

ICICI Securities Limited
is the author and
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Q4FY21 result review
and TP revision

Paints

Target price: Rs2,800

Earnings revision

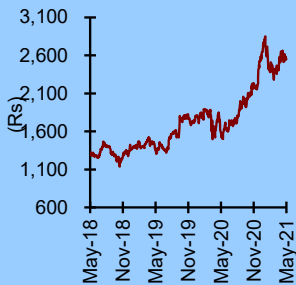
| (%) | FY22E | FY23E |
|--------|-------|-------|
| Sales | ↑ 3.4 | ↑ 3.4 |
| EBITDA | ↑ 1.0 | ↑ 0.4 |
| EPS | ↑ 3.7 | ↑ 2.1 |

Shareholding pattern

| | Sep '20 | Dec '20 | Mar '21 |
|---------------------------|---------|---------|---------|
| Promoters | 52.8 | 52.8 | 52.8 |
| Institutional investors | 28.0 | 28.2 | 27.7 |
| MFs and other | 3.2 | 2.8 | 3.0 |
| Banks, FI's, Insurance co | 3.8 | 3.1 | 3.4 |
| FII's | 20.4 | 21.7 | 20.7 |
| Pension Fund | 0.6 | 0.6 | 0.6 |
| Others | 19.2 | 19.0 | 19.5 |

Source: BSE

Price chart



Asian Paints

ADD

Maintained

Rs2,556

Leader demonstrating leadership

APNT's 4Q conference call was a unique experience for this analyst with ~14 years of sell-side experience (plus a few earlier years in consumer industry!). Never ever, we had witnessed the confidence which we saw (felt) in APNT's presentation. In our view and interpretation, it indicated that (1) it's a likely industry outperformer, (2) there are many examples of global and local players attempting to succeed in paints industry in India, (3) leader behaving like a challenger (see our report series on this – link [1,2,3](#)). In FY21, it continued to gain market share, in our view. Input cost pressures exist, however, it has raised prices by 2.8% in Q1FY22 and we believe that price-led growth is feasible in FY22 (which was missing in FY21). Consensus appears concerned about short-term input inflation issues – we are not. **ADD retained.**

- ▶ **Q4FY21 results:** APNT reported consolidated revenue, EBITDA, PAT growth of 43.5%, 53.4%, 87.2% respectively YoY. Standalone revenue, EBITDA, PAT growth was 46.2%, 57.6%, 68.9% respectively YoY. Domestic Decorative volume growth was 48% (FY21:13%). International business as well as Industrial paints also reported strong double digit growth. Due to higher input prices, gross margin declined 266bps but EBITDA margin expanded 128bps due to cost saving initiatives. With 660bps lower tax rate, adjusted PAT expanded 87.2% YoY.
- ▶ **Strong market share gains:** APNT continued to gain market share from smaller/unorganized players in FY21. Due to lockdown, there was impact on supply chain of smaller players. It also focused on economy emulsions as well as ancillary products such as undercoats and waterproofing to strengthen its market position.
- ▶ **Structural growth opportunities:** The volume growth is likely to sustain at higher levels than historical rates due to (1) reduction in painting cycle from 7-8 years to 4-5 years, (2) opportunity in tier 3 & 4 cities and rural markets due to higher agri income levels, (3) focus on economy emulsions and undercoats and (4) investments in driving trade efficiencies and better servicing to the trade.
- ▶ **Efficiency gains and price hikes to mitigate inflationary pressures:** While the input prices have increased in past two quarters, the company is focusing on (1) driving RM sourcing efficiencies, (2) value engineering to reduce the costs, (3) efficiency in distribution and trade servicing. It is also focused on curbing overheads as much as possible. It has also raised prices by 2.8% in Apr'21.
- ▶ **Maintain ADD:** We model sales and earnings CAGR of 17.1% and 18.9% respectively, for FY21-FY23E. Maintain ADD with a DCF-based TP of Rs2,800. Lower-than-expected urban recovery and potential execution challenges in new categories are key risks.

| Market Cap | Rs2452bn/US\$33.4bn | Year to March (Cons) | FY20 | FY21P | FY22E | FY23E |
|-------------------------|---------------------|----------------------|----------|----------|----------|----------|
| Reuters/Bloomberg | ASPN.BO/APNT IN | Net Revenue (Rs mn) | 2,02,113 | 2,17,128 | 2,64,512 | 2,97,866 |
| Shares Outstanding (mn) | 959.2 | Net Profit (Rs mn) | 27,556 | 31,434 | 39,255 | 44,494 |
| 52-week Range (Rs) | 2849/1500 | Dil. EPS (Rs) | 28.2 | 32.8 | 40.9 | 46.4 |
| Free Float (%) | 47.2 | % Chg YoY | 25.1 | 16.5 | 24.7 | 13.3 |
| FII (%) | 20.7 | P/E (x) | 90.7 | 77.9 | 62.5 | 55.1 |
| Daily Volume (US\$'000) | 80,145 | CEPS (Rs) | 36.6 | 41.4 | 49.9 | 56.5 |
| Absolute Return 3m (%) | 2.8 | EV/EBITDA (x) | 59.0 | 50.6 | 42.1 | 37.2 |
| Absolute Return 12m (%) | 68.2 | Dividend Yield (%) | 0.5 | 0.7 | 0.8 | 0.9 |
| Sensex Return 3m (%) | (5.4) | RoCE (%) | 24.3 | 24.2 | 25.6 | 25.5 |
| Sensex Return 12m (%) | 56.9 | RoE (%) | 27.8 | 27.7 | 28.6 | 28.0 |

