

# Asian Paints Ltd.



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**Double digit volume growth drove the strong recovery**

CMP <b>INR 2,160</b>	Target <b>INR 2,310</b>	Potential Upside <b>7.0%</b>	Market Cap (INR Cr) <b>INR 2,07,129</b>	Recommendation <b>ACCUMULATE</b>	Sector <b>Paints</b>
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## Result highlights

- Asian Paints reported revenue growth of 5.9% YoY / 83.1% QoQ to INR 5,350 Cr above our estimate of INR 4,203.
- Overall, EBITDA margin improved 474 bps YoY to 23.6% (+708 bps QoQ) on the back of soft raw material prices, better product mix, favorable foreign currency and cost optimization measures undertaken over the period.
- Net Profit increased by 1.2% YoY to INR 830 Cr (+280.1% QoQ) with NPM of 15.5% (-72 bps YoY) due to the lower total tax.
- Board has recommended payment of interim dividend of INR 3.35 per equity share of the face value of INR 1 each for FY21; as on the "Record date" of 30<sup>th</sup> October 2020 on or after 12<sup>th</sup> November 2020.

## MARKET DATA

Shares O/S (Cr)	96
Equity Cap (INR Cr)	11,443
Mkt Cap (INR Cr)	2,07,129
52 Wk H/L (INR)	2,219/1,431
Volume Avg (3m K)	2,471
Face Value (INR)	1
Bloomberg Code	APNT IN

## KEY FINANCIALS

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
Revenue	17,262	19,248	20,211	21,090	27,073
EBITDA	3,198	3,766	4,162	4,577	6,074
PAT	2,039	2,162	2,710	2,840	3,756
Adj PAT	1,968	2,162	2,710	2,840	3,756
EPS (INR)	21.26	22.54	28.25	29.61	39.16
Adj. EPS (INR)	20.52	22.54	28.25	29.61	39.16
EBITDA Margin (%)	18.5%	19.6%	20.6%	21.7%	22.4%
NPM (%)	11.8%	11.2%	13.4%	13.5%	13.9%

Source: Company, KRChoksey Research

## Double digit volume growth driven by tier 2/3/4 markets

Asian Paints reported revenue growth of 5.9% YoY (+83.1% QoQ) to INR 5,350 Cr. Growth was driven by improved demand for paint industry from tier 2/3/4 markets, while product wise recovery was seen in economy, premium and some luxury range of products. Volume reported double digit growth of 11% YoY. On segmental basis, paint revenue (~98% of revenue) grew 6% YoY (82% QoQ) to INR 5,232 Cr while Home improvement declined 3% YoY to INR 117 Cr. Both the segments in the Home Improvement category viz. the Kitchen and Bath business reported a recovery in quarter compared to Q1FY21, while bath business reported PBT breakeven. Industrial segment reported recovery in both of its business, Automotive coatings JV (PPG-AP) with good growth seen in OEM, while Industrial Coatings JV (AP-PPG) growth is seen in Powder business, while demand for Industrial Liquid paint is still subdued. The international business portfolio did well, supported by volume growth across market specially Africa and Middle east, while Nepal continues to be under pressure due to Covid related restriction. Sri Lanka and Bangladesh unit reported double digit volume growth.

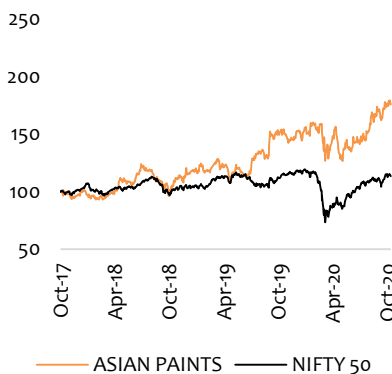
## Benign raw material prices and cost optimization efforts led to margin expansion

The company witnessed gross margin expansion of 197 bps YoY (-34 bps QoQ) due to stable raw material price and continued work on driving sourcing and formulation efficiency. EBITDA margin expanded by 474 bps YoY to 23.6% (+708 bps QoQ) due to cost optimization efforts. In order to motivate the dealers to stock up products, the company has increased their discounts towards them. Despite recovery in revenue and improved operational performance PAT grew merely 1.2% YoY to INR 830 Cr, on account of lower tax outgo during same period previous year.

## Strengthening the décor play

With view to strengthen its presence as a household name, the company has foray into other décor segment like Lighting, Furnishing & furniture. Company has launched 1500+ SKU's across three brand: Nilaya, Royale and Ador. With foraying into this segment, its home improvement category is expected to report healthy growth going forward.

