

## Retail Equity Research

# Asian Paints Ltd

### Paint & Varnishes

BSE CODE : 500820 NSE CODE: ASIANPAINT  
BLOOMBERG CODE: APNT:IN SENSEX : 36,021

**BUY**

12M Investment Period

Rating as per Large Cap

**CMP Rs.1,696 TARGET Rs.1,901 RETURN 12%**   
(Closing: 03-07-20)

#### KEY CHANGES:

**TARGET** 

**RATING** 

**EARNINGS** 

#### RM tailwinds to continue...

Asian paints (APNT), is the market leader in the Indian paint manufacturing industry with a market share of ~53%.

- Q4FY20 revenue declined by 8% YoY, Covid led lockdown impacted decorative paint business with low single digit volume.
- Realisation fell sharply (~10%) due to demand for economic products than luxury paints.
- EBITDA margin improved by 93bps YoY to 18.5% due to benign raw material costs.
- PAT registered marginal de-growth of 1% YoY due to lower interest expenses and tax rates.
- We reduce FY21E/FY22E revenue estimate by 15%/14% due to tepid discretionary spend.
- We expect earnings may witness near term hiccups while long term growth story remain intact. We therefore, maintain our Buy rating and value at a P/E of 50x on FY22E EPS.

#### Low single digit volume growth...

In Q4FY20, revenue de-grew by 7.6% YoY to Rs4,636cr due to Covid led lockdown. Volume grew by low single digit (~2%-3%) while realisation fell by ~10% due to inferior product mix. Notably, APNT registered double digit volume growth in the month of January & February whereas, loss of sale due to lockdown in March impacted the decorative business segment. FY20 revenue grew by 5% YoY to Rs20,211cr with double digit volume growth. Automotive coatings and Industrial Coatings continued to be impacted by the downturn in the automotive industry and the overall slowdown in the economy. Home Improvement business, continued to be impacted by the slowdown in the real estate construction space. The International business portfolio did well supported by growth from markets in Ethiopia, Egypt, UAE and Nepal. However, key units of Sri Lanka and Bangladesh were impacted due to the lockdown conditions. Management mentioned that initial signs of recovery from Tier-2 & 3 cities (contributes 50% -55% sales) as compared to Metro/ Tier -1 cities. We expect near term demand for decorative paint remains in doldrums due to insipid discretionary spending. Therefore, gap between volume growth and value growth to persist. We reduce FY21E/FY22E revenue by 15%/14% respectively.

#### Benign RM cost add colours to margins...

Benign raw material prices led to higher gross margin of 45.8% an improvement of 428bps YoY. While control over other expenses and advertisement activity supported EBITDA margin improvement of 93bps YoY to 18.5%. Tailwinds on raw material cost and pick up in rural demand will add colours to margins in the coming years.

#### FY20 PAT grew by 26% YoY...

Q4FY20 earnings marginally de-grew by 1.2% YoY to Rs480cr, offset by lower interest expenses(-14% YoY) and reduction in tax rate. The effective tax rate declined from 34.4% in Q4FY19 to 31.5%. FY20 PAT grew by 26% YoY led by strong operating margins and fall in tax rates. Due to near term hiccups we reduce FY21E/FY22E earnings growth by 20%/11% respectively.

#### Valuations

We expect earnings may witness near term hiccups while long term growth story remain intact. The near term demand for decorative paints will get impacted due to tepid discretionary spend. While tailwinds on raw material costs provide support to margins and valuation. Therefore, we maintain our Buy rating on APNT with a TP of Rs1,901, based on a P/E of 50x on FY22EPS.

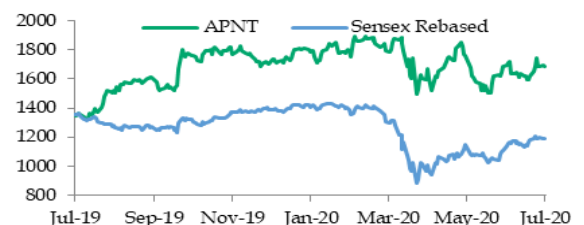
#### Company Data

Market Cap (cr)	Rs1,61,817
Enterprise Value (cr)	Rs1,62,157
Outstanding Shares (cr)	96
Free Float	47.2%
Dividend Yield	0.7%
52 week high	Rs1,916
52 week low	Rs1,291
6m average volume (cr)	0.14
Beta	1.2
Face value	Rs1

