

CMP: ₹ 3160

Target: ₹ 3665 (16%)

Target Period: 12 months

July 21, 2021

BUY

Favourable base, pent up demand drive topline...

About the stock: Asian Paints (APL) is India's largest decorative paint company. The company derives ~98% revenue from the paints business while 2% business comes from the home improvement business (kitchen and bathroom fittings).

- The company has a pan-India distribution of ~70,000 dealers, ~2.3x more than the No.2 player
- Despite being into a capital intensive business, the company has maintained a strong balance sheet with RoCE, RoE of 31%, 27% respectively

Q1FY22 Results: Revenue and bottomline growth was ahead of our estimates but EBITDA margins came in lower than expected

- Reported revenue growth of 91% YoY to ₹ 5585 crore (up 91% YoY)
- Gross margins declined 630 bps YoY to ~38% while EBITDA margin was flat at 16.4% due to better operating leverage and savings in other costs
- PAT growth of ~162% YoY to ₹ 574 crore was supported by strong sales growth on a YoY basis
- The company has taken a price hike of 3% in Q1FY22 and has further guided to take price hikes to maintain EBITDA margin in the range of 19-21%, going forward

What should investors do? Strong brand, market leadership position and a robust balance sheet condition justifies APL's premium valuation. APL has been a consistent compounder with stock price appreciating at 31% CAGR over the last five years.

- We introduce our FY24 estimates and roll over our valuation on FY24E. We maintain our **BUY** rating on the stock

Target Price and Valuation: We value APL at ₹ 3665 i.e. 62x P/E FY24E EPS

Key triggers for future price performance:

- Repainting represents ~80% of total decorative paint demand. Gradual reduction in re-painting cycle would drive future paint demand
- Increased focus on the 'water proofing & building chemical' category will continue drive revenue growth for Asian Paints. Water proofing & building chemical industry is pegged at ₹ 6000 crore vs. ₹ 1.5 lakh crore in China
- Model revenue, earnings CAGR of 20%, 21%, respectively, in FY21-24E

Alternate Stock Idea: Apart from APL, in our paint coverage we also like Kansai

- Trigger for Kansai's future revenue growth would be strong automotive paint demand (45% of Kansai's total revenue) and increased focused on construction chemical business
- BUY with target price of ₹ 655



asianpaints

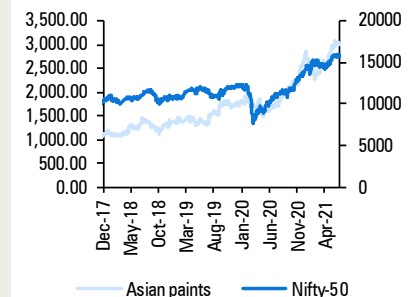
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	3,03,044.0
Total Debt (FY21) (₹ Crore)	340.2
Cash & Inv (FY21) (₹ Crore)	4,252.9
EV (₹ Crore)	2,99,131.3
52 week H/L (₹)	3178/1683
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	52.8	52.8	52.8	52.8	52.8
FII	17.2	18.2	19.8	21.1	20.4
DII	10.0	9.0	8.2	7.1	7.4
Others	20.0	20.0	19.2	19.0	19.4

Price Chart



Recent Event & Key risks

- Price hikes of 1% with effect from July 2021
- Key Risk:** (i) Delay in price hikes (ii) Extended lockdown

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Yr CAGR (16-21)	FY22E	FY23E	FY24E	3 Yr CAGR (21-23E)
Net Sales	19240.1	20211.3	21712.8	9	27377.8	32254.5	37646.7	20.1
EBITDA	3765.5	4161.8	4855.6	12	5612.5	7031.5	8207.0	19.1
EBITDA Margin (%)	19.6	20.6	22.4		20.5	21.8	21.8	
Net Profit	2213.8	2779.1	3206.8	12	3786.4	4836.6	5672.2	20.9
EPS (₹)	23.1	29.0	33.4		39.5	50.43	59.15	
P/E (x)	136.9	109.0	94.5		80.0	62.7	53.4	
Price/Book (x)	32.0	29.9	23.7		22.1	19.2	16.8	
Mcap/Sales (x)	15.8	15.0	14.0		11.1	9.4	8.0	
RoE (%)	23.4	27.4	25.0		27.6	30.7	31.4	
RoCE (%)	28.9	30.5	29.6		32.6	36.8	38.2	