## SHARE PRICE PERFORMANCE

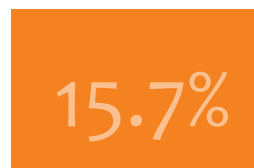


## MARKET INFO

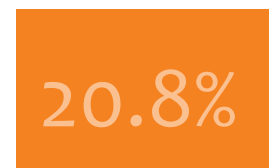
SENSEX	39,922
NIFTY	11,730

## SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	52.79	52.79	52.79
FIIs	19.84	18.21	17.20
DIIs	8.21	9.04	9.97
Others	19.16	19.96	20.04
Total	100	100	100



Revenue CAGR between FY20 and FY22E



PAT CAGR between FY20 and FY22E

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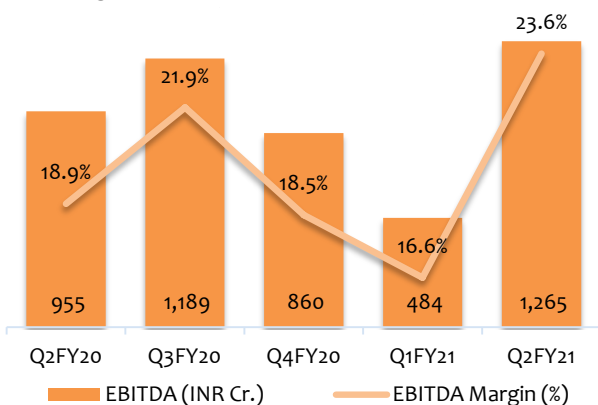
## Key Concall Highlights:

(i) Paint Industry witnessed recovery in Tier 2 / 3 / 4 markets and have reached pre Covid levels, whereas metros and Tier 1 / 2 markets reported 70-80% demand recovery of pre Covid level. (ii) Economy, premium & some luxury ranges of products witnessed recovery in demand, with demand being more from economic range. (iii) Forayed into lightings, furnishings & furniture (which is largely dominated by unorganized players) with launch of 1500+ SKU's across three brands: Nilaya, Royale & Ador, as they align with company's vision of providing complete Home décor solutions. (iv) In Industrial business under PPG-AP segment witness recovery in OEM business, while Refinish though recovered is still low and under AP-PPG segment Powder business recovered well, while Industrial liquid segment is still struggling. (v) International business picked up specially in Africa and Middle East and Sri Lanka and Bangladesh unit reported double Digit volume. Nepal continues to be under pressure due to Covid. (vi) Management expects margin to be elevated given stable raw material price and cost optimization measures in coming quarters.

## Valuation and view

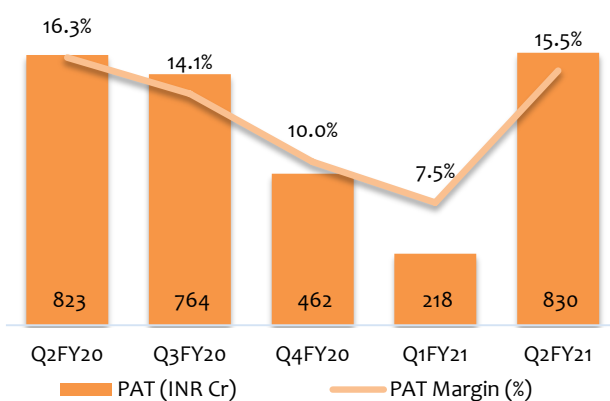
With improved volume growth in the quarter, recovering paint industry and management commentary, we expect challenges of slowdown driven by Covid is left behind and demand is expected to rise in coming quarter. Though recovery is still subdued in metros and Tier 1 cities; it has improved in Tier 2/3/4 cities. Softening raw material prices and cost optimization will be offset by dealer discount and support in near term, while it is expected to benefit the company in the long run. Diversified product portfolio, huge scope of penetration in entry-level paints, and innovative products will augur well for the company in the future. With demand picking up, economy opening-up and cost rationalization initiative taken, we expect the company will grow at CAGR of 15.7%/25.7% in topline/EBITDA over FY20/22E. **Given Covid impact on Q1FY21 result and subdued demand in Metro and Tier-1 cities, we have downgraded our FY21E EPS by 6.0% to INR 29.6 (earlier EPS was INR 31.5). Further, we expect the demand to rebound strongly along with margin expansion initiative undertaken. Accordingly, we have upgraded our FY22E EPS by 8.5% to INR 39.2 (earlier EPS was INR 36.1) in FY22 and we continue to apply PE multiple of 59x (same as previous) on FY22E EPS to arrive at target price of INR 2,310 (previous TP: INR 2,129); an upside potential of 7.0%. Accordingly, we reiterate our "ACCUMULATE" rating on the shares of Asian Paints Ltd.**