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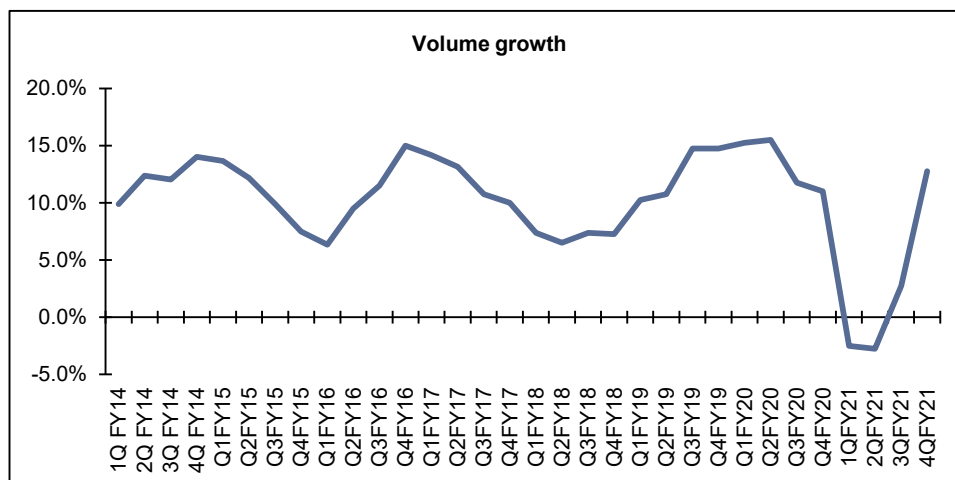
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Chart 1: Normalised volume growth (Average of past 4 quarter volume growth)



Source: Company data, I-Sec research

Table 1: Q4FY21 consolidated financial performance

| Rs mn | Q4FY21 | Q4FY20 | % YoY | Q3FY21 | % QoQ |
|---------------------------------------|---------------|---------------|----------------|---------------|----------------|
| Net revenues | 66,514 | 46,356 | 43.5 | 67,885 | (2.0) |
| Raw materials | 37,793 | 25,106 | 50.5 | 37,285 | 1.4 |
| % of sales | 56.8% | 54.2% | 266 bps | 54.9% | 190 bps |
| Employee costs | 4,121 | 3,356 | 22.8 | 3,883 | 6.2 |
| % of sales | 6.2% | 7.2% | -104 bps | 5.7% | 48 bps |
| Other expenditure | 11,417 | 9,298 | 22.8 | 8,839 | 29.2 |
| % of sales | 17.2% | 20.1% | -289 bps | 13.0% | 415 bps |
| Total expenditure | 53,332 | 37,760 | 41.2 | 50,006 | 6.7 |
| EBITDA | 13,183 | 8,596 | 53.4 | 17,879 | (26.3) |
| EBITDA margin (%) | 19.8% | 18.5% | 128 bps | 26.3% | -652 bps |
| Other income | 754 | 558 | 35.1 | 979 | (23.0) |
| PBDIT | 13,937 | 9,154 | 52.2 | 18,858 | (26.1) |
| Depreciation | 2,134 | 1,945 | 9.7 | 1,932 | 10.4 |
| PBIT | 11,803 | 7,209 | 63.7 | 16,926 | (30.3) |
| Interest | 299 | 257 | 16.4 | 211 | 41.3 |
| PBT | 11,505 | 6,953 | 65.5 | 16,715 | (31.2) |
| Tax | 2,864 | 2,190 | 30.8 | 4,314 | (33.6) |
| % of PBT | 25% | 31% | (21.0) | 26% | (3.5) |
| PAT before associates & MI | 8,640 | 4,763 | 81.4 | 12,401 | (30.3) |
| Share of profit from associates | 59 | 40 | 47.7 | 253 | (76.8) |
| Minority interest | 177 | 249 | (29.0) | 234 | (24.4) |
| Extraordinary | (552) | 170 | (425.0) | 607 | (190.9) |
| PAT | 7,970 | 4,723 | 68.7 | 13,027 | (38.8) |
| Adj. PAT | 8,522 | 4,554 | 87.2 | 12,420 | (31.4) |

Source: Company data, I-Sec research

Table 2: Segmental performance (consolidated)

| | Q4FY21 | Q4FY20 | % YoY | Q3FY21 | % QoQ |
|-------------------------|---------------|---------------|----------------|---------------|----------------|
| Revenues (Rs mn) | | | | | |
| Paints | 64,672 | 45,329 | 42.7 | 66,351 | (2.5) |
| Home improvement | 1,859 | 1,027 | 81.0 | 1,534 | 21.2 |
| Total | 66,514 | 46,356 | 43.5 | 67,885 | (2.0) |
| EBIT (Rs mn) | | | | | |
| Paints | 12,297 | 8,070 | 52.4 | 17,226 | (28.6) |
| Home improvement | -15 | -222 | (93.2) | -8 | 93.6 |
| Total | 12,282 | 7,848 | 56.5 | 17,218 | (28.7) |
| EBIT margin (%) | | | YoY bps | | QoQ bps |
| Paints | 19.0 | 17.8 | 121 | 26.0 | -695 |
| Home improvement | (0.8) | (21.6) | 2,079 | (0.5) | -30 |
| Total | 18.5 | 16.9 | 153 | 25.4 | -690 |

