

Strong pent up demand drives performance...

Asian Paints reported stellar numbers with one of the best quarterly EBITDA margins in Q2FY21. The EBITDA margin at 23.6%, up ~470 bps YoY led by benign raw material prices and saving in other expenditure in Q2FY21. On the revenue front, sales growth at ~6% YoY was led by double digit (I-direct estimate: ~10%) volume growth in Q2FY21. Despite being a lean season on account of monsoons, the strong decorative volume growth is attributable to significant pent up demand in rural and semi urban regions led by repainting/maintenance activities. Gradual opening up of metro regions along with inventory build-up in the wake of festive seasons at dealer would have also help drive the volume growth in Q2FY21. We believe normalisation in metro regions, revival in the real estate industry and intact repainting demand from semi-urban, rural India would drive paint demand, going forward. Besides, we believe favourable raw material prices are likely to keep gross margins elevated in the coming quarters even with a change in product mix. This, coupled with rationalisation of other costs would help drive EBITDA margin, going forward. We revise our revenue, earnings estimates upside by 6% and 33%, respectively, for FY21E factoring in the current quarter performance. We introduce FY23 estimates with revenue, earning CAGR of 12%, 15% respectively in FY20-23E.

Strong volume growth drives revenue during Q2

APL saw improving demand conditions on a progressive basis MoM in Q2FY21. Strong pent up demand across semi urban, rural regions post ease in regional lockdowns, gradual pick-up of normalisation in urban regions helped it record volume growth of ~10% in Q2FY21. We believe change in product mix (tilted towards economy products) led realisation down ~4% in Q2FY21. Other business segments in India including industrial coatings business, home improvement category also saw sharp demand recovery in Q2FY21. We model revenue CAGR of ~12% in FY20-23E led by mainly volume growth while realisation growth may stay muted due to product mix.

Cost saving measures drives margin

APL reported EBITDA margin expansion of ~474 bps YoY to 23.6% led by benign raw material prices, significant saving in other cost. Gross margin increased ~200 bps YoY while it reported saving in other costs (rent, travel and advertisement cost) to the tune of 300 bps YoY. We model EBITDA margin at ~22% in FY20-23E, considering stabilisation in input prices and normalisation of some costs (like advertisement and travelling cost).

Valuation & Outlook

We introduce FY23E estimates and model revenue, earning CAGR of 12%, 13% in FY20-23E supported by strong volume growth and elevated margin profile. We roll over our valuation on FY23E and upgrade our recommendation from HOLD to **BUY** with a revised target price of ₹ 2440.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	2,01,390.0
Total Debt (FY 20) (₹Crore)	362.1
Cash & Inv (FY 20) (₹Crore)	1,762.2
EV (₹Crore)	1,99,989.9
52 week H/L (₹)	2142/1431
Equity capital (₹Crore)	95.9
Face value (₹)	1.0

Key Highlights

- Decorative volume growth at ~11% during Q2FY21. Demand from semi urban and rural India remained robust
- Company reported one of best EBITDA margin in Q2FY21 supported by saving in raw material cost and other expenditure
- Demand recovery was slower in tier 1 cities like Mumbai, Bangalore, Chennai (~70%-80% business recovery)
- Upgrade recommendation from HOLD to BUY with revised target price at ₹ 2440/share