Margin improved YoY due to soft commodity prices



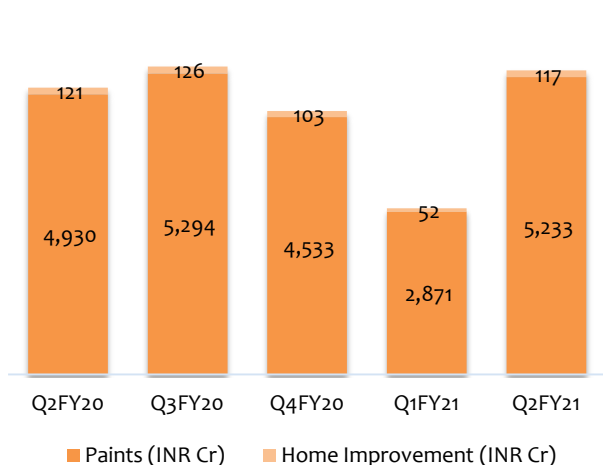
Source: Company, KRChoksey Research

Pickup in PAT and PAT margin



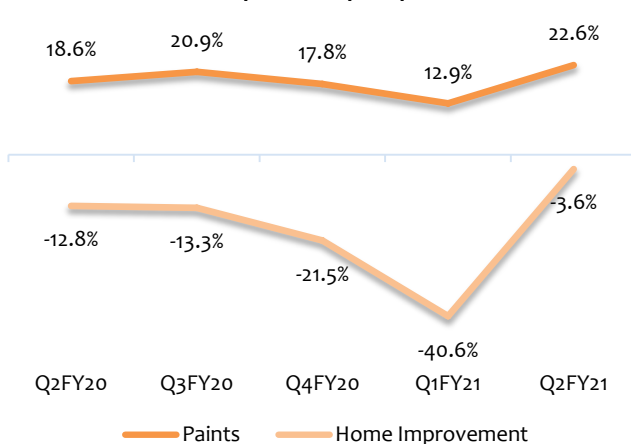
Source: Company, KRChoksey Research

Improvement is seen in the Paints segment



Source: Company, KRChoksey Research

Paint PBT margin (%) increased due to low raw material prices and pickup in sales



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Balance Sheet

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
<b>Non-current assets</b>					
Property, plant and equipment	3,118	5,030	4,765	4,712	4,644
Right-to-use assets	0	871	920	920	920
Capital work-in-progress	1,405	210	140	140	140
Goodwill (Net)	327	321	320	320	320
Other intangible assets	287	274	267	267	267
Investment in Associate	366	406	457	514	555
Financial assets					
Investments	718	988	1,050	1,050	1,050
Loans	81	79	68	68	68
Trade receivables	6	6	4	4	4
Other financial assets	151	227	248	248	248
Deferred tax assets (Net)	20	29	17	18	23
Non-current tax assets (Net)	68	159	253	264	339
Other non-current assets	321	51	65	68	87
<b>Total non-current assets</b>	<b>6,869</b>	<b>8,651</b>	<b>8,575</b>	<b>8,594</b>	<b>8,666</b>
<b>Current assets</b>					
Inventories	2,658	3,150	3,390	3,708	4,782
Financial assets					
Investments	1,057	1,175	512	512	512
Trade receivables	1,731	1,907	1,795	1,873	2,405
Cash and cash equivalents	312	276	564	2,029	3,437
Other Balances with Banks	93	169	219	219	219
Loans	13	16	19	19	19
Other financial assets	581	526	782	782	782
Assets classified as Held for Sale	15	15	14	14	14
Other current assets	455	394	286	298	383
<b>Total current assets</b>	<b>6,914</b>	<b>7,627</b>	<b>7,580</b>	<b>9,455</b>	<b>12,552</b>
<b>TOTAL ASSETS</b>	<b>13,783</b>	<b>16,278</b>	<b>16,155</b>	<b>18,049</b>	<b>21,218</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	96	96	96	96	96
Other equity	8,314	9,375	10,034	11,531	13,511
Equity attributable to the equity shareholders	8,410	9,471	10,130	11,627	13,607
Non-controlling interests	328	361	404	473	542
<b>Total equity</b>	<b>8,738</b>	<b>9,831.8</b>	<b>10,534</b>	<b>12,100</b>	<b>14,148</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	28	19	19	19	19
Other financial liabilities	5	4	3	3	3
Lease liabilities	0	542	590	590	590
Provisions	140	156	181	181	181
Deferred tax liabilities (Net)	417	543	444	444	444
Other non-current liabilities	4	3	5	5	5
<b>Total non-current liabilities</b>	<b>594</b>	<b>1,266</b>	<b>1,241</b>	<b>1,241</b>	<b>1,241</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	492	597	321	321	321
Trade payables	2,160	2,394	2,137	2,388	2,992
Other financial liabilities	1,364	1,651	1,374	1,434	1,841
Other current liabilities	283	164	132	137	176
Provisions	57	76	62	65	84
Current tax liabilities (Net)	95	146	180	188	241
<b>Total current liabilities</b>	<b>4,451</b>	<b>5,180</b>	<b>4,380</b>	<b>4,708</b>	<b>5,829</b>
<b>Total liabilities</b>	<b>5,045</b>	<b>6,446</b>	<b>5,621</b>	<b>5,949</b>	<b>7,070</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13,783</b>	<b>16,278</b>	<b>16,155</b>	<b>18,049</b>	<b>21,218</b>

Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 2: Profit & Loss Statement

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>17,262</b>	<b>19,248</b>	<b>20,211</b>	<b>21,090</b>	<b>27,073</b>
COGS	9,691	11,265	11,383	12,454	16,059
<b>Gross profit</b>	<b>7,571</b>	<b>7,984</b>	<b>8,828</b>	<b>8,637</b>	<b>11,014</b>
Employee cost	1,115	1,237	1,366	1,318	1,692
Other expenses	3,258	2,982	3,300	2,742	3,249
<b>EBITDA</b>	<b>3,198</b>	<b>3,766</b>	<b>4,162</b>	<b>4,577</b>	<b>6,074</b>
<b>EBITDA Margin</b>	<b>18.5%</b>	<b>19.6%</b>	<b>20.6%</b>	<b>21.7%</b>	<b>22.4%</b>
Depreciation & amortization	360	622	781	896	1,151
<b>EBIT</b>	<b>2,837</b>	<b>3,143</b>	<b>3,381</b>	<b>3,681</b>	<b>4,923</b>
Interest expense	35	105	102	127	127
<b>PBT</b>	<b>3,093</b>	<b>3,271</b>	<b>3,583</b>	<b>3,803</b>	<b>5,045</b>
Tax	1,041	1,098	855	951	1,261
Minority interest	59	52	69	69	69
<b>PAT</b>	<b>2,039</b>	<b>2,162</b>	<b>2,710</b>	<b>2,840</b>	<b>3,756</b>
<b>Adj. PAT</b>	<b>1,968</b>	<b>2,162</b>	<b>2,710</b>	<b>2,840</b>	<b>3,756</b>
<b>EPS (INR)</b>	<b>21.26</b>	<b>22.54</b>	<b>28.25</b>	<b>29.61</b>	<b>39.16</b>
<b>Adj. EPS</b>	<b>20.52</b>	<b>22.54</b>	<b>28.25</b>	<b>29.61</b>	<b>39.16</b>

Source: Company, KRChoksey Research

### Exhibit 3: Cash Flow Statement

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	2,113	2,470	2,632	3,533	4,216
Net Cash Flow from/(used in) Investing Activities	(1,599)	(944)	(521)	(665)	(973)
Net Cash Flow from Financing Activities	(1,379)	(1,117)	(2,465)	(1,402)	(1,835)
Net Inc/Dec in cash equivalents	(865)	408	(355)	1,466	1,408
Opening Balance	1,668	846	1,280	929	2,394
Closing Balance Cash and Cash Equivalents	312	276	564	2,029	3,437

Source: Company, KRChoksey Research

### Exhibit 4: Ratio Analysis

Particulars (INR Crores)	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	18.5%	19.6%	20.6%	21.7%	22.4%
Tax rate (%)	33.7%	33.6%	23.9%	25.0%	25.0%
Net Profit Margin (%)	11.8%	11.2%	13.4%	13.5%	13.9%
RoE (%)	23.3%	22.0%	25.7%	23.5%	26.5%
RoCE (%)	30.6%	30.1%	31.1%	29.6%	34.0%
EPS (INR)	21.26	22.54	28.25	29.61	39.16

Source: Company, KRChoksey Research

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Asian Paints Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
28-Oct-20	2,160	2,310	ACCUMULATE	Buy	More than 15%
05-Oct-20	2,028	2,129	ACCUMULATE	Accumulate	5% – 15%
20-Aug-20	1,886	1,985	ACCUMULATE	Hold	0 – 5%
24-Jun-20	1,747	1,877	ACCUMULATE	Reduce	-5% – 0
23-Apr-20	1,822	1,930	ACCUMULATE	Sell	Less than – 5%

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