Source: Company data, I-Sec research

Table 3: Q4FY21 Standalone financial performance

| <i>Rs mn</i> | Q4FY21 | Q4FY20 | % YoY | Q3FY21 | % QoQ |
|--------------------------|---------------|---------------|--------------|---------------|---------------|
| Net revenues | 56,708 | 38,790 | 46.2 | 58,728 | (3.4) |
| Raw materials | 31,356 | 20,560 | 52.5 | 31,628 | (0.9) |
| % of sales | 55% | 53% | 229 bps | 54% | 144 bps |
| Employee costs | 2,992 | 2,372 | 26.2 | 2,809 | 6.5 |
| % of sales | 5% | 6% | -84 bps | 5% | 49 bps |
| Other expenditure | 10,136 | 8,100 | 25.1 | 7,749 | 30.8 |
| % of sales | 18% | 21% | -301 bps | 13% | 468 bps |
| Total expenditure | 44,484 | 31,032 | 43.3 | 42,186 | 5.4 |
| EBITDA | 12,224 | 7,758 | 57.6 | 16,542 | (26.1) |
| <i>EBITDA margin (%)</i> | 21.6% | 20.0% | 156 bps | 28.2% | -661 bps |
| Other income | 986 | 651 | 51.4 | 1,214 | (18.8) |
| PBDIT | 13,210 | 8,410 | 57.1 | 17,756 | (25.6) |
| Depreciation | 1,929 | 1,722 | 12.1 | 1,690 | 14.1 |
| PBIT | 11,281 | 6,688 | 68.7 | 16,066 | (29.8) |
| Interest | 246 | 193 | 27.2 | 168 | 46.7 |
| PBT | 11,035 | 6,495 | 69.9 | 15,898 | (30.6) |
| Tax | 2,839 | 1,642 | 72.9 | 4,019 | (29.4) |
| % of PBT | 26% | 25% | 1.8 | 25% | 1.8 |
| PAT | 8,196 | 4,853 | 68.9 | 11,879 | (31.0) |
| Minority interest | - | - | - | - | - |
| Extraordinary items | (231) | (313) | (26.2) | 761 | (130.3) |
| PAT after MI | 7,965 | 4,540 | 75.4 | 12,641 | (37.0) |
| Adj. PAT | 8,196 | 4,853 | 68.9 | 11,879 | (31.0) |

Source: Company data, I-Sec research

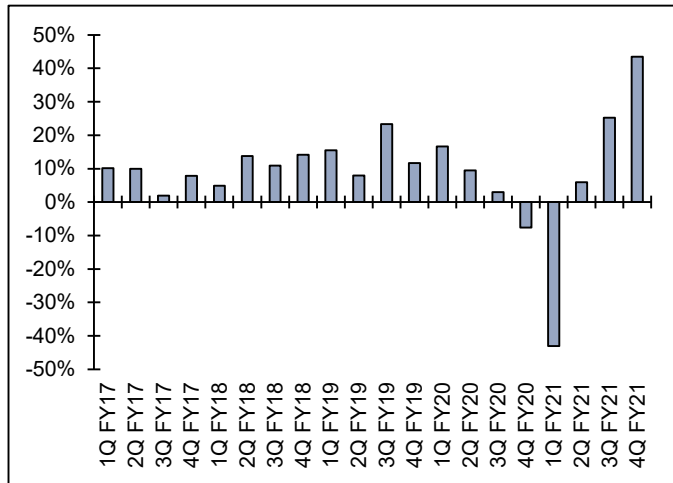
Table 4: Segmental performance (standalone)

| | Q4FY21 | Q4FY20 | % YoY | Q3FY21 | % QoQ |
|-------------------------|---------------|---------------|----------------|---------------|----------------|
| Revenues (Rs mn) | | | | | |
| Paints | 55,774 | 38,283 | 45.7 | 58,002 | (3.8) |
| Home improvement | 934 | 508 | 83.9 | 726 | 28.6 |
| Total | 56,708 | 38,790 | 46.2 | 58,728 | (3.4) |
| EBIT (Rs mn) | | | | | |
| Paints | 11,756 | 7,418 | 58.5 | 16,139 | (27.2) |
| Home improvement | -2 | -73 | (97.9) | 10 | (115.6) |
| Total | 11,754 | 7,346 | 60.0 | 16,148 | (27.2) |
| EBIT margin (%) | | | YoY bps | | QoQ bps |
| Paints | 21.1 | 19.4 | 170 | 27.8 | -675 |
| Home improvement | (0.2) | (14.3) | 1,416 | 1.3 | -148 |
| Total | 20.7 | 18.9 | 179 | 27.5 | -677 |

Source: Company data, I-Sec research

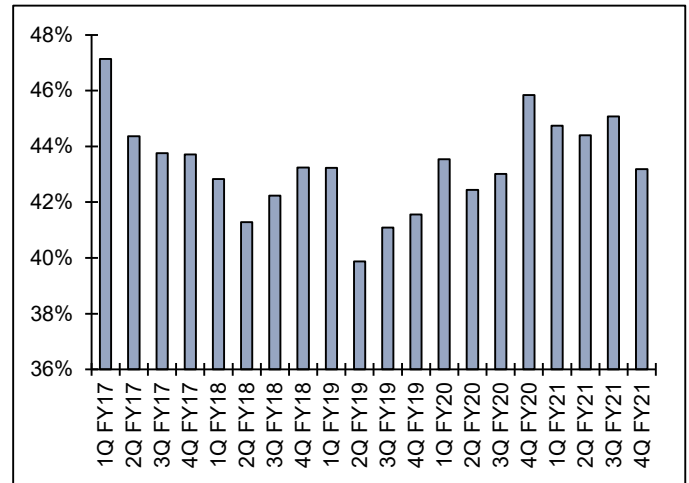
Operational highlights – Quarterly (Consolidated)