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (20-23E)
Net Sales	19240.1	20211.3	20275.0	24834.5	28413.8	12.0
EBITDA	3765.5	4161.8	4339.7	5295.7	6169.2	14.0
EBITDA Margin (%)	19.6	20.6	21.4	21.3	21.7	
Net Profit	2213.8	2779.1	2766.7	3441.8	4021.8	13.1
EPS (₹)	23.1	29.0	28.9	35.9	41.9	
P/E (x)	91.0	72.5	72.8	58.5	50.1	
Price/Book (x)	21.3	19.9	17.6	16.0	14.0	
Mcap/Sales (x)	10.5	10.0	9.9	8.1	7.1	
RoE (%)	23.4	27.4	24.2	27.3	27.9	
RoCE (%)	28.9	30.5	28.1	31.7	33.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY20	ΔoQ (%)	Comments
Revenue	5,350.2	5,355.1	5,050.7	5.9	2,922.7	83.1	Sales growth was largely supported by strong volume growth during Q2FY 21
Other Income	82.6	91.0	105.2	-21.4	47.1	75.5	Lower treasury income led decline in other income
Raw Material Exp	2,974.5	2,971.2	2,907.2	2.3	1,615.0	84.2	Increase in gross margin (up ~200 bps YoY) supported by benign raw material prices
Employee Exp	378.9	369.5	347.6	9.0	361.5	4.8	
Manufacturing & Oth exp	731.7	910.4	841.1	-13.0	461.9	58.4	Various cost rationalisation helped saving in other expenditures meaningfully during Q2FY 21
Total Exp	4,085.0	4,251.1	4,095.8	-0.3	2,438.4	67.5	
EBITDA	1,265.2	1,104.0	954.8	32.5	484.3	161.3	
EBITDA Margin (%)	23.6	20.6	18.9	474 bps	16.6	708 bps	Gross margin expansion and saving in other expenditure help drive EBITDA margin during Q2FY 21
Depreciation	193.6	185.6	197.2	-1.8	191.2	1.3	
Interest	20.5	24.4	25.9	-20.9	20.1	1.9	
Exceptional items							
PBT	1,133.7	985.0	834.0	35.9	320.0	254.2	
Total Tax	293.6	256.1	7.2	3,961.1	86.2	240.8	
PAT	851.9	742.5	842.1	1.2	219.6	287.9	Flattish profit growth during Q2FY 21 mainly due to reversal of tax benefits in the base quarter
Key Metrics							
Volume growth (%)	11.0	7.0	12.2		-38.0		Strong pent up demand help drive the volume growth during Q2FY 21
Realisation growth (%)	-4.6	-0.9	-2.3		-7.7		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			FY23E	Comment
	Old	New	% Chg	Old	New	% Chg	New	
Revenue	19074.6	20275.0	6.3	23018.0	24834.5	7.9	28413.8	We have tweaked our FY 21E estimates considering current quarter performance. We also introduced FY 23 estimates with revenue CAGR of 12% in FY 20-23E, largely led by volume growth
EBITDA	3553.3	4339.7	22.1	4900.5	5295.7	8.1	6169.2	
EBITDA Margin (%)	18.6	21.4	280bps	21.3	21.3	2bps	21.7	We believe, benign raw material prices likely to keep margin at elevated level
PAT	2087.3	2766.7	32.5	3130.6	3441.8	9.9	4021.8	
EPS (₹)	21.8	28.9	32.3	32.6	35.9	10.1	41.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Exhibit 5: Assumptions									
	Current				FY23E	Earlier		Comments	
	FY19E	FY20E	FY21E	FY22E	Introduced	FY21E	FY22E		
Volume Growth (%)	13.2	10.4	4.4	18.9		12.4	(4.6)	19.5	We introduced FY 23 estiamtes and model volume CAGR of ~12% in FY 20-23E supported by revival in repainting demand and various government projects such as 'Housing for All'
Realisation Growth (1.4	(5.5)	(3.9)	3.0		1.8	(0.9)	0.9	We believe change in product mix would keep realisation growth under check in the near term

