

## Retail Equity Research

# Asian Paints Ltd

### Paint & Varnishes

BSE CODE : 500820 NSE CODE: ASIANPAINT  
BLOOMBERG CODE: APNT:IN SENSEX : 38,129

**BUY**

12M Investment Period

Rating as per Large Cap

**CMP Rs.1,711 TARGET Rs.1,922 RETURN 12%**   
(Closing: 24-07-20)

#### KEY CHANGES:

**TARGET** 

**RATING** 

**EARNINGS** 

#### Pick up in demand, a positive surprise...

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

- Q1FY21 revenue declined by 43% YoY, decorative business recovered to 80% to pre Covid levels in May while double digit volume registered in June month are positive.
- Management expects volumes to improve in coming quarters due to 'Safe Painting' campaign and recovery in Tier-2 to 4 cities.
- EBITDA margin declined by 611bps YoY to 16.6% due to inferior product mix and higher employee cost.
- PAT declined by 67%YoY due to weak margins and fall in other income, partially offset by lower interest cost and tax rate.
- We marginally increase FY21E/FY22E revenue estimate by 1%/2% due to improvement in rural demand and traction in water proofing business.
- 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.

#### Fall in top-line but rural demand is picking up...

In Q1FY21, revenue de-grew by 42.7% YoY to Rs2,923cr due to washout in business in April month on account of lockdown. Decorative volume declined about ~35%. However, gradual improvement in rural demand led to recovery in volumes and registered more than 14% volume in June. Industrial coating business and home improvement business also witnessed improvement trends in June, albeit at a slower pace. The International business portfolio did well supported by favourable operating conditions in markets in Middle East and Africa though key markets of Nepal and Bangladesh in Asia were impacted by the pandemic lockdowns. Management mentioned that initial signs of recovery from Tier-2 to 4 cities (contributes 50%-55% sales) as compared to Metro/ Tier -1cities. Company's 'Safe Painting' campaign resulted in improvement in business while water proofing business seen good traction due to good monsoon. Management also express concern on increasing spread of Covid which may led to lockdown in various cities. We expect gap between volume growth and value growth to persist due to insipid discretionary spending.

#### Margins declined but judicious on spending...

Benign raw material prices led to higher gross margin of 44.7% an improvement of 110bps YoY. However, EBITDA margin declined by 611bps YoY due to employee cost. Increase in headcounts, salary hikes and one off increase in provision for gratuity led to rise in employee cost by 6.4% YoY. While company is very judicious on spending and taken cost control initiative which led to fall in other expenses by 37% YoY.

#### Earnings declined...

Q1FY24 earnings declined by 67.4% YoY to Rs220cr due to fall in sales and other income (36% YoY). This was partially offset by lower interest expenses(-24% YoY) and reduction in tax rate. The effective tax rate declined from 34.7% in Q1FY20 to 26.9%.

#### Valuations

We expect earnings may witness near term hiccups while long term growth story remain intact. Demand for decorative business is back to 80% to pre-Covid levels and double digit volume growth in June '20 are giving positive impetus in coming quarters. While tailwinds on raw material costs provide support to margins and valuation. Therefore, we maintain our Buy rating on APNT with a TP of Rs1,922, based on a P/E of 50x on FY22EPS.

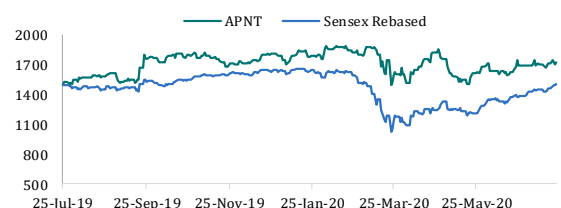
#### Company Data

Market Cap (cr)	₹ 1,64,114
Enterprise Value (cr)	₹ 1,64,454
Outstanding Shares (cr)	96
Free Float	47.20%
Dividend Yield	0.70%
52 week high	₹ 1,916
52 week low	₹ 1,432
6m average volume (cr)	0.14
Beta	1.2
Face value	₹ 1

