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### Q3FY21 result review and earnings revision

## Paints

Target price: Rs2,950

### Earnings revision

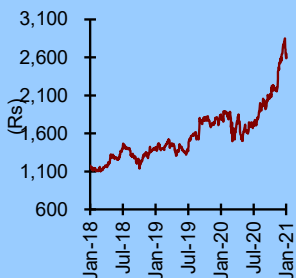
(%)	FY21E	FY22E	FY23E
Sales	↑ 1.7	↑ 1.7	↑ 1.7
EBITDA	↑ 7.0	↑ 7.1	↑ 7.1
EPS	↑ 8.3	↑ 8.3	↑ 8.3

### Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	52.8	52.8	52.8
Institutional investors	27.2	28.0	28.2
MFs and other	3.9	3.2	2.8
Banks, FI's, Insurance co	4.5	3.8	3.1
FII's	18.8	20.4	21.7
Pension Fund	-	0.6	0.6
Others	20.0	19.2	19.0

Source: BSE

### Price chart



## Asian Paints

**ADD**

**Maintained**

Seemingly a beat in 3Q, however, flat revenues in 9MFY21 is what we should focus on

**Rs2,715**

While quarterly performance continues to be volatile led by multiple one-offs, 9MFY21 (normalized) results show Revenue, PAT and Volume growth of -3%, 2% and 1%, respectively. While the consensus earnings expectations pre-covid and now have not materially changed, there is significant rerating of valuation multiples (partially attributable to lower cost of capital too). There is no material change in (long term) growth prospects of APNT and we continue to believe the next growth drivers will be (1) ancillary products, (2) Home Décor business and (3) steady market growth of paints led by formalization of the sector. While the consensus appears concerned about inflation in input prices, APNT is expected to pass on costs and maintain margins. Retain ADD (See chart-1 for TTM volume growth).

- ▶ **Q3FY21 results:** APNT reported consolidated revenue, EBITDA, PAT growth of 25.2%, 50.3%, 62.3% respectively in Q3FY21. Standalone revenue, EBITDA, PAT growth was 26.1%, 48%, 56.5% respectively. Volume growth was 33%. While input prices are rising, APNT improved gross margins by 210bps via cost rationalization and lower trade discounts. Cost saving measures (lower rentals, travel & marketing spends) and operating leverage resulted in 'other expenditure as % of net sales' declining 170bps YoY.
- ▶ **Multiple one-offs impacting quarterly financials; important to look 9MFY21:** Post the outbreak of covid, the variables which drive quarterly results have increased. These include lockdown in Apr-May'20, localized lockdowns post May'20, lower sales in red zones, changes in channel inventory, changes in trade schemes and slow-down and growth in real estate and industrial demand. Annual variables such as shift of Diwali from Q2 to Q3, marriage season and monsoon have continued to add volatility to quarterly numbers. To avoid the impact of these one-offs, we compare 9MFY21 with 9MFY20. APNT reported consolidated revenue, EBITDA, PAT growth of -3%, 7%, 2% respectively in 9MFY21. Volume growth was 1%.
- ▶ **Investments in Home Décor and ancillary business to continue:** APNT plans to double the number of Home Décor stores (current: 16) over next two years. It also believes offering complete solution such as Home Décor, kitchen and Bath offers huge value to the consumers. It has also introduced waterproofing in all international markets and has introduced bath products in Nepal and Bangladesh.
- ▶ **Maintain ADD:** We model sales and earnings CAGR of 12.5% and 17.3% respectively, for FY20-FY23E. Maintain ADD with a DCF-based TP of Rs2,950. Lower-than-expected urban recovery and potential execution challenges in new categories are key risks.

Market Cap	Rs2604bn/US\$35.7bn	Year to March (Cons)	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	ASPN.BO/APNT IN	Net Revenue (Rs mn)	202,113	208,361	255,772	288,078
Shares Outstanding (mn)	959.2	Net Profit (Rs mn)	27,556	29,858	37,858	43,598
52-week Range (Rs)	2849/1498	Dil. EPS (Rs)	28.2	31.1	39.5	45.5
Free Float (%)	47.2	% Chg YoY	25.1	10.5	26.8	15.2
FII (%)	21.7	P/E (x)	96.4	87.3	68.8	59.8
Daily Volume (US\$'000)	73,400	CEPS (Rs)	36.6	39.6	49.0	56.1
Absolute Return 3m (%)	28.6	EV/EBITDA (x)	62.7	55.6	45.0	39.5
Absolute Return 12m (%)	50.9	Dividend Yield (%)	0.4	0.4	0.5	0.6
Sensex Return 3m (%)	22.1	RoCE (%)	24.3	24.3	26.6	26.0
Sensex Return 12m (%)	21.6	RoE (%)	27.8	27.7	29.9	28.6