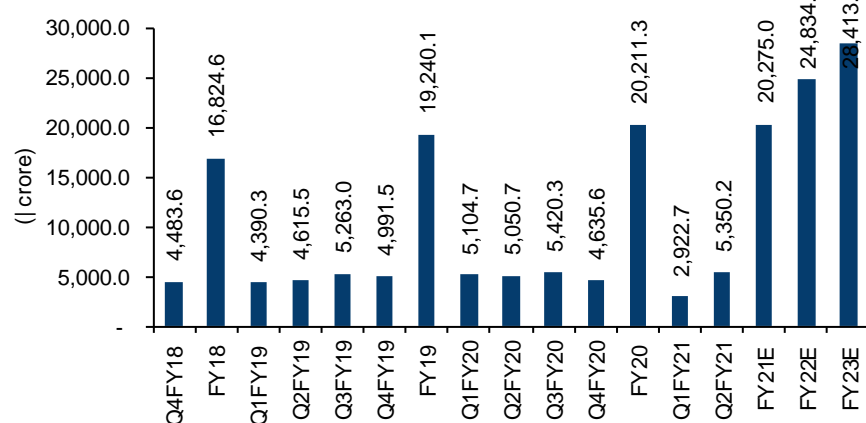
Source: Company, ICICI Direct Research

Conference call highlights

- Key milestone achievement by company as on FY20: 1) Overall group revenue US\$2.8 billion, 2) Ninth largest coating company in the world, third largest in Asia (with operations across 15 countries) 3) 50 years of market leadership position in India and company is ~3x size of its nearest competitor in India 4) 26 manufacturing plant and 1,50,000+ retail touch points in India 5) 84% business comes from the decorative segment, 12% business comes from international markets, 2% comes from the industrial and home improvement business
- There was continuous double digit volume growth in June–September 2019. Demand condition in October also remained intact. Tier II, Tier III cities remained demand drivers for the company while tier I cities (like Mumbai, Bangalore, Chennai) reported ~70-80% demand recovery due to intermediary lockdowns
- Inventory level has normalised at the dealer level. The company has not witnessed any exceptional inventory level at channel
- While demand recovery witnessed across product portfolio including economy, premium and luxury, the product mix is remain skewed towards economic range of products. Strong recovery in the emulsion and water proofing products. Improvement witnessed in the luxury product segment in selected regions
- Economy products (distemper, putty, economic enamels) continued to grow at a faster pace compared to premium products
- Entering the home décor segment with launch of ~1500 SKUs in the lighting, furnishing and furniture segments. Home Décor and interior design industry is largely dominated by unorganised players with nearly non presence of organised players. The business would be outsourcing based model and no major capex is planned for the said business
- In Q2FY21, international business revenue, PBT increased 7.8% and ~44% YoY to ₹ 660 crore and ₹ 69 crore, respectively. For H1FY21, revenue declined ~9% YoY to ₹ 1056 crore while PBT declined ~5% to ₹ 73 crore
- Under industrial business PPGAP: Strong recovery in Q2 the automotive segment drives the performance of the segment. Under APPPG: gradual recovery was witnessed in the general industrial business in Q2. Power business performed well while industrial paint demand is still led by lower demand from the oil & gas and capital goods sectors
- Home improvement business: Kitchen business revenue in Q2FY21 was at ₹ 61 crore (same level of last year) with PBT loss narrowing to ₹ 4.4 crore against ₹ 13.5 crore reported in Q1FY21. For bath business revenue declined ~4% YoY in Q2FY21 with the company reporting breakeven in Q2FY21 compared to a loss of ₹ 7.4 crore in Q1FY21. For H1FY21, kitchen business and bath business revenue declined by 26% and 25% YoY at ₹ 86 crore and ₹ 80 crore respectively due to revenue loss in April
- There were favourable operating conditions in markets in Middle East, Africa, Bangladesh and Sri Lanka. However, Nepal was impacted by pandemic led lockdowns
- The EBITDA margin is likely to remained at elevated level with stable raw material prices and saving in other cost in the coming quarter

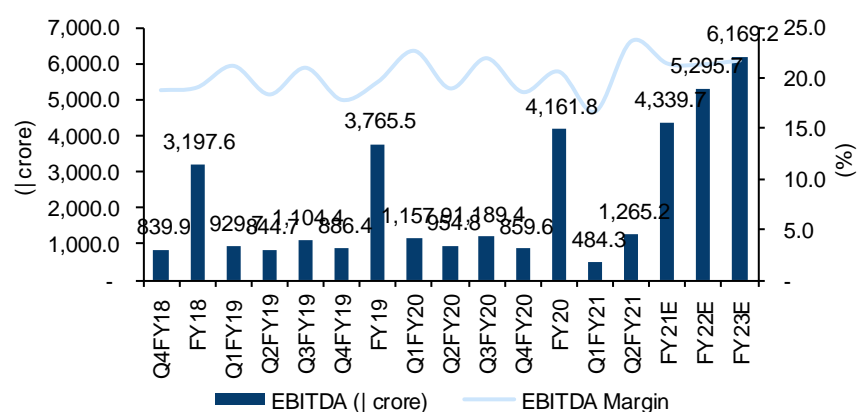
Financial story in charts

Exhibit 4: Strong volume growth in coming period to drive revenue



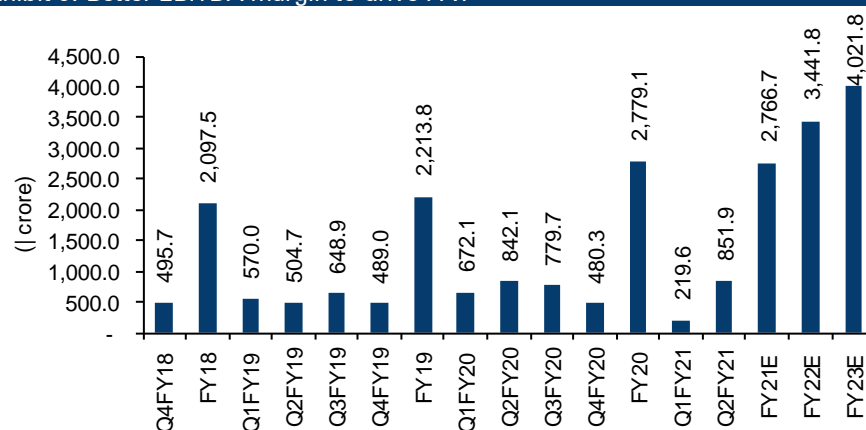
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement

