

Strong show of volume growth continues...

Asian Paints continued its growth momentum with 48% volume growth in Q4FY21 (11%, 33% YoY volume growth in Q2, Q3 respectively). This resulted in annual volume growth of 13% YoY for the company making up the 38% volume loss that occurred in Q1 due to lockdown. Better than expected volume growth (I-direct estimate was: 28%YoY) in Q4FY21 came in on the back of strong paint demand in Metros and Tier 1 cities. Additionally, new product launches in the waterproofing segment also helped drive volume growth. On the margin front, while no price hike in Q4 weighed on gross margins (down ~266 bps YoY), savings in employee & other costs to the tune of 100 bps and 290 bps YoY, respectively, led to ~127 bps YoY increase in EBITDA margin. PAT came in higher by 81% YoY to ₹ 864 crore. The key takeaways of the conference call: 1) Strong sales in April 2021 before the lockdown was imposed in various states, 2) new launches in the lower end products categories along with back up of strong supply chain helped it to gain market share from regional/organised players, 3) continued focus on educating painter community on increasing undercoat products, 4) focus on protecting market share but not at the cost of margin, 5) well positioned to capture the recovery cycle once the economy opens up, 6) price hike of 2.8% effective from May 2021. We revise our revenue, PAT estimate downside for FY22E by 1.2%, 8%, respectively, factoring in the impact of lockdown and higher input costs.

Home, international business aids in overall sales recovery

Asian Paints witnessed a strong recovery in all business segments despite sales losses in Q1. For FY21, revenue growth at 7% YoY to ₹ 21713 crore was led by 7% and 11% growth in paints & home improvement business to ₹ 21206 crore & ₹ 509 crore, respectively. The international business, which contributes ~11% to topline, also registered growth of 6.5% YoY to ₹ 2490 crore led by strong performance in Asia, Middle East & Africa regions.

Long term growth outlook intact

We build in consolidated revenue CAGR of ~18% in FY21-23E led by 17% and 37% revenue CAGR in paints and home improvement business respectively. For the paint business, we build in volume CAGR of 14% in FY21-23E supported by shortening repainting cycle and increasing penetration of undercoat paints.

Valuation & Outlook

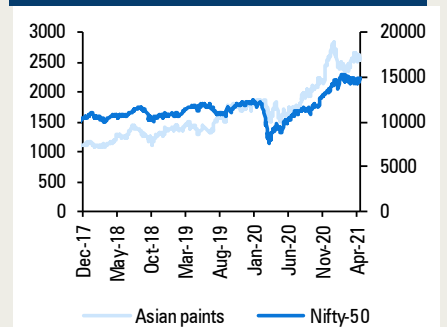
We continue to believe in the inherent strength of Asian Paints considering its 80 years old business legacy, strong balance sheet and its supply chain networks. This has not only helped the company to come out strongly from the lockdown disruptions but also register market share gains. We upgrade our recommendation from HOLD to **BUY** with a revised target price of ₹ 2970/share (earlier ₹ 3010).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,45,120.4
Total Debt (FY21) (₹ Crore)	340.2
Cash & Inv (FY21) (₹ Crore)	4,252.9
EV (₹ Crore)	2,41,207.7
52 week H/L (₹)	2871/1483
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Price Performance



Key risk to our call

- Delay in passing of higher input prices and slow demand pick-up of premium product categories may weigh on EBITDA margin
- Extended lockdown like situation may delay the overall volume growth, going forward

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (21-23E)
Net Sales	19240.1	20211.3	21712.8	25275.0	30069.1	17.7
EBITDA	3765.5	4161.8	4855.6	5307.8	6500.8	15.7
EBITDA Margin (%)	19.6	20.6	22.4	21.0	21.6	
Net Profit	2213.8	2779.1	3206.8	3523.8	4351.3	16.5
EPS (₹)	23.1	29.0	33.4	36.7	45.4	
P/E (x)	110.7	88.2	76.4	69.6	56.3	
Price/Book (x)	25.9	24.2	19.1	18.2	15.8	
Mcap/Sales (x)	12.7	12.1	11.3	9.7	8.2	
RoE (%)	23.4	27.4	25.0	26.2	28.0	
RoCE (%)	28.9	30.5	29.6	30.8	33.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	6,651.4	5,739.1	4,635.6	43.5	6,788.5	-2.0	Sales growth led by strong 48% volume growth in Q4FY21
Other Income	75.4	84.4	55.8	35.1	97.9	-23.0	
Raw Material Exp	3,779.3	3,206.5	2,510.6	50.5	3,728.5	1.4	Gross margin declined 266 bps YoY mainly due to higher raw material prices
Employee Exp	412.1	373.0	335.6	22.8	388.3	6.2	
Manufacturing & Oth exp	1,141.7	860.9	929.8	22.8	883.9	29.2	Various cost rationalisation measures helped in saving in other expenditure meaningfully
Total Exp	5,333.2	4,440.4	3,776.0	41.2	5,000.6	6.7	
EBITDA	1,318.3	1,298.7	859.6	53.4	1,787.9	-26.3	
EBITDA Margin (%)	19.8	22.6	18.5	128 bps	26.3	-652 bps	Higher EBITDA margin supported by lower employee and other costs
Depreciation	213.4	212.5	194.5	9.7	193.2	10.4	
Interest	29.9	25.2	25.7	16.4	21.1	41.3	
Exceptional items							
PBT	1,150.5	1,145.4	695.3	65.5	1,671.5	-31.2	
Total Tax	286.4	288.3	219.0	30.8	431.4	-33.6	
PAT	869.9	864.2	480.3	81.1	1,265.4	-31.3	Better sales growth and margin expansion help drive bottomline
Key Metrics							
Volume growth (%)	48.0	28.0	2.0		33.0		Strong demand from Metros & Tier 1 cities and launch of new products (water proofing) business drove overall volume growth
Realisation growth (%)	-3.0	-3.1	-8.8		-5.8		Change in product mix (skewed more towards lower end products) impacted realisation