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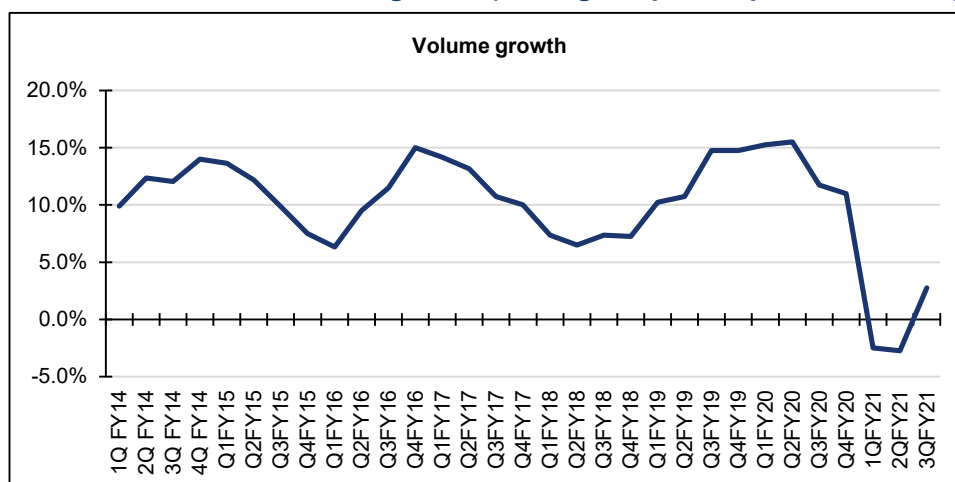
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Chart 1: Normalised volume growth (Average of past 4 quarter volume growth)



Source: Company data, I-Sec research

Table 1: Q3FY21 consolidated financial performance

Rs mn	Q3FY21	Q3FY20	% YoY	Q2FY21	% QoQ
<b>Net revenues</b>	<b>67,885</b>	<b>54,203</b>	<b>25.2</b>	<b>53,502</b>	<b>26.9</b>
Raw materials	37,285	30,890	20.7	29,745	25.3
% of sales	54.9%	57.0%	-207 bps	55.6%	-67 bps
Employee costs	3,883	3,430	13.2	3,789	2.5
% of sales	5.7%	6.3%	-61 bps	7.1%	-136 bps
Other expenditure	8,839	7,989	10.6	7,317	20.8
% of sales	13.0%	14.7%	-172 bps	13.7%	-66 bps
<b>Total expenditure</b>	<b>50,006</b>	<b>42,309</b>	<b>18.2</b>	<b>40,850</b>	<b>22.4</b>
<b>EBITDA</b>	<b>17,879</b>	<b>11,894</b>	<b>50.3</b>	<b>12,652</b>	<b>41.3</b>
EBITDA margin (%)	26.3%	21.9%	439 bps	23.6%	269 bps
Other income	979	698	40.2	826	18.5
<b>PBDIT</b>	<b>18,858</b>	<b>12,592</b>	<b>49.8</b>	<b>13,478</b>	<b>39.9</b>
Depreciation	1,932	1,971	(2.0)	1,936	(0.2)
<b>PBIT</b>	<b>16,926</b>	<b>10,621</b>	<b>59.4</b>	<b>11,543</b>	<b>46.6</b>
Interest	211	241	(12.2)	205	3.0
<b>PBT</b>	<b>16,715</b>	<b>10,381</b>	<b>61.0</b>	<b>11,337</b>	<b>47.4</b>
Tax	4,314	2,776	55.4	2,936	46.9
% of PBT	26%	27%	(3.5)	26%	(0.3)
<b>PAT before associates &amp; MI</b>	<b>12,401</b>	<b>7,605</b>	<b>63.1</b>	<b>8,401</b>	<b>47.6</b>
Share of profit from associates	253	192	31.4	118	114.3
Minority interest	234	143	63.8	170	37.3
<b>Extraordinary</b>	<b>607</b>	<b>330</b>	<b>83.7</b>	<b>381</b>	<b>59.2</b>
<b>PAT</b>	<b>13,027</b>	<b>7,985</b>	<b>63.1</b>	<b>8,730</b>	<b>49.2</b>
<b>Adj. PAT</b>	<b>12,420</b>	<b>7,654</b>	<b>62.3</b>	<b>8,349</b>	<b>48.8</b>

Source: Company data, I-Sec research

Table 2: Segmental performance (consolidated)

	Q3FY21	Q3FY20	% YoY	Q2FY21	% QoQ
<b>Revenues (Rs mn)</b>					
Paints	66,351	52,941	25.3	52,329	26.8
Home improvement	1,534	1,261	21.6	1,174	30.7
<b>Total</b>	<b>67,885</b>	<b>54,203</b>	<b>25.2</b>	<b>53,502</b>	<b>26.9</b>
<b>EBIT (Rs mn)</b>					
Paints	17,226	11,054	55.8	11,818	45.8
Home improvement	-8	-168	(95.4)	-42	(81.4)
<b>Total</b>	<b>17,218</b>	<b>10,885</b>	<b>58.2</b>	<b>11,776</b>	<b>46.2</b>
<b>EBIT margin (%)</b>			<b>YoY bps</b>		<b>QoQ bps</b>
Paints	26.0	20.9	508	22.6	338
Home improvement	(0.5)	(13.3)	1,283	(3.6)	306
<b>Total</b>	<b>25.4</b>	<b>20.1</b>	<b>528</b>	<b>22.0</b>	<b>335</b>