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	52.8	52.8	52.8
FII's	16.95	17.24	17.21
MFs/Insti	10.21	10.15	9.76
Public	20.01	19.81	20.23
Total	100.0	100.0	100.0
Promoter Pledge%	11.88	12.53	11.87

Price Performance	3 month	6 Month	1 Year
Absolute Return	5.2%	-5.7%	24.6%
Absolute Sensex	23.5%	-16.1%	-12.0%
Relative Return*	-18.3%	10.4%	36.6%

\*over- or underperformance to benchmark index



Consolidated (bn)	FY20A	FY21E	FY22E
Sales	202.1	208.8	241.0
Growth (%)	5.0	3.3	15.4
EBITDA	41.6	41.8	53.0
EBITDA Margin(%)	20.59	20.00	22.00
PAT Adj.	27.8	27.5	35.9
Growth (%)	25.5	-0.9	30.4
Adj.EPS	29.0	28.7	37.4
Growth (%)	25.5	-0.9	30.4
P/E	58.2	58.8	45.1
P/B	16.0	14.1	11.9
EV/EBITDA	39.0	38.8	30.6
ROE (%)	28.4	25.4	28.6
D/E	0.0	0.0	0.0

Antu Eapen Thomas  
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
Sales	4,636	5,018	-7.6	20,211	19,295	4.7
EBITDA	860	884	-2.7	4,162	3,771	10.4
EBITDA margins %	18.5	17.6	93bps	20.6	19.5	105bps
Depreciation	195	179	8.4	781	624	25.1
EBIT	665	704	-5.6	3,381	3,147	7.4
Interest	26	30	-13.6	102	105	-3.0
Other Income	56	57	-2.5	304	233	30.6
Exceptional Items						
PBT	695	732	-5.0	3,583	3,275	9.4
Tax	219	252	-13.0	855	1,097	-22.1
Share of profit from Associate						
Minority Interest	4	6	-32.7	51	41	24.6
Reported PAT	480	486	-1.2	2,779	2,218	25.3
Adjustments	-	-		-	-	
Adj PAT	480	486	-1.2	2,779	2,218	25.3
No. of Shares	96.0	96.0		96.0	96.0	
EPS (Rs)	5.0	5.1	-1.2	29.0	23.1	25.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	21,684	25,004	20,881	24,105	(14.6)	(14.3)
EBITDA	4,250	4,976	4,176	5,303	(18.3)	(11.5)
Margins (%)	19.6	19.9	20.0%	22.0%	(90)bps	700bps
Adj. PAT	2,937	3,421	2,768	3,646	(20.0)	(11.2)
EPS	3 0.62	35.66	28.86	38.02	(20.0)	(11.2)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	17,262	19,350	20,211	20,881	24,105
% change	2.4	12.1	5.0	3.3	15.4
EBITDA	3,198	3,525	4,162	4,176	5,303
% change	7	10	11	0.3	27
Depreciation	360	431	781	835	917
EBIT	2,837	3094	3,381	3,341	4,386
Interest	35	51	102	101	92
Other Income	221	227	304	350	400
PBT	3,023	3,270	3,583	3,590	4,694
% change	5	8	10	0	31
Tax	1,041	1099	855	898	1,174
Tax Rate (%)	34.4	33.6	23.9%	25.0%	25.0%
Reported PAT	2,028	2,212	2,779	2,753	3,591
Adj.*	-	-	0	0	0
Adj. PAT	2,028	2,212	2,779	2,753	3,591
% change	1.9	9.1	25.5	-0.9	30.4
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs)	21.1	23.1	29.0	28.7	37.4
% change	1.9	9.1	25.5	-0.9	30.4
DPS (Rs)	8.7	9.8	10.9	12.0	13.1

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	846	1,280	929	1476	1546
Accounts Receivable	1,737	1,913	1799	1945	2179
Inventories	2,658	3,150	3390	3618	3923
Other Cur. Assets	1,244	1,495	1735	2037	2410
Investments	2,141	1,735	1873	2341	2997
Gross Fixed Assets	4,004	6,539	7239	8239	9739
Net Fixed Assets	3,118	5,256	5685	5416	6029
CWIP	1405	210	140	140	140
Intangible Assets	614	595	587	602	611
Def. Tax (Net)	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	13,763	15,633	16,138	17,575	19,835
Current Liabilities	3,911	4,363	4594	4625	4743
Provisions	197	232	243	252	277
Debt Funds	521	616	340	316	295
Other Liabilities	725	903	831	872	918
Equity Capital	96	96	96	96	96
Reserves & Surplus	8,314	9,424	10034	11413	13505
Shareholder's Fund	8,410	9,520	10130	11509	13601
Total Liabilities	13,763	15,633	16,138	17,575	19,835
BVPS	87.7	99.2	105.6	120.0	141.8

