

Asian Paints (APNT IN)

Rating: HOLD | CMP: Rs2,100 | TP: Rs2,000

October 22, 2020

Q2FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		ACCUMULATE	
Target Price	2,000		2,032	
Sales (Rs. m)	2,29,362	2,61,153	2,38,390	2,71,536
% Chng.	(3.8)	(3.8)		
EBITDA (Rs. m)	51,192	59,554	53,755	61,943
% Chng.	(4.8)	(3.9)		
EPS (Rs.)	35.6	42.9	38.1	45.2
% Chng.	(6.6)	(4.9)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	2,02,113	1,94,553	2,29,362	2,61,153
EBITDA (Rs. m)	41,618	43,742	51,192	59,554
Margin (%)	20.6	22.5	22.3	22.8
PAT (Rs. m)	27,023	27,681	34,124	41,179
EPS (Rs.)	28.2	28.9	35.6	42.9
Gr. (%)	25.5	2.4	23.3	20.7
DPS (Rs.)	18.2	12.0	14.0	17.0
Yield (%)	0.9	0.6	0.7	0.8
RoE (%)	27.6	25.1	26.4	27.2
RoCE (%)	32.9	31.1	31.5	31.8
EV/Sales (x)	9.9	10.2	8.6	7.5
EV/EBITDA (x)	48.2	45.4	38.5	32.8
PE (x)	74.5	72.8	59.0	48.9
P/BV (x)	19.9	16.9	14.5	12.3

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.2,144 / Rs.1,431
Sensex / Nifty	40,558 / 11,896
Market Cap	Rs.2,014bn / \$ 27,390m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.9557.49m

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	8.4	15.8	18.0
Relative	0.8	(10.4)	13.3

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All positives Priced in; Downgrade to Hold

Quick Pointers:

- Domestic Decorative volumes grew 11%, sharp margin expansion due to lower overheads and cost efficiencies
- Forayed into lightings, furnishings and furniture

We are cutting FY22 and F23 EPS 6.6% and 5% and rating to Hold despite stellar performance in 2Q mainly due to 1) standalone Gross margins at 45.4% are down 90bps QoQ and have peaked out 2) Strong volume recovery post 1QFY21 means that the base for FY22 and FY23 will be higher than was earlier anticipated 3) while current margin expansion is 470bps, it has come over a low base (18.9%) and leaves limited room for expansion in FY22 and FY23. Foray into lighting, furnishings and furniture is expected to provide scale to home improvement business, although it will drag margins in near term.

While we remain constructive about the structural growth opportunity in decorative paints and huge advantage APNT has got in distribution, brand and systems, the PAT growth in FY22 and FY23 is likely to be lower than earlier expectations. We estimate a CAGR of 15.9% sales, 16.7% EBITDA and 22% in PAT over FY21-23, which factors in most positives. We assign Hold rating with a target price of Rs2000 @46.5x FY23 EPS (Rs2032 earlier @45x FY23 EPS). We believe returns will be back ended given ~25% rally in stock price in last 3 months.

Consol sales down 42.7%, Volumes grew 11%: Consol sales grew 5.9% to Rs 53.50bn (Est Rs53.54bn). Gross margins expanded by 200bps to 44.4% (Est 44%). EBITDA grew 32.5% to Rs12.65bn (Est Rs10.81bn), EBITDA margins expanded 470bps to 23.6% (Est 20.2%) due to higher GRM, 300bps reduction in other expenses, favorable sales mix and favorable foreign exchange rate. Adj. PAT grew 1.8% to Rs8.35bn (Est Rs7.05bn). **Standalone sales** Standalone sales increased 5.8% to Rs45.27bn, Gross margins expanded by 200bps and EBITDA margins expanded by 500bps. Adj. PAT remained flat at Rs7.93bn.