Source: Company data, I-Sec research

**Table 3: Q3FY21 Standalone financial performance**

<i>Rs mn</i>	<b>Q3FY21</b>	<b>Q3FY20</b>	<b>% YoY</b>	<b>Q2FY21</b>	<b>% QoQ</b>
<b>Net revenues</b>	<b>58,728</b>	<b>46,569</b>	<b>26.1</b>	<b>45,267</b>	<b>29.7</b>
Raw materials	31,628	26,099	21.2	24,713	28.0
% of sales	54%	56%	-219 bps	55%	-74 bps
Employee costs	2,809	2,475	13.5	2,767	1.5
% of sales	5%	5%	-53 bps	6%	-133 bps
Other expenditure	7,749	6,816	13.7	6,291	23.2
% of sales	13%	15%	-144 bps	14%	-70 bps
<b>Total expenditure</b>	<b>42,186</b>	<b>35,390</b>	<b>19.2</b>	<b>33,771</b>	<b>24.9</b>
<b>EBITDA</b>	<b>16,542</b>	<b>11,179</b>	<b>48.0</b>	<b>11,496</b>	<b>43.9</b>
<i>EBITDA margin (%)</i>	28.2%	24.0%	416 bps	25.4%	277 bps
Other income	1,214	928	30.9	945	28.5
<b>PBDIT</b>	<b>17,756</b>	<b>12,107</b>	<b>46.7</b>	<b>12,441</b>	<b>42.7</b>
Depreciation	1,690	1,737	(2.7)	1,687	0.2
<b>PBIT</b>	<b>16,066</b>	<b>10,370</b>	<b>54.9</b>	<b>10,754</b>	<b>49.4</b>
Interest	168	196	(14.2)	153	9.5
<b>PBT</b>	<b>15,898</b>	<b>10,174</b>	<b>56.3</b>	<b>10,601</b>	<b>50.0</b>
Tax	4,019	2,585	55.4	2,670	50.5
% of PBT	25%	25%	(0.5)	25%	0.4
<b>PAT</b>	<b>11,879</b>	<b>7,589</b>	<b>56.5</b>	<b>7,931</b>	<b>49.8</b>
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Extraordinary items	761	299	154.3	595	28.1
PAT after MI	12,641	7,888	60.2	8,526	48.3
<b>Adj. PAT</b>	<b>11,879</b>	<b>7,589</b>	<b>56.5</b>	<b>7,931</b>	<b>49.8</b>

Source: Company data, I-Sec research

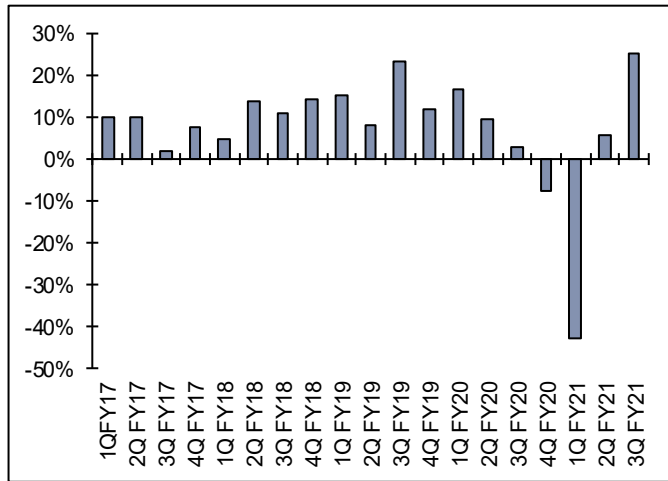
**Table 4: Segmental performance (standalone)**

	<b>Q3FY21</b>	<b>Q3FY20</b>	<b>% YoY</b>	<b>Q2FY21</b>	<b>% QoQ</b>
<b>Revenues (Rs mn)</b>					
Paints	58,002	45,979	26.1	44,713	29.7
Home improvement	726	590	23.1	555	30.9
<b>Total</b>	<b>58,728</b>	<b>46,569</b>	<b>26.1</b>	<b>45,267</b>	<b>29.7</b>
<b>EBIT (Rs mn)</b>					
Paints	16,139	10,559	52.8	10,921	47.8
Home improvement	10	-72	(113.3)	1	772.7
<b>Total</b>	<b>16,148</b>	<b>10,487</b>	<b>54.0</b>	<b>10,922</b>	<b>47.9</b>
<b>EBIT margin (%)</b>			<b>YoY bps</b>		<b>QoQ bps</b>
Paints	27.8	23.0	486	24.4	340
Home improvement	1.3	(12.3)	1,360	0.2	112
<b>Total</b>	<b>27.5</b>	<b>22.5</b>	<b>498</b>	<b>24.1</b>	<b>337</b>

Source: Company data, I-Sec research

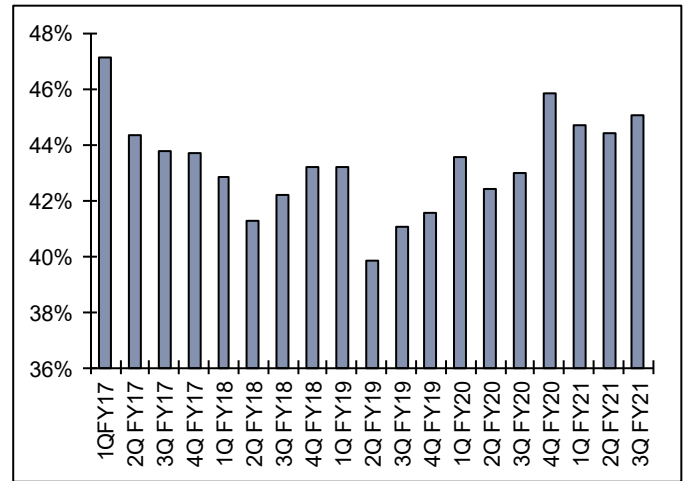
**Operational highlights – Quarterly (Consolidated)**

