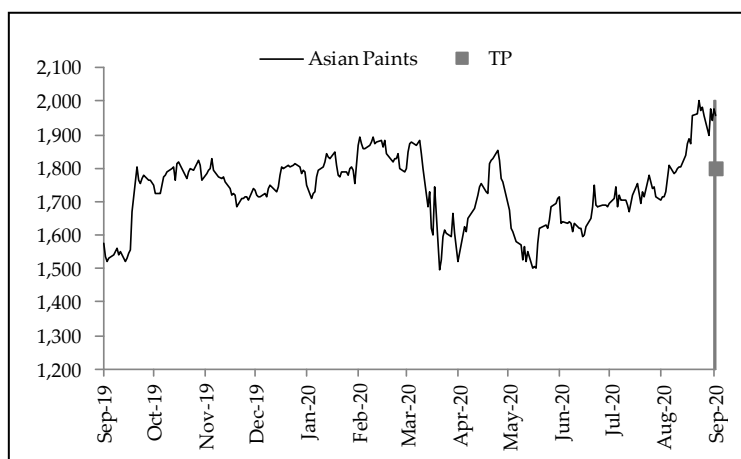
Source: Company, HSIE Research

Key Ratios

	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E	FY23E
PROFITABILITY (%)								
GPM	43.6	44.7	42.4	41.4	43.7	45.1	43.6	43.4
EBITDA Margin	19.4	19.8	19.0	18.2	20.6	20.5	21.0	20.7
EBIT Margin	17.5	17.6	16.9	16.0	16.7	16.2	17.4	17.2
APAT Margin	11.9	13.0	12.5	11.2	13.4	12.8	13.9	14.1
RoE	30.0	27.8	26.3	24.1	27.6	22.7	27.0	27.3
RoIC (or Core RoCE)	39.0	33.3	27.4	25.2	27.7	23.5	31.5	35.0
RoCE	25.7	23.8	22.6	20.8	23.7	19.3	23.2	23.6
EFFICIENCY								
Tax Rate (%)	31.7	32.7	34.4	33.6	23.9	25.2	25.5	25.2
Fixed Asset Turnover (x)	4.0	4.0	3.8	2.8	2.9	2.6	3.0	3.1
Inventory (days)	51	64	58	59	61	65	61	61
Debtors (days)	30	35	38	36	32	35	33	33
Other Current Assets (days)	14	18	23	18	20	20	20	20
Payables (days)	40	47	47	45	39	40	40	40
Other Current Liab & Provns (days)	34	35	39	38	31	31	31	31
Cash Conversion Cycle (days)	21	35	33	30	44	49	43	43
Net Debt/Equity (x)	(0.0)	(0.0)	0.0	0.0	(0.0)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	61.3	88.4	80.9	60.7	33.0	41.2	54.1	59.8
PER SHARE DATA (Rs)								
EPS	18	20	22	23	28.3	25.2	33.4	37.7
CEPS	21	24	26	27	36.4	33.6	42.2	47.0
Dividend	8	10	9	11	12.0	12.0	16.5	19.0
Book Value	68	79	88	99	105.6	116.4	130.6	145.8
VALUATION								
P/E (x)	111.1	95.7	89.1	86.9	69.2	77.5	58.6	51.9
P/BV (x)	28.8	24.7	22.4	19.7	18.6	16.8	15.0	13.4
EV/EBITDA (x)	67.9	62.9	58.8	53.3	45.0	48.0	38.0	34.5
EV/Revenues (x)	13.2	12.5	11.2	9.7	9.3	9.8	8.0	7.1
OCF/EV (%)	1.2	0.8	1.1	1.2	1.4	1.7	2.0	2.2
FCF/EV (%)	0.8	0.5	0.4	0.6	1.2	1.5	1.8	1.9
FCFE/Mkt Cap (%)	0.7	0.6	0.3	0.6	1.0	1.5	1.7	1.8
Dividend Yield (%)	0.4	0.5	0.4	0.5	0.6	0.6	0.8	1.0

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
7-Sep-20	1,956	REDUCE	1,800

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com