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ crore)	FY22E			FY23E			Comment
	Old	New	% Chg	Old	New	% Chg	
Revenue	25569.3	25275.0	-1.2	29921.3	30069.1	0.5	We marginally tweak our revenue estimate downwards for FY22 considering the impact of lockdown. We build in paint revenue CAGR of 17% FY21-23E led by volume CAGR of ~14% during the same period
EBITDA	5827.2	5307.8	-8.9	6765.5	6500.8	-3.9	
EBITDA Margin (%)	22.8	21.0	-180bps	22.6	21.6	-98bps	We marginally tweak our EBITDA margin estimate downside considering higher input prices and the company's increased focus on mid range of products
PAT	3828.4	3523.8	-8.0	4440.5	4351.3	-2.0	
EPS (₹)	39.9	36.7	-7.9	46.3	45.4	-2.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Volume Growth (%)	10.2	13.4	12.8	15.5	17.7	12.1	We build in volume CAGR of ~14% in FY21-23E supported by new product launches, shortening repainting cycle, market share gains and government schemes (Housing for all)
Realisation Growth (%)	(5.3)	(5.3)	2.4	2.9	4.8	4.4	We believe price hikes would help drive realisation growth, going forward

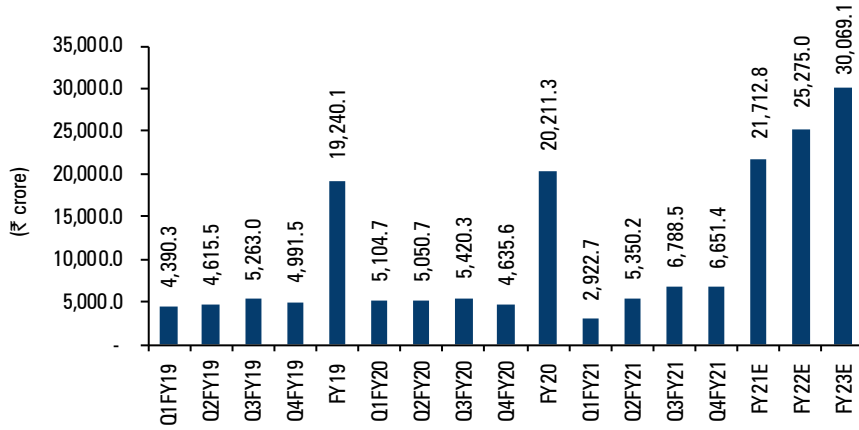
Source: Company, ICICI Direct Research

Conference call highlights

- **Demand outlook (Domestic):** Near term demand condition will be hit by lockdown situation across country. However, the paint industry is expected to continuously grow ~1.5x GDP growth. APL is well positioned to capture the recovery cycle once economy opens up
- Strong growth in projects and large institutional sales (hotels, hospitals, corporates etc), especially in Q3 & Q4 FY21
- Market share gains from regional and some organised players in FY21
- **International business:** Q4FY21 revenues increased 22% YoY to ₹ 729 crore while PBT declined 39% YoY to ₹ 34 crore. For FY21, revenues increased 6.5% to ₹ 2490 crore while PBT increased 15% YoY to ₹ 179 crore. Continuous focus on promoting water proofing and premium/luxury emulsion segments. Q4 margins hit by adverse impact of higher raw material cost
- **Industrial business:**
 1. **PPG-AP-** Revenue and PBT for Q4FY21 increased 39% and 49% to ₹ 333 crore and ₹ 16 crore, respectively. For FY21, revenue and PAT declined by 11% and 43% YoY to ₹ 1094 crore and ₹ 77 crore, respectively. Performance was largely hit by slow recovery in the automotive segment