**Chart 2: Revenue growth (YoY)**



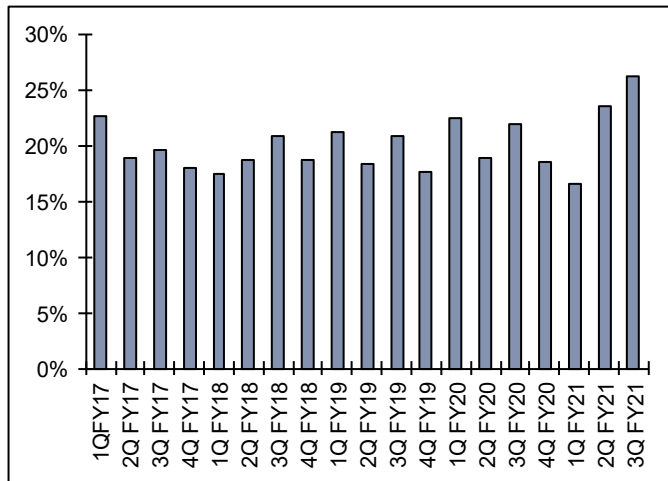
Source: Company data, I-Sec research

**Chart 3: Gross margin**



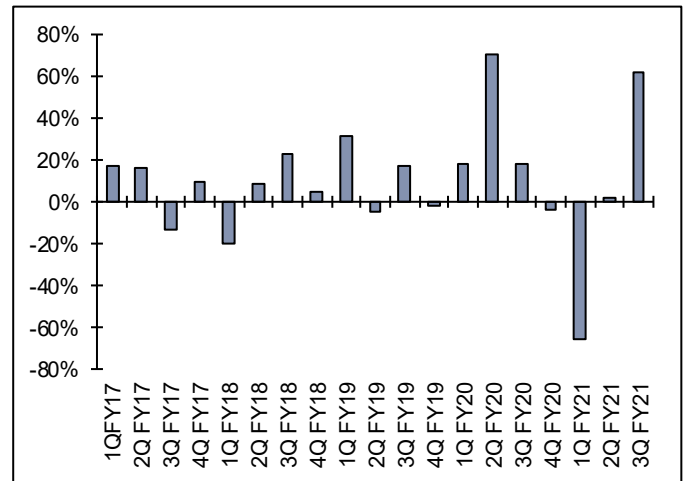
Source: Company data, I-Sec research

**Chart 4: EBITDA margin**



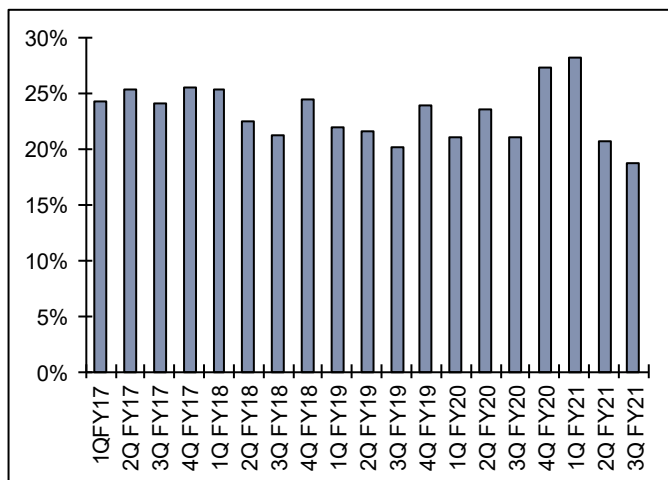
Source: Company data, I-Sec research

**Chart 5: PAT growth (YoY)**



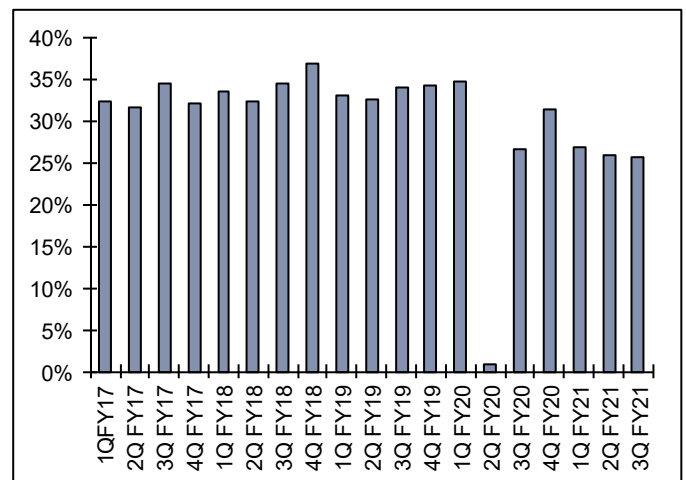
Source: Company data, I-Sec research

**Chart 6: Staff cost and other expenditure as % of net sales**



Source: Company data, I-Sec research

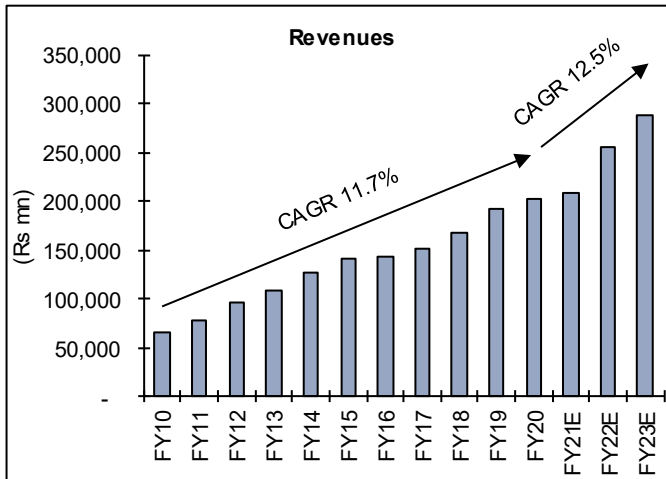
**Chart 7: Effective tax rate**



Source: Company data, I-Sec research

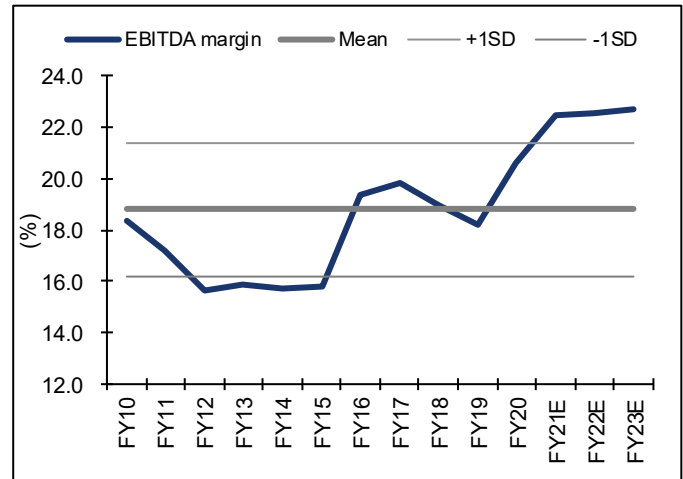
**Operational highlights - Annual**

**Chart 8: Revenues and growth rates**



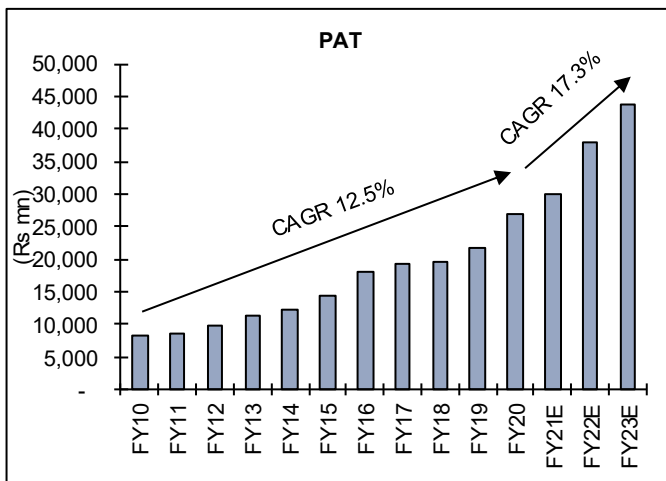
Source: Company data, I-Sec research

**Chart 9: EBITDA margin**



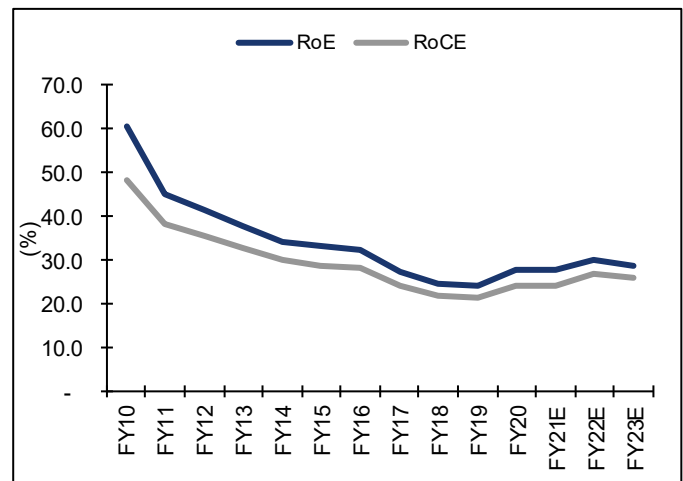
Source: Company data, I-Sec research

**Chart 10: PAT and growth rates**



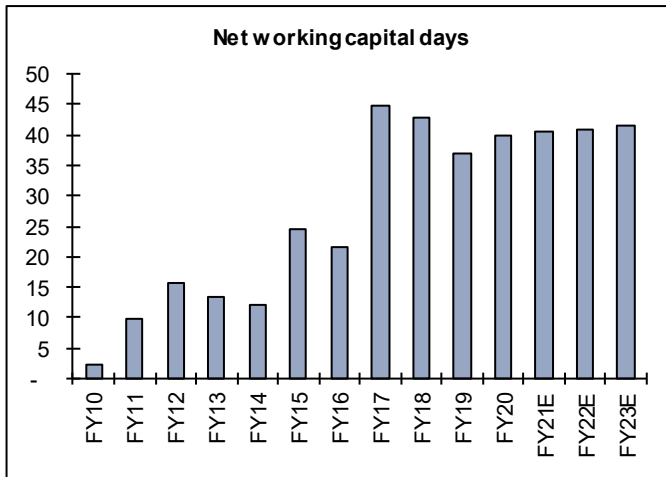
