

Retail Equity Research
Asian Paints Ltd
Paint & Varnishes

REDUCE

BSE CODE : 500820 NSE CODE: ASIANPAINT
BLOOMBERG CODE: APNT:IN SENSEX : 48,733

12 Months Investment Period Rating as per Large Cap
CMP Rs.2,774 TARGET Rs.2,470 RETURN -11 %
(Closing: 14-05-21)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Input cost inflation to impact margins...

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

- Strong top-line growth of 44% YoY in Q4FY21, with 48% volume growth supported by strong demand from Tier 2 to 4 cities, while demand from Tier 1 and metros improved sequentially.
- Input cost inflation led to contraction in gross margin by -266bps YoY while EBITDA margin improved by 127bps YoY to 19.8% due to cost control measures & operating leverage benefits.
- PAT grew by 81%YoY supported by strong margins & higher other income.
- We reduce FY22E/FY23E EPS estimate by 4%/5% owing to input cost inflation.
- We revise our rating to Reduce due to premium valuation & recent uptick in price, our TP of Rs.2,470 is based on a P/E of 55x on FY23E EPS.

Volume grew by 48%...

APNT reported better than expected revenue growth of 43.5% aided by 48% volume growth. Good demand traction witnessed from Tier 2 to 4 cities while demand from Tier 1 cities and metros improved sequentially. Management indicated that volume growth is partially aided by pent up demand but other factors like new demand, increase in construction activity, new products and gain in market share from organised & unorganized players resulted in volume growth. The Industrial coatings business delivered a robust performance aided by rebound in auto sales and resurgence in the industrial activity. Demand may witness near term headwinds due to second wave of Covid and resulting lockdowns. We expect revenue to grow at a CAGR of 13% over FY21-23E.

Input cost inflation dent gross margin...

In Q4FY21, gross margin contracted by -266bps YoY to 43.2% due to input cost inflation. However, EBITDA margin improved by 127bps YoY to 19.8% due to cost controlling measures and operating leverage benefits. The company has taken a price hike of 2.8% in April to counter the adverse impact of input costs pressure. Operational efficiency and higher other income (35% YoY) supported earnings to grow by 81.1% YoY to Rs870cr. We reduce FY22/FY23E EPS estimate by 4%/5% due to inflationary pressure on RM costs and headwinds on near term demand.

Key con-call highlights

- Home improvement revenue (Bath & Kitchen) registered 84% YoY growth.
- Gained market share from organised players (premium paints) & un-organised sector (economy emulsion).
- Inflationary trend in crude derivatives is likely to moderate gross margin in Q1FY22.

Valuations

We expect volumes to remain strong due to recovery in demand from both in rural and urban areas. Management expects demand to bounce back after the impact of ongoing second wave of Covid recedes. However, margin pressure remain, given the spike in RM cost. Due to recent uptick in stock prices and premium valuation we revise our rating to reduce with a TP of Rs2,470, based on a P/E of 55x on FY23E EPS.

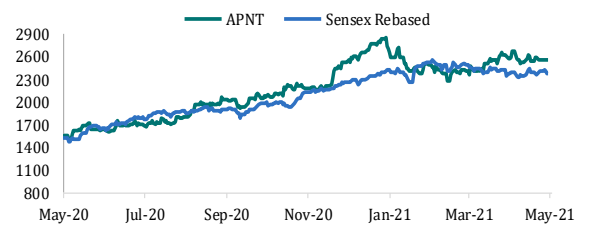
Company Data

Market Cap (cr)	₹ 2,66,044
Enterprise Value (cr)	₹ 2,66,384
Outstanding Shares (cr)	96
Free Float	47.20%
Dividend Yield	0.57%
52 week high	₹ 2,871
52 week low	₹ 1,483
6m average volume (cr)	0.16
Beta	1.2
Face value	₹ 1

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	52.8	52.8	52.8
FII's	19.84	19.84	20.38
MFs/Insti	8.12	7.03	7.27
Public	19.27	20.33	19.55
Total	100.0	100.0	100.0
Promoter Pledge%	11.86	10.67	9.44