Key takeaways of recent quarter & conference call highlight

Q1FY22 Results: Robust recovery on favourable base

- Volume growth of 106% YoY on a favourable base and pent up demand from metro and tier-1 cities. However, extended lockdown in southern states and higher Covid-19 cases in rural India had slowed growth
- New products (in wood finishes, water proofing) are getting good demand tractions across regions. Robust growth in project and institutional sales
- Price hikes of ~3% to partially offset higher raw material prices. However, adverse mix and higher input costs dented gross margin

Q1FY22 Earnings Conference Call highlights

Demand Outlook:

- The management is positive on the demand front in rest of the FY22E led by pent-up demand, abating of the second wave, a long Diwali season and a good monsoon forecast
- New launches, continuous focus on tier 3, 4 cities and rural India (contributes 55% of sales vs. industry average of 70%) would help drive volume growth for the company. The company sees 15% volume CAGR in the next two to three years

Margins:

- The management has guided EBITDA margin range of 19-21%, going forward, aided by softening raw material prices and price hikes whenever needed
- The company has taken a 1% price hike on a portfolio level with effect from July 1, 2021 to offset higher input cost

Network expansion:

- New retailers with Colour Worlds added to enhance their rural footprint
- Six Colour ideas stores opened in Q1FY22 and 18 beautiful homes functional with another 15 in the pipeline

Home Décor business:

- Business from kitchen, bath, furnishing, furniture and lightning segments are seeing an uptick in demand
- Contributions from home décor business is expected to remain in single digits for years to come

Expansion of product portfolio:

- In collaboration with Sabyasachi, the company introduced Nilaya, which offers decorative wallpapers in the premium segments
- New additions in designer tiles segment with anti-skid, anti-stain, anti-crack variants

Capacity utilisation and capex:

- Current capacity utilisation was at 70-75%
- Capex will be done on a need basis

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	5,585.4	4,611.9	2,922.7	91.1	6,651.4	-16.0	Favourable base and price hikes helped drive sales growth on a YoY basis
Other Income	89.6	74.3	47.1	90.3	75.4	18.8	
Raw Material Exp	3,438.9	2,628.8	1,615.0	112.9	3,779.3	-9.0	Sharp decline in gross margin by 630 bps YoY mainly due adverse product mix and higher raw material prices
Employee Exp	432.1	415.1	361.5	19.5	412.1	4.8	
Manufacturing & Oth exp	800.8	714.8	461.9	73.4	1,141.7	-29.9	Various cost rationalisation helped in saving in other expenditures meaningfully
Total Exp	4,671.8	3,758.7	2,438.4	91.6	5,333.2	-12.4	
EBITDA	913.6	853.2	484.3	88.7	1,318.3	-30.7	
EBITDA Margin (%)	16.4	18.5	16.6	-21 bps	19.8	-346 bps	Lower-than-expected EBITDA margin mainly due to sharp decline in gross margin
Depreciation	200.6	221.0	191.2	4.9	213.4	-6.0	
Interest	21.5	24.0	20.1	6.7	29.9	-28.1	
Exceptional items							
PBT	781.1	682.5	320.0	144.1	1,150.5	-32.1	
Total Tax	204.3	171.8	86.2	137.1	286.4	-28.7	
PAT	574.3	515.3	219.6	161.5	869.9	-34.0	Favourable base and strong recovery in topline helped drive bottomline
Key Metrics							
Volume growth (%)	106.0	52.0	-38.0		48.0		Lower base and pent up demand from Metros & Tier 1 cities helped drive volume growth in Q1FY22
Realisation growth (%)	-7.2	3.9	-7.7		-3.0		Price hikes of ~3% was completely offset by adverse product mix in Q1FY22