Source: Company data, I-Sec research

**Chart 11: RoE & RoCE**



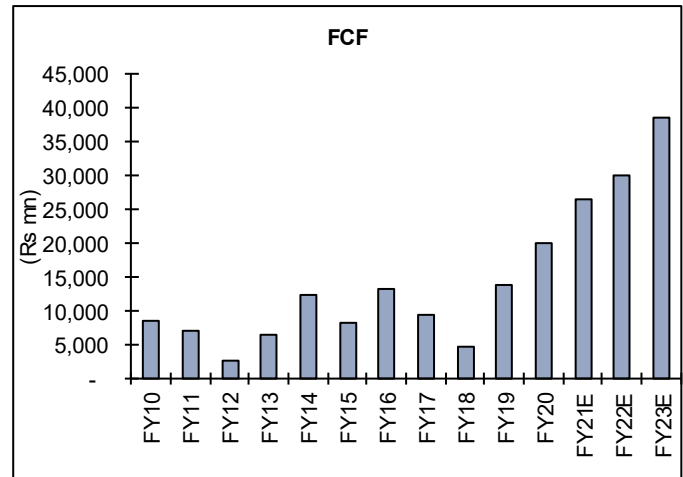
Source: Company data, I-Sec research

**Chart 12: Net working capital days**



Source: Company data, I-Sec research

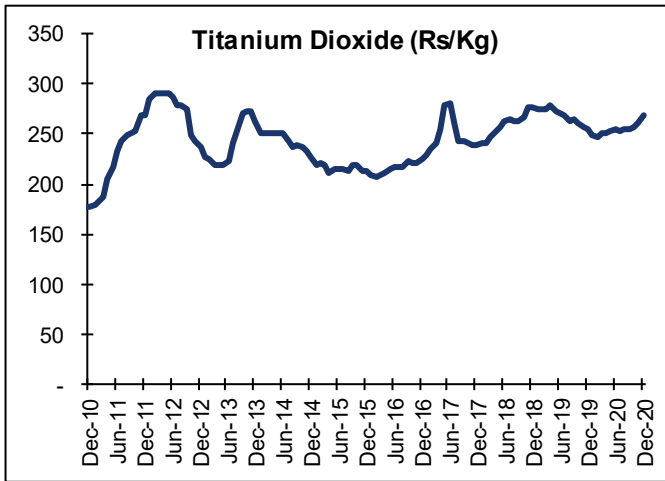
**Chart 13: Free cash-flow**



Source: Company data, I-Sec research

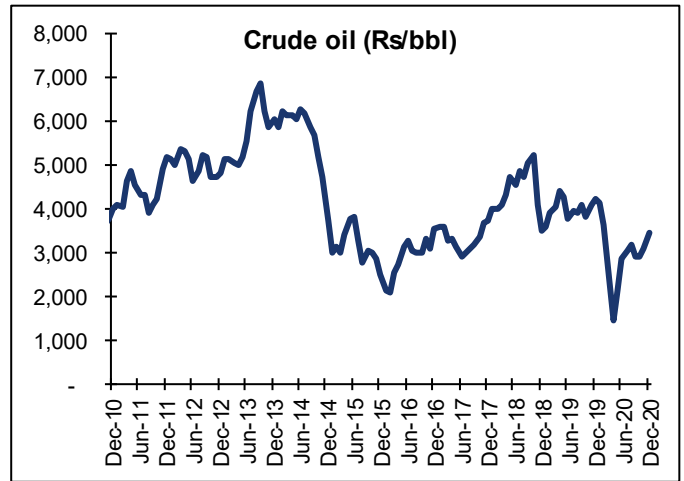
**Key raw material prices**

**Chart 14: Titanium di-oxide**



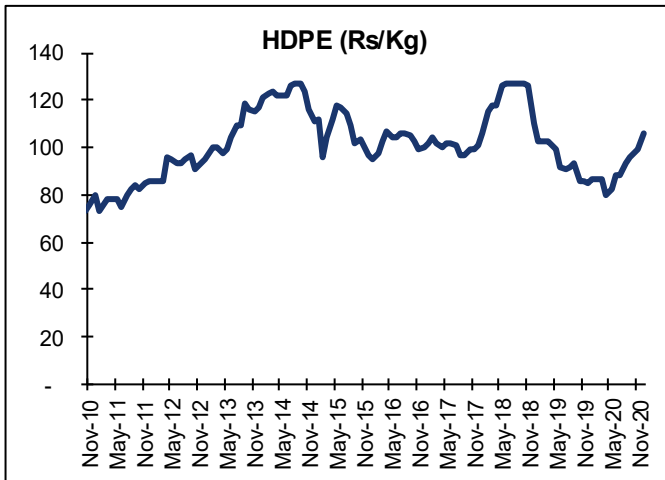
Source: Company data, I-Sec research

**Chart 15: Crude oil**



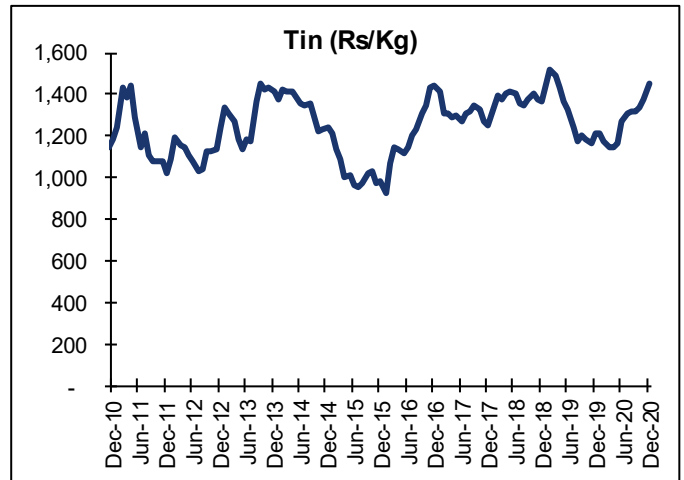
Source: Company data, I-Sec research

**Chart 16: Packaging material - HPDE**



Source: Company data, I-Sec research

**Chart 17: Packaging material - Tin**

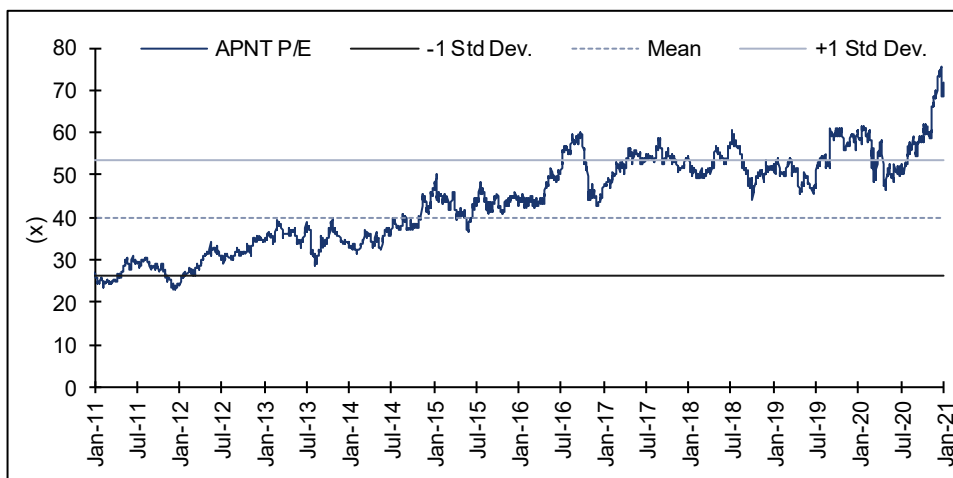


Source: Company data, I-Sec research

## Highlights from Q3FY21 results and conference call

- With reduction in covid cases, the company witnessed normalization in demand. There is recovery in demand from metros as well as Tier – 1 cities too. The demand has remained strong even from tier 2, 3 4 cities and rural areas.