Concall Takeaways: 1) Recovery in Paint Industry led by tier 2 / 3 / 4 markets which have reached pre covid levels. Metros and tier 1 / 2 markets have recovered sequentially but have not returned to pre covid level. 2) Demand recovery witnessed around economy, premium & some luxury ranges of products. 3) Volume growth of 11% not entirely due to pent up demand as fresh demand also visible. 4) Focus on upgradation to drive volumes, witnessed upgradation in emulsions and undercoats during 2Q 5) Forayed into lightings, furnishings & furniture as they align with company's vision of providing complete Home décor solutions. 6) Launched 1500+ SKU's across three brands: Nilaya, Royale & Ador, expect lightings, furnishings & furniture to accelerate bath and kitchen business. 6) APNT will explore its dealer network to sell sanitizers which were primarily used to propel sanitization services 7) Double digit growth witnessed around geographies (except Nepal) due to strong push around new products / variants in Premium & Luxury emulsions to fill products gaps. 9) Discounting has increased to get dealers to stock the product.

Exhibit 1: Q2FY21 Results- Consolidated (Rs m): Revenues grew 5.9% EBIDA/Adj PAT grew 32.5%/1.8%

Consolidated	2QFY21	2QFY20	YoY gr. (%)	1QFY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	53,502	50,507	5.9	29,227	82,729	1,01,554	-18.5
Gross Profit	23,758	21,435	10.8	13,077	36,834	43,715	-15.7
% of NS	44.4	42.4	2.0	44.7	44.5	43.0	1.5
Other Expenses	11,106	11,886	-6.6	8,234	19,340	22,587	-14.4
% of NS	20.8	23.5		28.2	23.4	22.2	
EBITDA	12,652	9,548	32.5	4,843	17,494	21,128	-17.2
Margins %	23.6	18.9	4.7	16.6	21.1	20.8	0.3
Depreciation	1,936	1,972	-1.8	1,912	3,848	3,889	-1.1
Interest	205	259	-20.9	201	406	526	-22.7
Other Income	826	1,052	-21.4	471	1,297	1,787	-27.4
PBT	11,337	8,369	35.5	3,200	14,538	18,499	-21.4
Tax	2,936	72	3961.1	862	3,798	3,583	6.0
Tax rate %	25.9	0.9		26.9	26.1	19.4	
Adjusted PAT	8,349	8,201	1.8	2,200	10,549	14,786	-28.7

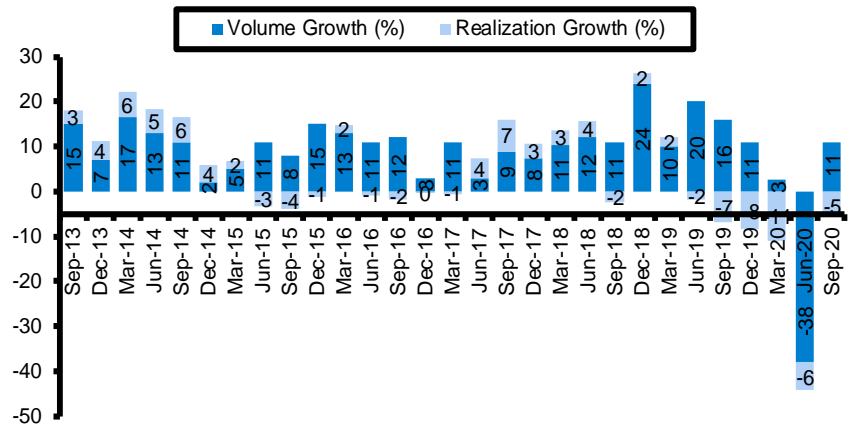
Source: Company Data, PL Research

Exhibit 2: Q2FY21 Results - Standalone (Rs m): Revenues grew 5.8%, Margins expanded 500bps