Chart 2: Revenue growth (YoY)



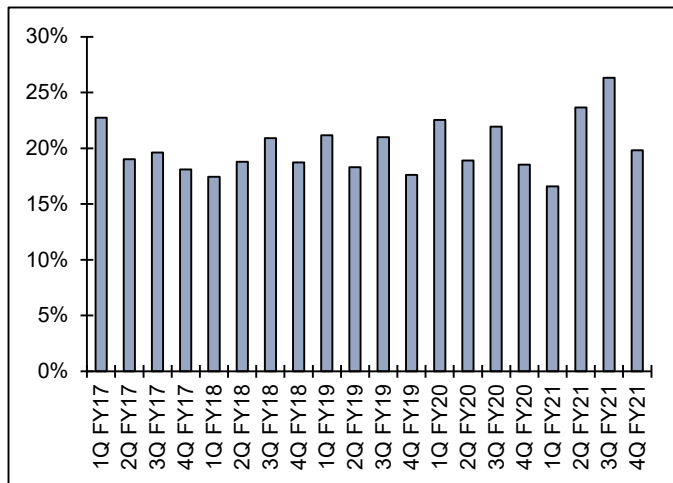
Source: Company data, I-Sec research

Chart 3: Gross margin



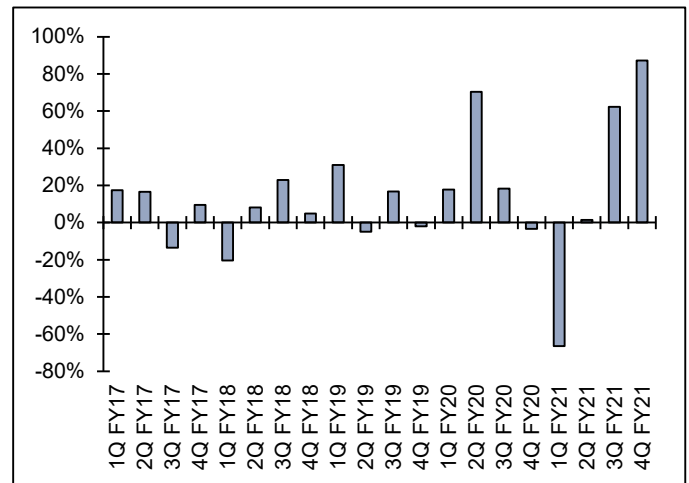
Source: Company data, I-Sec research

Chart 4: EBITDA margin



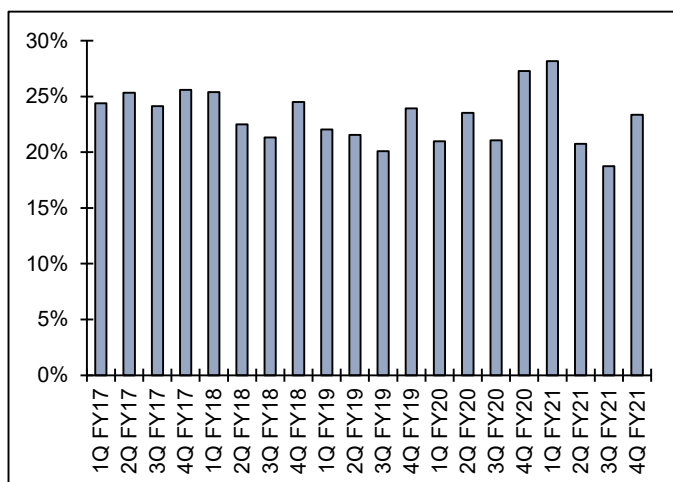
Source: Company data, I-Sec research

Chart 5: PAT growth (YoY)