Price Performance	3 month	6 Month	1 Year
Absolute Return	11.6%	27.0%	82.2%
Absolute Sensex	-5.5%	11.7%	56.6%
Relative Return*	17.0%	15.3%	25.6%

*over- or underperformance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	21,713	24,994	27,668
Growth (%)	7.4	15.1	10.7
EBITDA	4,856	5,524	6,225
EBITDA Margin(%)	22.36	22.10	22.50
PAT Adj.	3,208	3,767	4,308
Growth (%)	15.4	17.4	14.4
Adj.EPS	33.4	39.3	44.9
Growth (%)	15.4	17.4	14.4
P/E	82.9	70.6	61.8
P/B	20.8	17.6	15.0
EV/EBITDA	54.9	48.2	42.8
ROE (%)	28.0	27.0	26.2
D/E	0.0	0.0	0.0



Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Sales	6,651	4,636	43.5	6,788	-2.0	21,713	20,211	7.4
EBITDA	1,318	860	53.3	1,788	-26.3	4,855	4,162	16.7
EBITDA margins %	19.8	18.5	127bps	26.3	-652bps	22.4	20.6	177bps
Depreciation	213	195	9.7	193	10.4	791	781	1.4
EBIT	1,105	665	66.1	1,595	-30.7	4,064	3,381	20.2
Interest	30	26	16.4	21	41.3	92	102	-10.5
Other Income	75	56	35.1	98	-23.0	303	304	-0.4
Exceptional Items	-	-	-	-	-	-	-	0.0
PBT	1,150	695	65.4	1,672	-31.2	4,276	3,583	19.3
Tax	286	219	30.8	431	-33.6	1,098	855	28.4
Reported PAT	870	480	81.1	1,265	-31.3	3,207	2,779	15.4
Adjustments	-	-	-	-	-	-	-	-
Adj PAT	870	480	81.1	1,265	-31.3	3,207	2,779	15.4
No. of Shares	96	96	-	96	-	96	96	-
EPS (Rs)	9	5	81.1	13	-31.3	33	29	15.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	24,926	27,727	24,994	27,668	0.3	-0.2
EBITDA	5,683	6,460	5,524	6,225	-2.8	-3.6
Margins (%)	22.8	23.3	22.1	22.5	-70bps	-80bps
Adj. PAT	3,922	4,533	3,767	4,308	-4.0	-5.0
EPS	40.9	47.3	39.3	44.9	-4.0	-5.0

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	19,248	20,211	21,713	24,994	27,668
% change	11.5	5.0	7.4	15.1	10.7
EBITDA	3,766	4,162	4,856	5,524	6,225
% change	17.8	10.5	16.7	13.8	12.7
Depreciation	622	781	791	792	806
EBIT	3143	3381	4064	4732	5419
Interest	105	102	92	93	90
Other Income	233.0	304.3	303.1	330.0	350.0
PBT	3,271	3,583	4,276	4,969	5,679
% change	8.2	9.5	19.3	16.2	14.3
Tax	1,098	855	1,098	1,252	1,431
Tax Rate (%)	33.6	23.9	25.7	25.2	25.2
Reported PAT	2,214	2,779	3,208	3,767	4,308
Adj*	0.0	0.0	0.0	0.0	0.0
Adj PAT	2,214	2,779	3,208	3,767	4,308
% change	9.2	25.5	15.4	17.4	14.4
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs.)	23.1	29.0	33.4	39.3	44.9
% change	9.2	25.5	15.4	17.4	14.4
DPS (Rs.)	9.8	10.9	12.0	13.1	14.2

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20E	FY21E	FY22E	FY23E
Net inc. + Depn.	3,938	4,416	5,097	5,811	6,546
Non-cash adj.	-991	-973	-1108	-1178	-1352
Changes in W.C	-410	-737	-206	-364	-729
C.F. Operation	2470	2632	3684	4269	4465
Capital exp.	-1,134	-367	-254	-676	-711
Change in inv.	189	-154	-294	-31	-40
Other invest.CF	0	0	0	0	0
C.F - Investment	-944	-521	-548	-707	-750
Issue of equity	0	0	0	0	0
Issue/repay debt	-43	-362	-64	-113	-110
Dividends paid	-1,049	-2,121	-499	-1,499	-1,625
Other finance.CF	-180	-179	-203	20	25
C.F - Finance	-1117	-2465	-650	-1516	-1711
Chg. in cash	408	-355	2486	2046	2004
Closing cash	1,280	929	3,422	5,468	7,472