Standalone	2QFY21	2QFY20	YoY gr. (%)	1QFY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	45,267	42,780	5.8	24,466	69,733	86,582	-19.5
Gross Profit	20,554	18,557	10.8	11,337	31,892	38,179	-16.5
% of NS	45.4	43.4	2.0	46.3	45.7	44.1	1.6
Other Expenses	9,058	9,823	-7.8	6,668	15,726	18,546	-15.2
% of NS	20.0	23.0		27.3	22.6	21.4	
EBITDA	11,496	8,735	31.6	4,670	16,166	19,633	-17.7
Margins %	25.4	20.4	5.0	19.1	23.2	22.7	0.5
Depreciation	1,687	1,743	-3.2	1,669	3,356	3,441	-2.5
Interest	153	202	-24.3	149	303	395	-23.3
Other Income	945	1,141	-17.2	518	1,463	1,996	-26.7
PBT	10,601	7,930	33.7	3,370	13,971	17,794	-21.5
Tax	2,670	25	10495.2	851	3,521	3,364	4.7
Tax rate %	25.2	0.3		25.3	25.2	18.9	
Adjusted PAT	7,931	7,905	0.3	2,519	10,450	14,430	-27.6

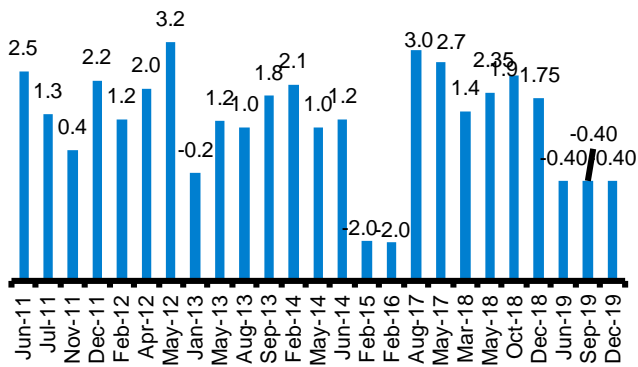
Source: Company Data, PL Research

Exhibit 3: 2Q volumes grew 11%



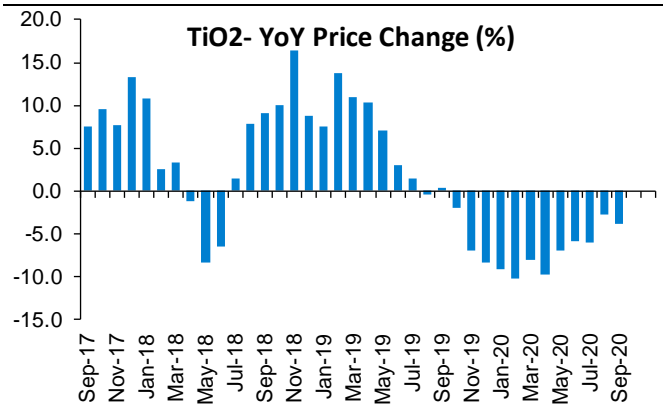
Source: Company, PL

Exhibit 4: Cumulative 1% price cut in FY20



Source: Company, PL

Exhibit 5: TiO2 prices down 4.1% YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	2,02,113	1,94,553	2,29,362	2,61,153
YoY gr. (%)	5.0	(3.7)	17.9	13.9
Cost of Goods Sold	1,13,835	1,08,067	1,28,256	1,46,640
Gross Profit	88,278	86,485	1,01,106	1,14,512
Margin (%)	43.7	44.5	44.1	43.8
Employee Cost	13,661	15,097	16,570	18,316
Other Expenses	32,999	27,647	33,344	36,643
EBITDA	41,618	43,742	51,192	59,554
YoY gr. (%)	10.5	5.1	17.0	16.3
Margin (%)	20.6	22.5	22.3	22.8
Depreciation and Amortization	7,805	8,180	8,938	9,800
EBIT	33,813	35,561	42,254	49,754
Margin (%)	16.7	18.3	18.4	19.1
Net Interest	1,023	952	984	945
Other Income	3,043	3,014	4,777	6,756
Profit Before Tax	35,833	37,623	46,046	55,565
Margin (%)	17.7	19.3	20.1	21.3
Total Tax	8,549	9,782	11,972	14,447
Effective tax rate (%)	23.9	26.0	26.0	26.0
Profit after tax	27,284	27,841	34,074	41,118
Minority interest	769	652	505	542
Share Profit from Associate	507	492	554	603
Adjusted PAT	27,023	27,681	34,124	41,179
YoY gr. (%)	25.5	2.4	23.3	20.7
Margin (%)	13.4	14.2	14.9	15.8
Extra Ord. Income / (Exp)	(50)	-	-	-
Reported PAT	26,973	27,681	34,124	41,179
YoY gr. (%)	25.6	2.6	23.3	20.7
Margin (%)	13.3	14.2	14.9	15.8
Other Comprehensive Income	583	389	549	786
Total Comprehensive Income	27,556	28,071	34,673	41,965
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	28.2	28.9	35.6	42.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	83,568	88,768	95,468	1,02,168