- There is recovery in Projects as well as institutional demand. Improvement in real estate demand across major cities helped to drive demand from Projects business.
- There is also revival in automotive paint business with recovery in auto volumes. The demand from other industrial segments such as powder coating has also improved during the quarter.
- Revenue growth in Q3FY21 was also function of healthy volume growth as well as festive demand, marriage season in Q3FY21 and some pent up demand.
- With revival in demand in metros and tier-1 cities, the premium and luxury paints are doing well now.
- There was strong volume led growth in each month of Q3FY21.
- Kitchen as well as Bath segments reported strong volume led growth with reducing fear of covid and higher demand from Projects business.
- International business also reported strong volume growth. The company has launched waterproofing solutions in all the international markets. It has also introduced bath products in Nepal and Bangladesh.
- The pent up demand was subsumed in Q3FY21 results. However, the demand outlook remains healthy even for Q4FY21.
- There is no increase in channel inventory during the quarter. The company indicated that there is no pressure on trade to increase the inventory.
- The gross margin improvement in Q3FY21 is attributable to lower input prices as well as sourcing and formulation efficiencies.
- Input prices are inching upwards from Dec'20. However, the company wants to watch for the trend in input prices before raising the prices.
- The company has introduced 16 Home Décor stores till now and it plans to double the number of stores in next two years.
- While the company has gained market, it indicated that it is committed to driving the market growth considering the low per capita consumption of paints in India.
- The company plans to continue with cost optimization programs and plans to spend only on business critical activities across all segments.