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	52.8	52.8	52.8
FII's	17.24	17.21	18.21
MFs/Insti	10.15	9.76	8.94
Public	19.81	20.23	20.05
Total	100.0	100.0	100.0
Promoter Pledge%	12.53	11.87	11.7

Price Performance	3 month	6 Month	1 Year
Absolute Return	-6.4%	-4.2%	14.4%
Absolute Sensex	21.7%	-8.4%	0.8%
Relative Return*	-28.1%	4.2%	13.6%

\*over- or underperformance to benchmark index



Consolidated (bn)	FY20A	FY21E	FY22E
Sales	202.1	211.0	245.9
Growth (%)	5.0	4.4	16.6
EBITDA	41.6	42.2	54.1
EBITDA Margin(%)	20.59	20.00	22.00
PAT Adj.	27.8	28.0	36.9
Growth (%)	25.5	0.8	31.7
Adj.EPS	29.0	29.2	38.4
Growth (%)	25.5	0.8	31.7
P/E	58.2	58.6	44.5
P/B	16.0	14.2	11.9
EV/EBITDA	39.0	39.0	30.4
ROE (%)	28.4	25.8	29.1
D/E	0.0	0.0	0.0

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Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	YoY Growth %
Sales	2,923	5,105	-42.7	4,636	-37.0
EBITDA	484	1,158	-58.2	860	-43.7
EBITDA margins %	16.6	22.7	-611bps	18.5	-198bps
Depreciation	191	192	-0.3	195	-1.7
EBIT	293	966	-69.7	665	-55.9
Interest	20	27	-24.5	26	-21.6
Other Income	47	74	-35.9	56	-15.6
Exceptional Items					
PBT	320	1,013	-68.4	695	-54.0
Tax	86	351	-75.5	219	-60.7
Share of profit from Associate					
Minority Interest	(14)	12		4	
Reported PAT	220	674	-67.4	480	-54.3
Adjustments	-	-		-	
Adj PAT	220	674	-67.4	480	-54.3
No. of Shares	96.0	96.0		96.0	
EPS (Rs)	2.3	7.0	-67.4	5.0	-54.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	20,881	24,105	21,101	24,593	1.1	2.0
EBITDA	4,176	5,303	4,220	5,410	1.1	2.0
Margins (%)	20.0	22.0	20.0	22.0	0bps	0bps
Adj. PAT	2,768	3,646	2,801	3,688	1.2	1.1
EPS	28.86	38.02	29.20	38.45	1.2	1.1

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	17,262	19,350	20,211	21,101	24,593
% change	2.4	12.1	5.0	4.4	16.6
EBITDA	3,198	3,525	4,162	4,220	5,410
% change	7	10	11	1	28
Depreciation	360	431	781	815	843
EBIT	2,837	3094	3,381	3,406	4,568
Interest	35	51	102	101	92
Other Income	221	227	304	350	380
PBT	3,023	3,270	3,583	3,655	4,856
% change	5	8	10	2	33
Tax	1,041	1099	855	914	1,238
Tax Rate (%)	34.4	33.6	23.9%	25.0%	25.5%
Reported PAT	2,028	2,212	2,779	2,801	3,688
Adj.*	-	-	0	0	0
Adj. PAT	2,028	2,212	2,779	2,801	3,688
% change	1.9	9.1	25.5	0.8	31.7
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs)	21.1	23.1	29.0	29.2	38.4
% change	1.9	9.1	25.5	0.8	31.7
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	1,355	2,033
Accounts Receivable	1,737	1,913	1,799	2,255	2,560
Inventories	2,658	3,150	3,390	3,275	3,820
Other Cur. Assets	1,244	1,495	1,735	1,838	2,271
Investments	2,141	1,735	1,873	2,341	2,997
Gross Fixed Assets	4,004	6,539	7,239	7,939	8,639
Net Fixed Assets	3,118	5,256	5,685	5,136	5,023
CWIP	1405	210	140	500	500
Intangible Assets	614	595	587	602	611
Def. Tax (Net)	-	-	-	0	0
Other Assets	-	-	-	0	0
Total Assets	13,763	15,633	16,138	17,302	19,815
Current Liabilities	3,911	4,363	4,594	4,324	4,584
Provisions	197	232	243	231	270
Debt Funds	521	616	340	316	295
Other Liabilities	725	903	831	872	920
Equity Capital	96	96	96	96	96
Reserves & Surplus	8,314	9,424	10,034	11,462	13,650
Shareholder's Fund	8,410	9,520	10,130	11,558	13,746
Total Liabilities	13,763	15,633	16,138	17,302	19,815
BVPS	87.7	99.2	105.6	120.5	143.3