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ crore)	FY22E			FY23E			FY24E	Comment
	Old	New	% Chg	Old	New	% Chg	New	
Revenue	25275.0	27377.8	8.3	30069.1	32254.5	7.3	37646.7	We introduce FY24E estimates with paint revenue CAGR of 22% FY21-23E led by volume CAGR of ~16% during the same period
EBITDA	5307.8	5612.5	5.7	6500.8	7031.5	8.2	8207.0	
EBITDA Margin (%)	21.0	20.5	-50bps	21.6	21.8	20bps	21.8	We marginally tweak our EBITDA margin estimate downside for FY22E considering higher input prices and company's increased focus on mid range of products
PAT	3523.8	3786.4	7.5	4351.3	4836.6	11.2	5672.2	
EPS (₹)	36.7	39.5	7.6	45.4	50.4	11.1	59.1	

Source: Company, ICICI Direct Research

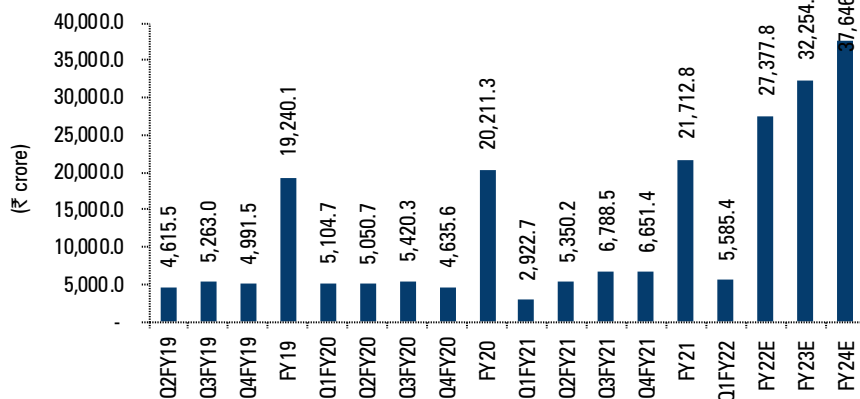
Exhibit 3: Assumptions

	Current				Introduced	Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E	
Volume Growth (%)	10.2	13.4	22.2	13.7	12.9	12.8	15.5	We build in volume CAGR of ~16% in FY21-24E supported by new product launches, shortening repainting cycle, market share gains and government schemes (Housing for all)
Realisation Growth (%)	(5.3)	(5.3)	2.5	3.8	3.4	2.4	2.9	We believe price hikes would help drive realisation growth, going forward

Source: Company, ICICI Direct Research

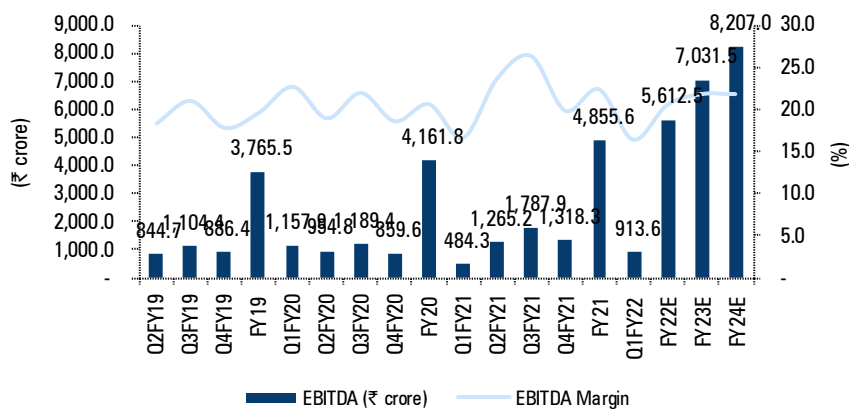
Financial story in charts....