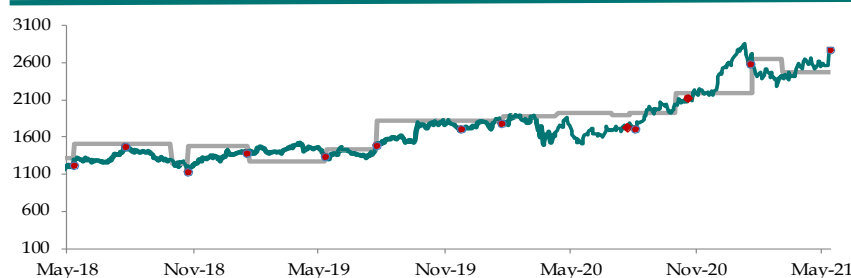
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	1,280	929	3,421	5,468	7,472
Accounts Receivable	1,913	1,799	2,605	2,739	3,032
Inventories	3,150	3,390	3,799	4,241	4,585
Other Cur. Assets	1,466	1,735	2,563	2,828	3,366
Investments	1,733	1,873	1,926	1,984	2,044
Gross Fixed Assets	6,539	7,239	7,939	8,639	9,339
Net Fixed Assets	5,902	5,685	5,322	5,117	5,031
CWIP	210	140	183	200	200
Intangible Assets	595	587	537	530	521
Def. Tax (Net)	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	16,249	16,138	20,355	23,108	26,250
Current Liabilities	5,056	4,594	6,085	6,554	7,004
Provisions	232	243	300	308	303
Debt Funds	616	340	340	320	299
Other Liabilities	875	831	824	853	887
Equity Capital	96	96	96	96	96
Reserves & Surplus	9,375	10,034	12,710	14,978	17,660
Shareholder's Fund	9,471	10,130	12,806	15,074	17,756
Total Liabilities	16,249	16,138	20,355	23,108	26,250
BVPS (Rs.)	99	106	134	157	185

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	19.6	20.6	22.4	22.1	22.5
EBIT margin (%)	16.3	16.7	18.7	18.9	19.6
Net profit mgn.(%)	11.5	13.8	14.8	15.1	15.6
ROE (%)	24.8	28.4	28.0	27.0	26.2
ROCE (%)	17.4	20.6	20.6	20.3	19.7
W.C & Liquidity					
Receivables (days)	34.6	33.5	37.0	39.0	38.1
Inventory (days)	55.1	59.1	60.4	58.7	58.2
Payables (days)	6.5	6.9	6.9	6.3	6.0
Current ratio (x)	1.5	1.6	1.9	2.2	2.5
Quick ratio (x)	0.5	0.6	0.5	1.3	1.5
Turnover & Leverage					
Gross asset T.O (x)	3.7	2.9	2.9	3.0	3.1
Total asset T.O (x)					
Int. coverage ratio (x)	29.9	33.0	44.4	51.1	60.5
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	13.9	13.2	12.3	10.7	9.6
EV/EBITDA (x)	70.8	64.0	54.9	48.2	42.8
P/E (x)	120.2	95.7	82.9	70.6	61.8
P/BV (x)	28.1	26.3	20.8	17.6	15.0

Recommendation Summary (Last 3 years)



Dates	Rating	Target
11-May-2018	Hold	1,317
25-Jul-2018	Hold	1507
23-Oct-2018	Hold	1,219
30-Oct-2018	BUY	1,317
23-Jan-2019	Hold	1,478
13-May-2019	Reduce	1,269
25-Jul-2019	Reduce	1,443
26-Nov-2019	Hold	1,822
24-Jan-2020	Hold	1,884
13-Apr-2020	Buy	1,927
01-Jul-2020	Buy	1,901
27-Jul-2020	Buy	1,922
23-Oct-2020	Hold	2,186
25-Jan-2021	Hold	2,653
17-May-2021	Reduce	2,470

Source: Bloomberg, Geojit Research.

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.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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