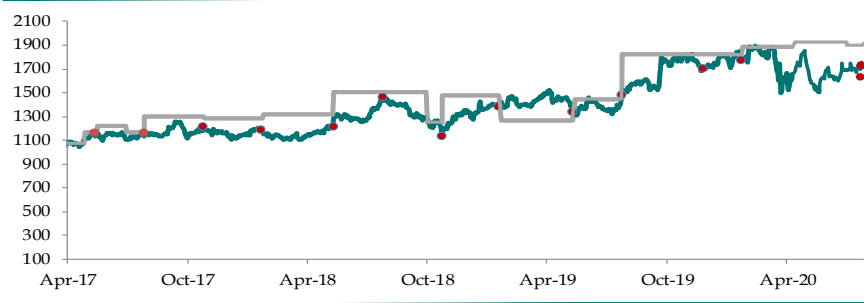
CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	3,500	3741	4416	4529	5769
Non-cash adj.	(1,188)	(1,046)	(973)	(842)	(1,154)
Changes in W.C	(80)	(427)	(737)	(726)	(985)
C.F. Operation	2,113	2,214	2,632	2,961	3,630
Capital exp.	(1,409)	(1134)	(367)	(1,095)	(739)
Change in inv.	(191)	210	(154)	(423)	(626)
Other invest.CF	0	0	0	0	0
C.F - Investment	(1,599)	(924)	(521)	(1,518)	(1,364)
Issue of equity	0	0	0	0	0
Issue/repay debt	(79)	12	(362)	(125)	(113)
Dividends paid	(1,218)	(1,049)	(2121)	(1374)	(1,499)
Other finance.CF	-50	0	-179	25	25
C.F - Finance	(1,379)	(883)	(2,465)	(1,018)	(1,587)
Chg. in cash	(865)	408	-355	426	678
Closing cash	846	1,280	929	1355	2033

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	18.5	19.6	20.6	20.0	22.0
EBIT margin (%)	16.4	16.3	16.7	16.1	18.6
Net profit mgn.(%)	11.7	11.5	13.8	13.3	15.0
ROE (%)	25.3	24.8	28.4	25.8	29.1
ROCE (%)	15.8	17.4	20.6	19.6	21.9
W.C & Liquidity					
Receivables (days)	33.7	34.6	33.5	35.1	35.7
Inventory (days)	55.9	55.1	59.1	57.6	52.7
Payables (days)	7.4	6.5	6.9	7.2	6.5
Current ratio (x)	1.6	1.5	1.6	1.9	2.2
Quick ratio (x)	0.5	0.5	0.6	0.8	1.0
Turnover & Leverage					
Gross asset T.O (x)	4.6	3.7	2.9	2.8	3.0
Total asset T.O (x)	1.3	1.3	1.2	1.3	1.3
Int. covge. ratio (x)	80.9	29.9	33.0	33.7	49.8
Adj. debt/equity (x)	0.1	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	9.5	8.6	8.1	7.8	6.7
EV/EBITDA (x)	51.5	43.7	39.5	39.0	30.4
P/E (x)	80.9	74.1	59.1	58.6	44.5
P/BV (x)	19.5	17.3	16.2	14.2	11.9

### Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
1st August 2016	Reduce	1,084
27th October 2016	Reduce	1,084
24thNovember 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
1st July 2020	Buy	1,901
27th July 2020	Buy	1,922

### Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

**Definition:**

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

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