Chart 18: Mean PE and Standard deviations



Source: Bloomberg and I-Sec research

## Risks

- Volatility in raw material prices is a major risk to our estimates. Input cost increases led by high crude prices and a weak INR could put pressure on the margins in the short term due to lag in price action.
- Significant increase in competitive pressures.
- Lower-than-expected urban recovery
- Potential execution challenges in new categories



## Financial summary (consolidated)

Table 5: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>202,113</b>	<b>208,361</b>	<b>255,772</b>	<b>288,078</b>
<b>Operating Expenses</b>	<b>160,495</b>	<b>161,560</b>	<b>198,075</b>	<b>222,761</b>
<b>EBITDA</b>	<b>41,618</b>	<b>46,800</b>	<b>57,697</b>	<b>65,317</b>
% margins	20.6%	22.5%	22.6%	22.7%
Depreciation & Amortisation	7,805	7,855	8,892	9,926
Gross Interest	1,023	1,342	1,342	1,342
Other Income	3,043	2,843	3,740	4,878
<b>Recurring PBT</b>	<b>35,833</b>	<b>40,447</b>	<b>51,203</b>	<b>58,927</b>
Less: Taxes	8,549	10,314	13,057	15,026
Less: Minority Interest	262	275	288	303
<b>Net Income (Reported)</b>	<b>27,023</b>	<b>29,858</b>	<b>37,858</b>	<b>43,598</b>
Extraordinaries (Net)	(534)	-	-	-
<b>Recurring Net Income</b>	<b>27,556</b>	<b>29,858</b>	<b>37,858</b>	<b>43,598</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	70,676	77,084	98,997	124,563
of which cash & cash eqv.	7,828	12,293	19,463	34,984
Total Current Liabilities & Provisions	40,589	41,247	50,374	56,380
<b>Net Current Assets</b>	<b>30,087</b>	<b>35,837</b>	<b>48,623</b>	<b>68,184</b>
Investments	26,578	33,578	41,578	49,578
Net Fixed Assets	59,523	61,669	63,777	64,851
Capital Work-in-Progress	1,402	1,402	1,402	1,402
Goodwill	3,200	3,200	3,200	3,200
<b>Total Assets</b>	<b>120,791</b>	<b>135,685</b>	<b>158,580</b>	<b>187,214</b>
<b>Liabilities</b>				
<b>Borrowings</b>	11,184	11,184	11,184	11,184
Deferred Tax Liability	4,270	4,270	4,270	4,270
Minority Interest	4,035	4,035	4,035	4,035
Equity Share Capital	959	959	959	959
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	100,342	115,237	138,132	166,766
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>101,302</b>	<b>116,196</b>	<b>139,091</b>	<b>167,725</b>
<b>Total Liabilities</b>	<b>120,791</b>	<b>135,685</b>	<b>158,580</b>	<b>187,214</b>

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Operating Cashflow</b>	<b>35,089</b>	<b>37,713</b>	<b>46,750</b>	<b>53,524</b>
Working Capital Changes	(2,629)	(1,285)	(5,616)	(4,040)
Capital Commitments	(11,335)	(10,000)	(11,000)	(11,000)
<b>Free Cashflow</b>	<b>21,125</b>	<b>26,428</b>	<b>30,134</b>	<b>38,484</b>
<b>Cashflow from Investing Activities</b>	<b>(868)</b>	<b>(7,000)</b>	<b>(8,000)</b>	<b>(8,000)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	5,024	-	-	-
Dividend paid	(13,554)	(14,964)	(14,964)	(14,964)
<b>Change in Deferred Tax Liability</b>	<b>(1,127)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balances</b>	<b>3,379</b>	<b>4,464</b>	<b>7,171</b>	<b>15,521</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	28.2	31.1	39.5	45.5
Cash EPS	36.6	39.6	49.0	56.1
Dividend per share (DPS)	12.0	12.0	14.0	15.0
Book Value per share (BV)	105.6	121.1	145.0	174.9
<b>Growth (%)</b>				
Net Sales	4.5	3.1	22.8	12.6
EBITDA	18.1	12.5	23.3	13.2
PAT	25.1	10.5	26.8	15.2
Cash EPS	34.9	8.3	23.8	14.4
<b>Valuation Ratios (x)</b>				
P/E	96.4	87.3	68.8	59.8
P/CEPS	74.3	68.6	55.4	48.4
P/BV	25.7	22.4	18.7	15.5
EV / EBITDA	62.7	55.6	45.0	39.5
EV / Sales	12.9	12.5	10.2	9.0
<b>Operating Ratios</b>				
Raw Material / Sales (%)	56.3	54.8	54.3	53.6
Employee cost / Sales (%)	6.8	6.9	6.8	7.3
SG&A / Sales (%)	16.3	15.9	16.4	16.4
Other Income / PBT (%)	8.5	7.0	7.3	8.3
Effective Tax Rate (%)	23.9	25.5	25.5	25.5
Working Capital (days)	40.0	40.7	41.0	41.5
Inventory Turnover (days)	60.4	60.4	60.4	60.4
Receivables (days)	32.0	32.0	32.0	32.0
Payables (days)	67.6	67.6	67.6	67.6
Net D/E Ratio (x)	0.1	0.1	0.1	0.1
<b>Profitability Ratios (%)</b>				
Net Income Margins	13.5	14.5	14.9	15.2
RoACE	24.3	24.3	26.6	26.0
RoAE	27.8	27.7	29.9	28.6
Dividend Payout	42.2	41.4	32.7	28.4
Dividend Yield	0.4	0.4	0.5	0.6
EBITDA Margins	20.6	22.5	22.6	22.7

Source: Company data, I-Sec research

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