Tangibles	79,350	84,350	90,850	97,350
Intangibles	4,218	4,418	4,618	4,818
Acc: Dep / Amortization	33,246	38,977	45,098	51,658
Tangibles	31,702	36,941	42,547	48,570
Intangibles	1,544	2,036	2,551	3,089
Net fixed assets	50,322	49,792	50,370	50,510
Tangibles	47,648	47,409	48,303	48,780
Intangibles	2,675	2,382	2,067	1,729
Capital Work In Progress	1,402	2,000	3,000	3,000
Goodwill	3,200	3,200	3,200	3,200
Non-Current Investments	18,229	19,403	20,824	22,329
Net Deferred tax assets	(4,270)	(4,065)	(3,816)	(3,518)
Other Non-Current Assets	12,383	11,127	11,112	11,063
Current Assets				
Investments	5,125	26,385	37,922	55,292
Inventories	33,898	31,981	37,703	42,929
Trade receivables	17,994	19,189	22,308	25,400
Cash & Bank Balance	7,829	7,687	8,331	10,286
Other Current Assets	2,856	3,891	4,817	5,484
Total Assets	1,61,549	1,83,168	2,09,093	2,39,963
Equity				
Equity Share Capital	959	959	959	959
Other Equity	1,00,343	1,18,018	1,38,354	1,62,650
Total Network	1,01,302	1,18,977	1,39,313	1,63,609
Non-Current Liabilities				
Long Term borrowings	186	112	67	40
Provisions	1,808	1,850	2,032	2,247
Other non current liabilities	46	46	46	46
Current Liabilities				
ST Debt / Current of LT Debt	3,215	4,982	5,050	5,124
Trade payables	21,366	21,317	24,597	28,123
Other current liabilities	19,223	21,635	23,762	26,628
Total Equity & Liabilities	1,61,548	1,83,168	2,09,093	2,39,963

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	35,833	37,623	46,046	55,565
Add. Depreciation	7,805	8,180	8,938	9,800
Add. Interest	1,023	952	984	945
Less Financial Other Income	3,043	3,014	4,777	6,756
Add. Other	(82)	87	95	105
Op. profit before WC changes	44,579	46,842	56,064	66,414
Net Changes-WC	(421)	(20,397)	(19,486)	(25,750)
Direct tax	(8,549)	(9,782)	(11,972)	(14,447)
Net cash from Op. activities	35,609	16,663	24,606	26,218
Capital expenditures	(4,868)	(7,794)	(9,996)	(9,341)
Interest / Dividend Income	-	-	-	-
Others	(616)	(584)	(605)	(647)
Net Cash from Invst. activities	(5,484)	(8,379)	(10,602)	(9,988)
Issue of share cap. / premium	249	1,067	(505)	(542)
Debt changes	(5,532)	3,517	1,664	2,436
Dividend paid	(20,940)	(11,510)	(13,429)	(16,306)
Interest paid	(1,023)	(952)	(984)	(945)
Others	1	(303)	(452)	(681)
Net cash from Fin. activities	(27,245)	(8,182)	(13,706)	(16,039)
Net change in cash	2,880	102	298	192
Free Cash Flow	30,741	8,868	14,610	16,877