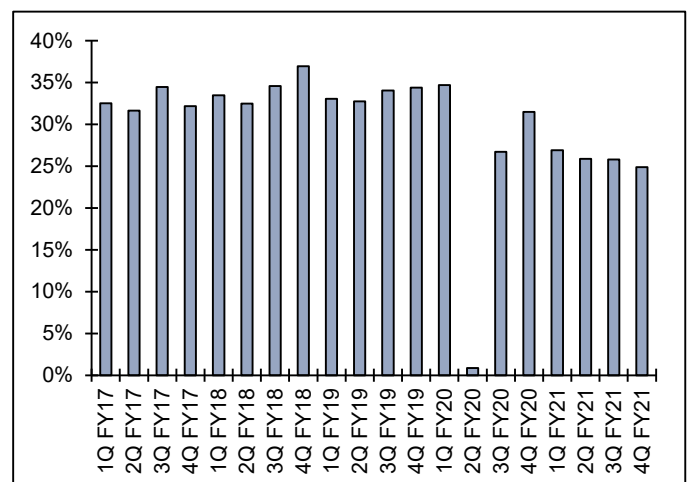
Source: Company data, I-Sec research

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



Source: Company data, I-Sec research

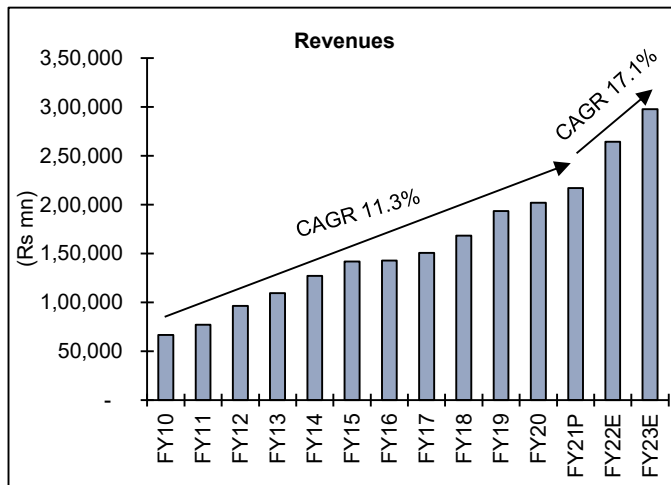
Chart 7: Effective tax rate



Source: Company data, I-Sec research

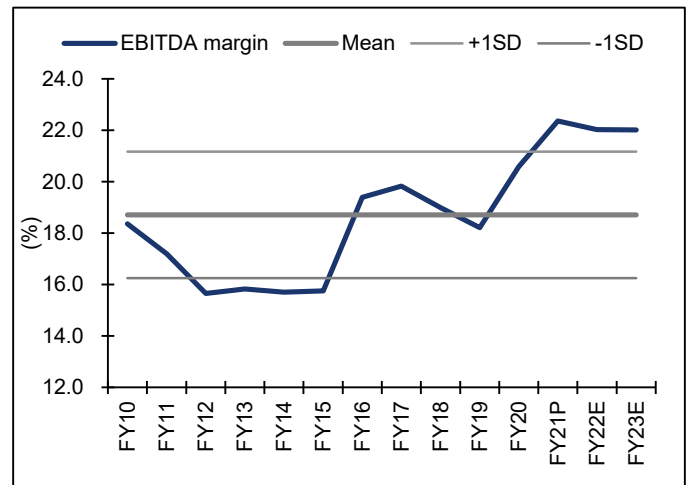
Operational highlights - Annual

Chart 8: Revenues and growth rates



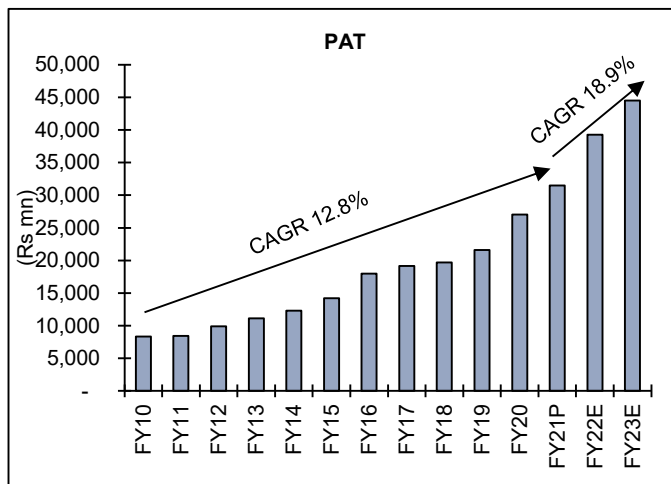
Source: Company data, I-Sec research

Chart 9: EBITDA margin



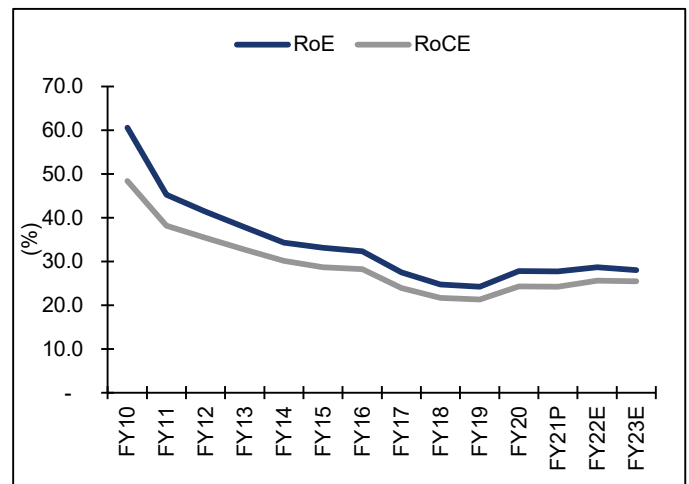
Source: Company data, I-Sec research

Chart 10: PAT and growth rates



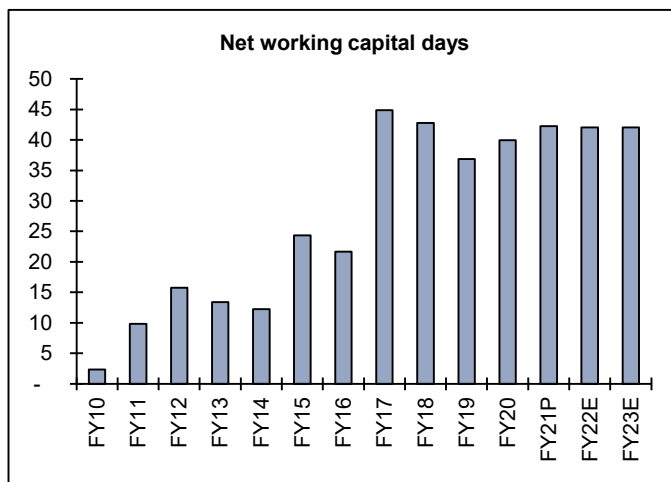
Source: Company data, I-Sec research

Chart 11: RoE & RoCE



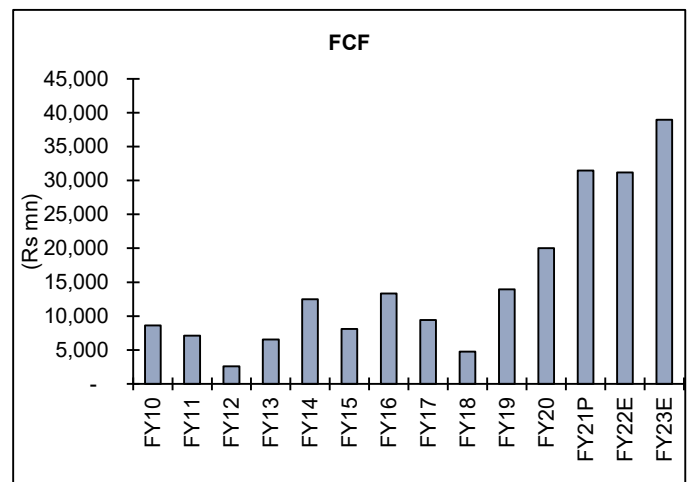
Source: Company data, I-Sec research

Chart 12: Net working capital days



Source: Company data, I-Sec research

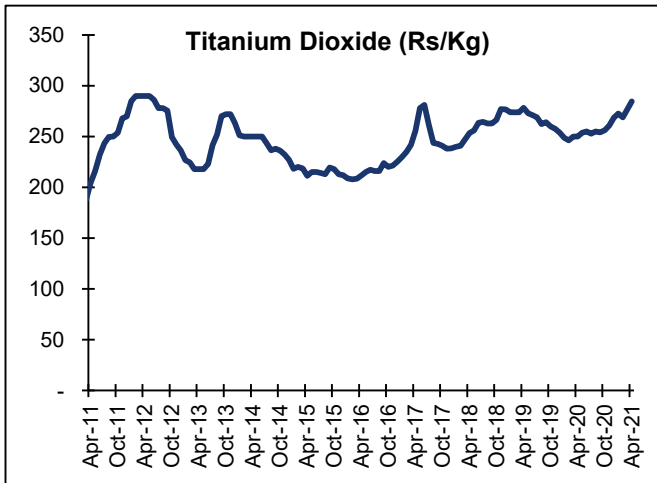
Chart 13: Free cash-flow



Source: Company data, I-Sec research

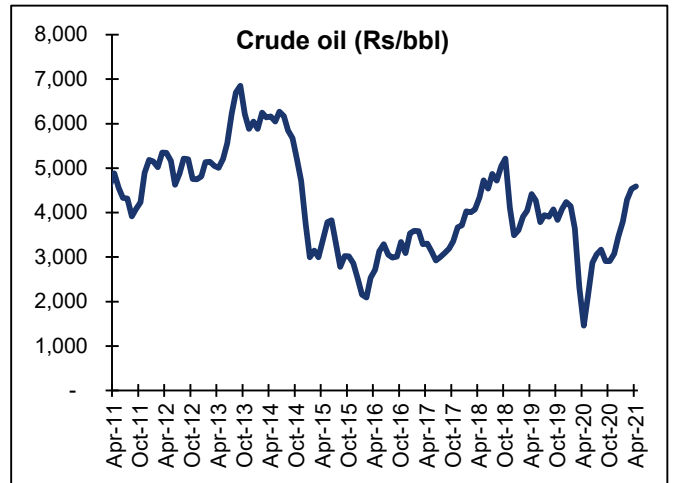
Key raw material prices

Chart 14: Titanium di-oxide



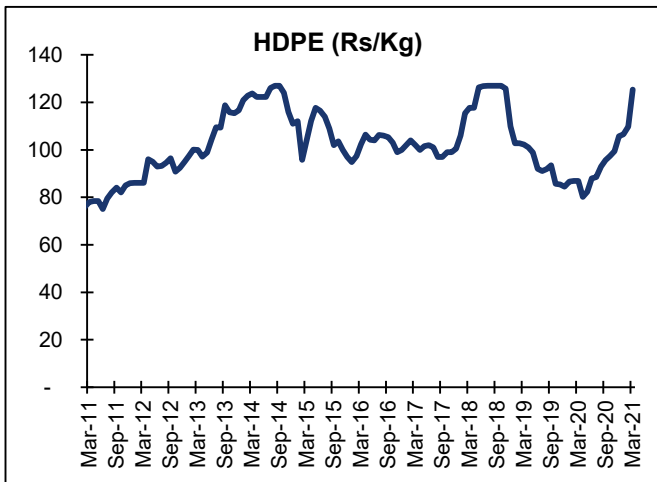
Source: Company data, I-Sec research

Chart 15: Crude oil



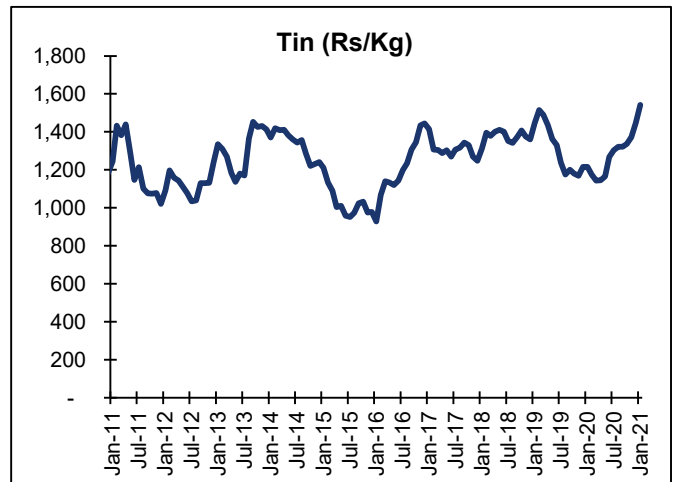
Source: Company data, I-Sec research

Chart 16: Packaging material - HPDE



Source: Company data, I-Sec research

Chart 17: Packaging material - Tin

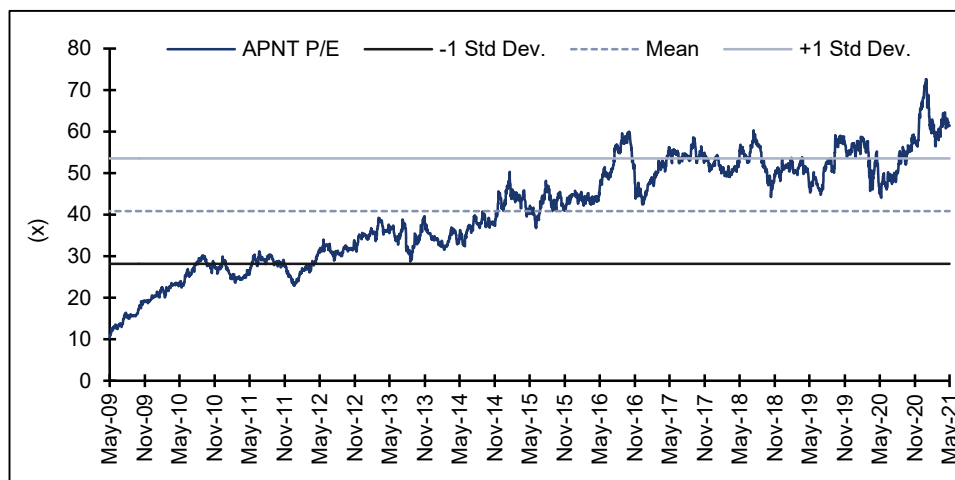


Source: Company data, I-Sec research

Highlights from Q4FY21 results and conference call