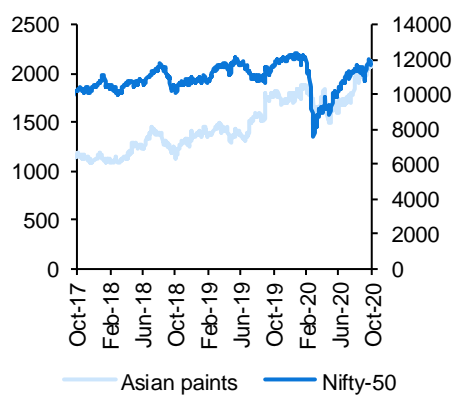


Source: Company, ICICI Direct Research

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 %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	52.8	52.8	52.8	52.8	52.8
FII	16.7	17.2	17.2	18.2	19.8
DII	10.8	10.3	10.0	9.0	8.2
Others	19.8	19.7	20.1	20.0	19.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Revenue	20,211.3	20,275.0	24,834.5	28,413.8
Growth (%)		0.3	22.5	14.4
Raw Material Expenses	11,383.5	10,956.4	13,330.2	15,112.5
Employee Expenses	1,366.1	1,504.9	1,788.6	1,989.0
Other expenses	3,299.9	3,474.0	4,420.0	5,143.1
Total Operating Expenditure	16,049.5	15,935.3	19,538.8	22,244.6
Growth (%)		-0.7	22.6	13.8
EBITDA	4,161.8	4,339.7	5,295.7	6,169.2
Growth (%)		4.3	22.0	16.5
Depreciation	780.5	811.0	943.7	1,108.1
Interest	102.3	90.6	89.4	63.8
Other Income	304.3	243.3	298.0	341.0
PBT	3,583.3	3,681.4	4,560.6	5,338.2
Total Tax	854.9	940.5	1,149.0	1,352.0
Profit from Associates	50.7	25.8	30.2	35.6
PAT	2,779.1	2,766.7	3,441.8	4,021.8
Growth (%)		-0.4	24.4	16.8

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit before Tax	2,779.1	2,766.7	3,441.8	4,021.8
Add: Depreciation	780.5	811.0	943.7	1,108.1
(Inc)/dec in Current Assets	-395.9	-1,259.6	-1,139.1	-1,243.5
Inc/(dec) in CL and Provision	-522.0	286.0	751.3	735.5
Others	102.3	90.6	89.4	63.8
CF from operating activities	2,744.1	2,694.7	4,087.1	4,685.7
(Inc)/dec in Investments	549.7	-500.0	-900.0	-900.0
(Inc)/dec in Fixed Assets	-488.1	-400.0	-500.0	-600.0
Others	29.6	18.2	-118.1	-87.1
CF from investing activities	91.2	-881.8	-1,518.1	-1,587.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-275.5	22.0	22.0	-130.0
Dividend paid & dividend tax	-1,383.1	-2,019.7	-2,244.1	-2,244.1
Inc/(dec) in Sec. premium	-838.8	458.8	-89.4	-63.8
CF from financing activities	-2,497.3	-1,538.8	-2,311.4	-2,437.9
Net Cash flow	337.9	274.1	257.6	660.7
Opening Cash	444.9	782.8	1,056.9	1,314.5
Closing Cash	782.8	1,056.9	1,314.5	1,975.2