Source: Company Data, PL Research

Key Financial Metrics

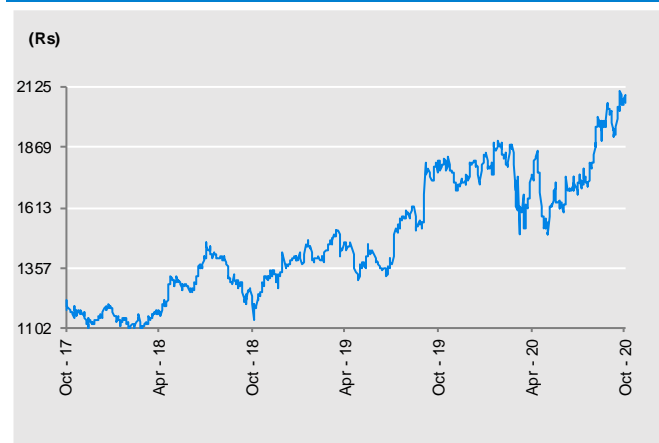
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	28.2	28.9	35.6	42.9
CEPS	36.3	37.4	44.9	53.1
BVPS	105.6	124.0	145.2	170.6
FCF	32.0	9.2	15.2	17.6
DPS	18.2	12.0	14.0	17.0
Return Ratio(%)				
RoCE	32.9	31.1	31.5	31.8
ROIC	28.7	32.8	35.5	40.4
RoE	27.6	25.1	26.4	27.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	55	56	56	56
Valuation(x)				
PER	74.5	72.8	59.0	48.9
P/B	19.9	16.9	14.5	12.3
P/CEPS	57.8	56.2	46.8	39.5
EV/EBITDA	48.2	45.4	38.5	32.8
EV/Sales	9.9	10.2	8.6	7.5
Dividend Yield (%)	0.9	0.6	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	54,203	46,356	29,227	53,502
YoY gr. (%)	2.4	(7.6)	(42.7)	5.9
Raw Material Expenses	30,890	25,106	16,150	29,745
Gross Profit	23,313	21,250	13,077	23,758
Margin (%)	43.0	45.8	44.7	44.4
EBITDA	11,894	8,596	4,843	12,652
YoY gr. (%)	14.0	4.5	(58.2)	32.5
Margin (%)	21.9	18.5	16.6	23.6
Depreciation / Depletion	1,971	1,945	1,912	1,936
EBIT	9,923	6,651	2,931	10,716
Margin (%)	18.3	14.3	10.0	20.0
Net Interest	241	257	201	205
Other Income	698	558	471	826
Profit before Tax	10,381	6,953	3,200	11,337
Margin (%)	19.2	15.0	11.0	21.2
Total Tax	2,776	2,190	862	2,936
Effective tax rate (%)	26.7	31.5	26.9	25.9
Profit after Tax	7,605	4,763	2,339	8,401
Minority interest	-	-	(4)	170
Share Profit from Associates	192	40	(143)	118
Adjusted PAT	7,797	4,803	2,200	8,349
YoY gr. (%)	22.7	1.5	(66.5)	1.8
Margin (%)	14.4	10.4	7.5	15.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,797	4,803	2,200	8,349
YoY gr. (%)	22.7	1.5	(66.5)	1.8
Margin (%)	14.4	10.4	7.5	15.6
Other Comprehensive Income	330	170	(493)	381
Total Comprehensive Income	8,127	4,972	1,707	8,730
Avg. Shares O/s (m)	959	-	959	959
EPS (Rs)	8.1	-	2.3	8.7

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Accumulate	2,032	2,089
2	24-Jul-20	Accumulate	1,829	1,717
3	08-Jul-20	Accumulate	1,857	1,746
4	23-Jun-20	Accumulate	1,722	1,689
5	13-Apr-20	Accumulate	1,687	1,651
6	22-Jan-20	Accumulate	1,815	1,779
7	03-Jan-20	Accumulate	1,822	1,751
8	23-Oct-19	Accumulate	1,855	1,767

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	2,032	2,089
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	308	280
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	359	372
16	Nestle India	Reduce	14,496	16,305
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,254
19	Titan Company	Accumulate	1,352	1,254
20	Voltas	Accumulate	702	672

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

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