- Asian Paints reported 48% volume growth in Q4FY21. Volume growth in FY21 was 13%.
- All business segments such as Decorative, Industrial and International reported strong double digit growth in Q4FY21.
- The company has focused on easing out the pain points for the consumers via offering services like professional painting, waterproofing and sanitization.
- Asian Paints has worked aggressively towards Projects business. Apart from focusing on real estate developers, it also focused on co-operative societies, schools, hospitals and industries for painting services.
- It has raised prices by 2.8% in Apr'21.
- It believes there are two segments in painting. Lockdown has impacted the event based painting opportunities such as painting before marriage/ family function. However, the renovation opportunities are postponed and not cancelled.
- There is strong revival in metros in tier-1 and tier-2 cities in Q4FY21 which led to better realizations.
- The company believes that it is probably fastest growing large paint company and would have gained market shares even in Q4FY21.
- The unorganized sector faced multiple challenges related to supply chain in FY21 and hence, they lost market shares to large players.
- With steep input inflation, the company needs to raise selling prices. However, it plans to focus on driving efficiencies in raw material sourcing, distribution servicing. It also plans to focus on value engineering in FY22 before raising prices.
- It believes repainting cycle has reduced from 7-8 years to 4-5 years now. It is also leading to higher demand for paints.
- APNT also indicated that waterproofing and undercoats are strong growth drivers in coming quarters. It plans to introduce multiple differentiated products to gain share in these segments.
- While a large cement company plans to enter paints, Asian Paints is confident that the servicing to consumers, trade makes a difference. It believes the better servicing helps in protecting/ gaining market shares.
- It believes the pattern of FY21 may repeat in FY22 too. The lockdown in Q1FY22 may impact demand initially but it is likely to recover in remaining quarters of FY22.

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 & loss statement

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Revenues | 2,02,113 | 2,17,128 | 2,64,512 | 2,97,866 |
| Operating Expenses | 1,60,495 | 1,68,572 | 2,06,226 | 2,32,270 |
| EBITDA | 41,618 | 48,556 | 58,286 | 65,596 |
| % margins | 20.6% | 22.4% | 22.0% | 22.0% |
| Depreciation & Amortisation | 7,805 | 7,913 | 8,323 | 9,357 |
| Gross Interest | 1,023 | 916 | 1,125 | 1,125 |
| Other Income | 3,043 | 3,031 | 4,267 | 5,047 |
| Recurring PBT | 35,833 | 42,758 | 53,105 | 60,161 |
| Less: Taxes | 8,549 | 10,976 | 13,542 | 15,341 |
| Less: Minority Interest | 262 | 291 | 308 | 326 |
| Net Income (Reported) | 27,023 | 31,491 | 39,255 | 44,494 |
| Extraordinaries (Net) | (534) | 57 | - | - |
| Recurring Net Income | 27,556 | 31,434 | 39,255 | 44,494 |