Exhibit 4: Strong volume growth, going ahead, to drive revenue



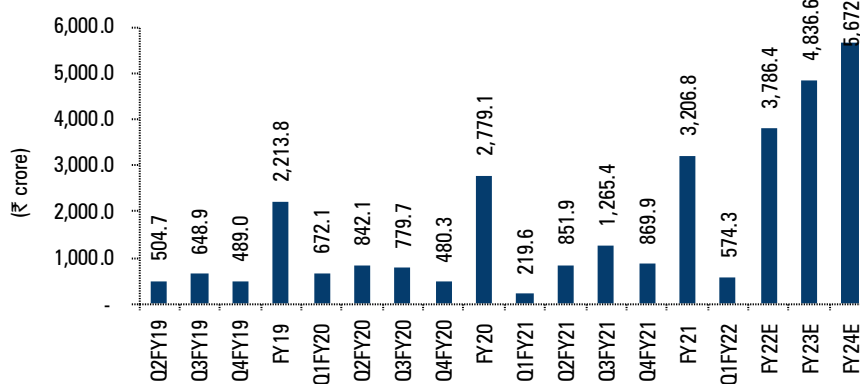
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA likely to remain robust while EBITDA margin to normalise



Source: Company, ICICI Direct Research

Exhibit 6: PAT growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Revenue	21,712.8	27,377.8	32,254.5	37,646.7
Growth (%)	7.4	26.1	17.8	16.7
Raw Material Expenses	12,097.2	15,879.1	18,385.1	21,458.6
Employee Expenses	1,540.8	1,779.6	1,838.5	2,145.9
Other expenses	3,219.2	4,106.7	4,999.5	5,835.2
Total Operating Expenditure	16,857.2	21,765.4	25,223.0	29,439.7
Growth (%)	5.0	29.1	15.9	16.7
EBITDA	4,855.6	5,612.5	7,031.5	8,207.0
Growth (%)	16.7	15.6	25.3	16.7
Depreciation	791.3	876.1	967.6	1,129.4
Interest	91.6	84.1	59.4	33.4
Other Income	303.1	386.8	415.7	485.2
PBT	4,275.8	5,039.0	6,420.1	7,529.4
Total Tax	1,097.6	1,277.9	1,617.5	1,897.0
Profit from Associates	28.6	25.3	34.0	39.8
PAT	3,206.8	3,786.4	4,836.6	5,672.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit before Tax	3,206.8	3,786.4	4,836.6	5,672.2
Add: Depreciation	791.3	876.1	967.6	1,129.4
(Inc)/dec in Current Assets	-1,888.9	-1,753.8	-1,863.4	-2,357.3
Inc/(dec) in CL and Provisions	1,566.4	326.3	308.8	710.2
Others	91.6	84.1	59.4	33.4
CF from operating activities	3,767.2	3,319.2	4,309.0	5,188.0
(Inc)/dec in Investments	-2,718.0	-10.0	-540.0	-540.0
(Inc)/dec in Fixed Assets	-437.6	-440.0	-500.0	-500.0
Others	-161.6	-165.8	-148.5	-165.4
CF from investing activities	-3,317.2	-615.8	-1,188.5	-1,205.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.1	22.0	-130.0	-130.0
Dividend paid & dividend tax	-1,711.1	-2,244.1	-2,805.1	-3,366.1
Inc/(dec) in Sec. premium	1,088.8	-715.2	-59.4	-33.4
CF from financing activities	-622.1	-2,937.3	-2,994.5	-3,529.5
Net Cash flow	-172.1	-233.8	126.0	453.1
Opening Cash	782.8	610.7	376.9	502.9
Closing Cash	610.7	376.9	502.9	956.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	12,710.4	13,621.7	15,653.2	17,959.3
Total Shareholders funds	12,806.3	13,717.6	15,749.1	18,055.2
Total Debt	340.2	362.2	232.2	102.2
Deferred Tax Liability	415.6	415.6	415.6	415.6
Minority Interest	422.9	444.0	466.2	489.5
Total Liabilities	14,737.4	15,691.8	17,615.6	19,815.0
Gross Block	8,722.9	9,162.9	9,662.9	10,162.9
Less: Acc Depreciation	3,167.1	4,043.1	5,010.8	6,140.2
Capital WIP	183.0	183.0	183.0	183.0
Total Fixed Assets	5,738.9	5,302.8	4,835.1	4,205.7
Other Investments	483.9	493.9	533.9	573.9
Liquid Investments	4,252.9	4,252.9	4,752.9	5,252.9
Goodwill on Consolidation	302.6	302.6	302.6	302.6
Current Assets				
Inventory	3,798.6	4,875.5	5,655.6	6,807.3
Debtors	2,605.1	3,075.3	3,976.6	4,641.4
Loans and Advances	79.5	81.5	83.5	85.5
Other Current Assets	1,711.8	1,916.4	2,096.5	2,635.3
Cash	610.7	376.9	502.9	956.0
Total Current Assets	8,805.7	10,325.7	12,315.1	15,125.5
Current Liabilities				
Creditors	3,378.7	3,375.3	3,534.7	3,919.4
Provisions	299.6	299.3	313.5	347.6
Other current liabilities	1,953.8	2,283.8	2,419.1	2,710.6
Total Current Liabilities	5,632.2	5,958.5	6,267.3	6,977.5
Net Current Assets	3,173.5	4,367.1	6,047.8	8,147.9
Other Non Current Assets Tc	785.6	972.5	1,143.2	1,331.9
Total Assets	14,737.4	15,691.8	17,615.6	19,815.0