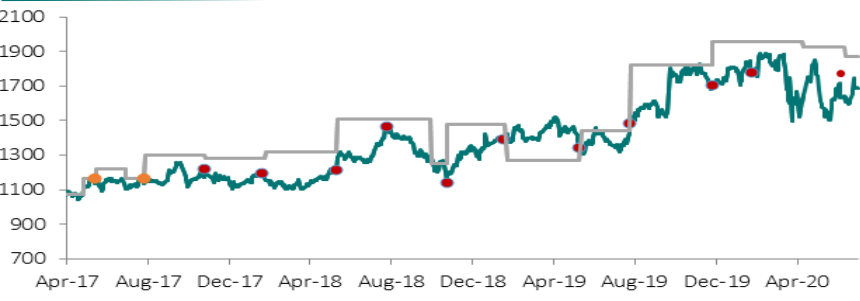
CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	3,500	3741	4414	4485	5681
Non-cash adj.	(1,188)	(1,046)	(911)	(826)	(1110)
Changes in W.C	(80)	(427)	(845)	(636)	(769)
C.F. Operation	2,113	2,214	2659	3023	3802
Capital exp.	(1,409)	(1134)	(662)	(1035)	(1539)
Change in inv.	(191)	210	(68)	(423)	(606)
Other invest.CF	0	0	0	0	0
C.F - Investment	(1599)	(924)	(730)	(1458)	(2144)
Issue of equity	0	0	0	0	0
Issue/repay debt	(79)	12	(378)	(125)	(113)
Dividends paid	(1,218)	(1,049)	(1248)	(1374)	(1499)
Other finance.CF	-50	0	42	25	25
C.F - Finance	(1,379)	(883)	(2280)	(1018)	(1587)
Chg. in cash	(865)	408	(351)	547	71
Closing cash	846	1,280	929	1476	1546

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	18.5	18.2	20.6	20.0	22.0
EBIT margin (%)	16.4	16.0	16.7	16.0	18.2
Net profit mgn.(%)	11.7	11.4	13.8	13.2	14.9
ROE (%)	25.3	24.7	28.4	25.4	28.6
ROCE (%)	15.8	16.9	20.6	19.3	21.6
W.C & Liquidity					
Receivables (days)	33.7	34.4	33.5	32.7	31.2
Inventory (days)	55.9	54.8	59.1	61.3	57.1
Payables (days)	7.4	6.5	6.9	7.3	6.7
Current ratio (x)	1.6	1.7	1.6	1.9	2.0
Quick ratio (x)	0.5	0.5	0.6	0.7	0.8
Turnover &Leverage					
Gross asset T.O (x)	4.6	3.7	2.9	2.7	2.7
Total asset T.O (x)	1.3	1.3	1.2	1.2	1.3
Int. covge. ratio (x)	80.9	60.7	33.0	33.1	47.8
Adj. debt/equity (x)	0.1	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	9.4	8.4	8.0	7.8	6.7
EV/EBITDA (x)	50.8	43.1	39.0	38.8	30.6
P/E (x)	79.8	73.1	58.2	58.8	45.1
P/BV (x)	19.2	17.1	16.0	14.1	11.9

Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
1st August 2016	Reduce	1,084
27th October 2016	Reduce	1,084
24th November 2016	Buy	1,108
2nd February 2017	Hold	1,071
16th May 2017	Hold	1,218
26th July 2017	Hold	1,164
26th October 2017	Hold	1,297
24th January 2018	BUY	1,283
11th May 2018	Hold	1,317
25th July 2018	Hold	1507
23rd October 2018	Hold	1,219
30th October 2018	BUY	1,317
23rd January 2019	Hold	1,478
13th May 2019	Reduce	1,269
25th July 2019	Reduce	1,443
26th November 2019	Hold	1,822
24th January 2020	Hold	1,884
13th April 2020	Buy	1,927
04th July 2020	Buy	1,901

Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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