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|--|-----------------|-----------------|-----------------|-----------------|
| Assets | | | | |
| Total Current Assets | 70,676 | 87,595 | 1,09,371 | 1,31,753 |
| of which cash & cash eqv. | 7,828 | 6,108 | 10,100 | 19,965 |
| Total Current Liabilities & Provisions | 40,589 | 56,002 | 68,383 | 77,017 |
| Net Current Assets | 30,087 | 31,593 | 40,988 | 54,736 |
| Investments | 26,578 | 55,544 | 63,544 | 71,544 |
| Net Fixed Assets | 59,523 | 55,559 | 58,236 | 59,879 |
| Capital Work-in-Progress | 1,402 | 1,830 | 1,830 | 1,830 |
| Goodwill | 3,200 | 3,026 | 3,026 | 3,026 |
| Total Assets | 1,20,791 | 1,47,552 | 1,67,623 | 1,91,014 |
| Liabilities | | | | |
| Borrowings | 11,184 | 11,247 | 11,247 | 11,247 |
| Deferred Tax Liability | 4,270 | 4,013 | 4,013 | 4,013 |
| Minority Interest | 4,035 | 4,229 | 4,229 | 4,229 |
| Equity Share Capital | 959 | 959 | 959 | 959 |
| Face Value per share (Rs) | 1 | 1 | 1 | 1 |
| Reserves & Surplus* | 1,00,342 | 1,27,104 | 1,47,175 | 1,70,566 |
| Less: Misc. Exp. n.w.o. | - | - | - | - |
| Net Worth | 1,01,302 | 1,28,063 | 1,48,134 | 1,71,525 |
| Total Liabilities | 1,20,791 | 1,47,552 | 1,67,623 | 1,91,014 |

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---|----------------|-----------------|----------------|----------------|
| Operating Cashflow | 35,089 | 39,347 | 47,578 | 53,851 |
| Working Capital | | | | |
| Changes | (2,629) | (3,227) | (5,402) | (3,884) |
| Capital Commitments | (11,335) | (4,376) | (11,000) | (11,000) |
| Free Cashflow | 21,125 | 31,744 | 31,177 | 38,967 |
| Cashflow from | | | | |
| Investing Activities | (868) | (28,792) | (8,000) | (8,000) |
| Issue of Share Capital | - | - | - | - |
| Inc (Dec) in Borrowings | 5,024 | 63 | - | - |
| Dividend paid | (13,554) | (17,122) | (19,184) | (21,102) |
| Change in Deferred Tax Liability | (1,127) | (257) | - | - |
| Chg. in Cash & Bank balances | 3,379 | (1,721) | 3,993 | 9,864 |

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---------------------------------|-------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| EPS | 28.2 | 32.8 | 40.9 | 46.4 |
| Cash EPS | 36.6 | 41.4 | 49.9 | 56.5 |
| Dividend per share (DPS) | 12.0 | 17.9 | 20.0 | 22.0 |
| Book Value per share (BV) | 105.6 | 133.5 | 154.4 | 178.8 |
| Growth (%) | | | | |
| Net Sales | 4.5 | 7.4 | 21.8 | 12.6 |
| EBITDA | 18.1 | 16.7 | 20.0 | 12.5 |
| PAT | 25.1 | 16.5 | 24.7 | 13.3 |
| Cash EPS | 34.9 | 13.1 | 20.6 | 13.1 |
| Valuation Ratios (x) | | | | |
| P/E | 90.7 | 77.9 | 62.5 | 55.1 |
| P/CEPS | 69.9 | 61.8 | 51.2 | 45.3 |
| P/BV | 24.2 | 19.1 | 16.6 | 14.3 |
| EV / EBITDA | 59.0 | 50.6 | 42.1 | 37.2 |
| EV / Sales | 12.1 | 11.3 | 9.3 | 8.2 |
| Operating Ratios | | | | |
| Raw Material / Sales (%) | 56.3 | 55.7 | 55.9 | 55.9 |
| Employee cost / Sales (%) | 6.8 | 7.1 | 7.1 | 7.0 |
| SG&A / Sales (%) | 16.3 | 14.8 | 15.0 | 15.0 |
| Other Income / PBT (%) | 8.5 | 7.1 | 8.0 | 8.4 |
| Effective Tax Rate (%) | 23.9 | 25.7 | 25.5 | 25.5 |
| Working Capital (days) | 40.0 | 42.3 | 42.0 | 42.0 |
| Inventory Turnover (days) | 60.4 | 63.0 | 63.0 | 63.0 |
| Receivables (days) | 32.0 | 43.1 | 43.1 | 43.1 |
| Payables (days) | 67.6 | 100.5 | 100.5 | 100.5 |
| Net D/E Ratio (x) | 0.1 | 0.1 | 0.1 | 0.1 |
| Profitability Ratios (%) | | | | |
| Net Income Margins | 13.5 | 14.6 | 15.0 | 15.0 |
| RoACE | 24.3 | 24.2 | 25.6 | 25.5 |
| RoAE | 27.8 | 27.7 | 28.6 | 28.0 |
| Dividend Payout | 42.2 | 53.9 | 48.5 | 47.1 |
| Dividend Yield | 0.5 | 0.7 | 0.8 | 0.9 |
| EBITDA Margins | 20.6 | 22.4 | 22.0 | 22.0 |

Source: Company data, I-Sec research

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