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	33.4	39.5	50.4	59.1
Cash EPS	41.7	48.6	60.5	70.9
BV	133.5	143.0	164.2	188.3
DPS	17.8	23.4	29.3	35.1
Cash Per Share	33.0	42.2	52.3	64.0
Operating Ratios (%)				
EBITDA Margin	22.4	20.5	21.8	21.8
EBIT Margin	18.7	17.3	18.8	18.8
PAT Margin	14.8	13.8	15.0	15.1
Activity Ratios				
Inventory days	63.9	65.0	64.0	66.0
Debtor days	43.8	41.0	45.0	45.0
Creditor days	56.8	45.0	40.0	38.0
Return Ratios (%)				
RoE	29.6	32.6	36.8	38.2
RoCE	25.0	27.6	30.7	31.4
RoIC	47.2	49.3	56.5	60.0
Valuation Ratios (x)				
P/E	94.5	80.0	62.7	53.4
EV / EBITDA	61.5	53.2	42.4	36.2
EV / Net Sales	13.7	10.9	9.2	7.9
Market Cap / Sales	14.0	11.1	9.4	8.0
Price to Book Value	23.7	22.1	19.2	16.8
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.7	1.9	2.0
Quick Ratio	0.8	0.9	1.0	1.1

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,034	2,970	Buy	2,90,961	33.4	36.7	45.4	90.7	82.6	66.9	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnic (ASTPOL)	1,983	1,915	Hold	29,876	20.3	21.8	29.3	97.6	91.1	67.7	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,730	3,130	Buy	8,585	24.7	45.7	88.2	110.5	59.7	30.9	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	991	1,280	Buy	11,267	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	824	835	Hold	80,027	7.4	9.3	12.3	111.2	88.9	67.1	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4
Crompton Greaves(CROGR)	418	480	Buy	26,209	9.8	9.2	11.9	42.5	45.7	35.2	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,426	4,635	Buy	25,914	27.3	54.8	95.8	162.3	80.8	46.2	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	274	275	Hold	8,645	7.7	9.2	11.4	35.4	29.7	24.0	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	990	1,255	Buy	61,766	16.7	16.7	22.0	59.4	59.1	44.9	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	570	655	Buy	30,718	9.9	12.1	14.4	57.9	47.0	39.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	481	600	Buy	1,334	16.5	20.8	28.0	29.2	23.1	17.2	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	2,127	2,035	Hold	1,08,009	22.2	26.3	31.8	95.9	80.8	66.9	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,930	2,025	Buy	28,734	59.4	64.8	79.5	32.5	29.8	24.3	21.1	17.8	14.6	21.9	22.7	24.3	18.5	17.8	18.6
Supreme Indus (SUPIND)	2,202	2,390	Hold	27,971	77.0	64.9	72.4	28.6	33.9	30.4	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,072	1,345	Hold	7,499	15.3	28.5	39.5	70.1	37.7	27.1	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	85	100	Buy	1,922	4.8	8.5	10.8	17.8	10.0	7.9	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	262	320	Buy	11,221	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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