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	10,034.2	11,330.7	12,528.5	14,306.2
Total Shareholders funds	10,130.1	11,426.6	12,624.4	14,402.1
Total Debt	340.1	362.1	384.1	254.1
Deferred Tax Liability	443.8	443.8	443.8	443.8
Minority Interest	403.5	423.7	444.9	467.1
Total Liabilities	12,089.0	13,427.6	14,668.6	16,338.5
Gross Block	8,328.1	8,728.1	9,228.1	9,828.1
Less: Acc Depreciation	2,375.8	3,186.8	4,130.5	5,238.6
Capital WIP	140.2	140.2	140.2	140.2
Total Fixed Assets	6,092.6	5,681.6	5,237.9	4,729.7
Other Investments	456.6	756.6	1,156.6	1,556.6
Liquid Investments	1,562.2	1,762.2	2,262.2	2,762.2
Goodwill on Consolidation	320.0	320.0	320.0	320.0
Current Assets				
Inventory	3,389.8	3,888.4	4,626.7	5,293.5
Debtors	1,799.4	2,555.2	2,721.6	3,113.8
Loans and Advances	86.9	88.9	90.9	92.9
Other Current Assets	1,030.0	1,033.2	1,265.6	1,448.0
Cash	782.8	1,056.9	1,314.5	1,975.2
Total Current Assets	7,088.9	8,622.6	10,019.2	11,923.4
Liabilities				
Creditors	2,136.6	2,388.6	2,721.6	3,113.8
Provisions	243.2	271.9	309.8	354.5
Other current liabilities	1,686.0	1,691.3	2,071.7	2,370.2
Total Current Liabilities	4,065.8	4,351.8	5,103.1	5,838.5
Net Current Assets	3,023.2	4,270.8	4,916.2	6,084.9
Other Non Current Assets	634.4	636.4	775.7	885.1
Total Assets	12,089.0	13,427.6	14,668.6	16,338.5

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	29.0	28.9	35.9	41.9
Cash EPS	37.1	37.3	45.7	53.5
BV	105.6	119.2	131.6	150.2
DPS	14.4	21.1	23.4	23.4
Cash Per Share	24.8	33.2	43.1	54.6
Operating Ratios (%)				
EBITDA Margin	20.6	21.4	21.3	21.7
EBIT Margin	16.7	17.4	17.5	17.8
PAT Margin	13.8	13.6	13.9	14.2
Activity Ratios				
Inventory days	61.2	70.0	68.0	68.0
Debtor days	32.5	46.0	40.0	40.0
Creditor days	38.6	43.0	40.0	40.0
Return Ratios (%)				
RoE	30.5	28.1	31.7	33.1
RoCE	27.4	24.2	27.3	27.9
RoIC	39.1	37.1	44.2	49.3
Valuation Ratios (x)				
P/E	72.5	72.8	58.5	50.1
EV / EBITDA	47.9	45.8	37.4	31.9
EV / Net Sales	9.9	9.8	8.0	6.9
Market Cap / Sales	10.0	9.9	8.1	7.1
Price to Book Value	19.9	17.6	16.0	14.0
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.7	1.7	1.7
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Asian Paints (ASIPAI)	2,100	2,440	Buy	2,01,390	29.0	28.9	35.9	72.5	72.8	58.5	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytecnic (ASTP)	1,153	1,120	Hold	17,371	16.6	15.0	23.3	69.6	77.1	49.5	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM2)	316	2,600	Buy	7,283	52.2	19.0	70.6	44.4	122.2	32.8	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJEL)	499	495	Buy	5,673	0.0	4.1	14.8	NM	121.9	33.8	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	609	580	Hold	59,146	6.8	6.1	9.7	90.1	99.4	62.5	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
Essel Propack (ESSPRC)	269	270	Buy	8,487	6.7	7.0	9.5	40.1	38.3	28.4	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	723	630	Hold	45,108	11.7	8.0	14.4	61.6	90.1	50.2	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	504	510	Buy	27,162	9.9	7.9	11.8	50.7	63.5	42.6	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,475	1,595	Buy	74,901	22.1	17.8	28.0	66.8	82.7	52.7	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	832	950	Buy	12,387	51.4	42.2	55.4	16.2	19.7	15.0	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPINC)	1,460	1,650	Buy	18,546	36.8	31.1	47.1	39.7	46.9	31.0	21.8	23.5	17.3	22.5	18.9	25.0	20.7	16.5	21.9
Symphony (SYMLIM)	862	960	Buy	6,030	26.0	20.5	32.0	33.1	42.0	26.9	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	38	47	Hold	859	7.5	3.4	9.4	5.1	11.2	4.1	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	164	210	Buy	7,024	4.3	3.6	5.2	37.9	45.7	31.5	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	710	725	Buy	23,482	15.8	10.7	22.7	45.1	66.4	31.3	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

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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