 2. **AP-PPG-** Strong growth in the industrial liquid paints and powder segments. For Q4FY21, revenue and PBT were up 63% and 50% to ₹ 193 crore and ₹ 11 crore, respectively. For FY21, revenues and PBT were up by 7% and 8% YoY to ₹ 526 crore and ₹ 29 crore, respectively
- **Home improvement:**
 1. **Kitchen Business** - Revenue for Q4FY21 increased 84% YoY to ₹ 95 crore while it reported PBT loss of ₹ 1 crore in the same period. For FY21, revenues increased by 11% YoY to ₹ 265 crore while BPT losses narrowed to ₹ 21 crore as compared to ₹ 41 crore losses same period a year ago. Focus on improving the scale of the business along with cost optimisation measures
 2. **Bath business-** Revenue for Q4FY21 increased 84% YoY to ₹ 93 crore and reached break even level. For FY21, revenues increased 13% YoY to ₹ 247 crore while BPT losses narrowed to ₹ 7 crore compared to ₹ 29 crore losses same period a year ago. Focus on improving the scale of the business along with cost optimisation measures
- **Price hike:** The company has taken price hike of 2.8% effective from May 2021 at portfolio level. The raw material prices are on continuous uptrend and company will pass on inflationary pressure gradually by taking price hike
- **Focus to keep market share intact:** The company will gradually pass on price hikes so that its market share remains intact
- **New products:** The focus is to increase penetration on undercoat paint business (such water proofing business)

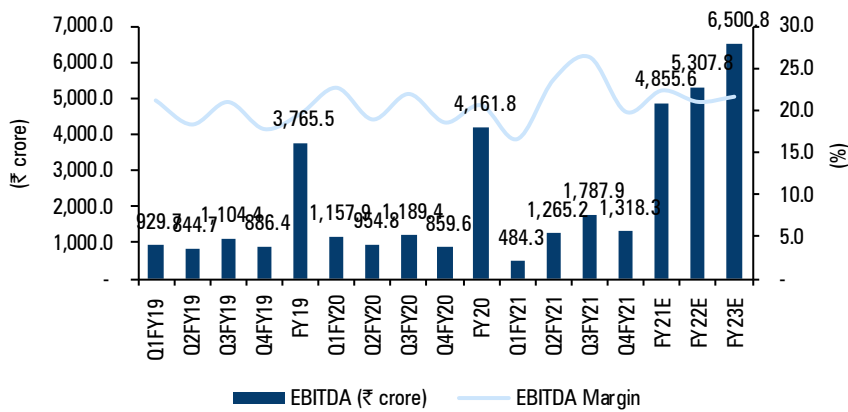
Financial story in charts

Exhibit 4: Strong volume growth in coming period to drive revenue



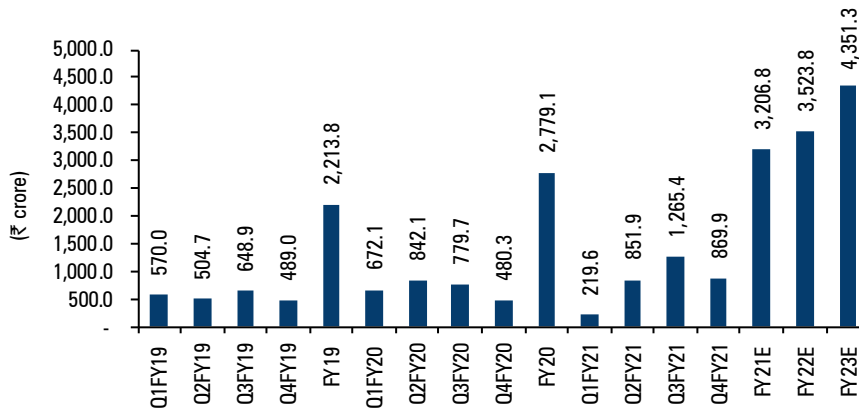
Source: Company, ICICI Direct Research

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)	FY20	FY21	FY22E	FY23E
Total Operating Revenue	20,211.3	21,712.8	25,275.0	30,069.1
Growth (%)		7.4	16.4	19.0
Raw Material Expenses	11,383.5	12,097.2	14,154.0	16,712.6
Employee Expenses	1,366.1	1,540.8	1,642.9	2,044.7
Other expenses	3,299.9	3,219.2	4,170.4	4,811.1
Total Operating Expenditure	16,049.5	16,857.2	19,967.3	23,568.3
Growth (%)		5.0	18.4	18.0
EBITDA	4,161.8	4,855.6	5,307.8	6,500.8
Growth (%)		16.7	9.3	22.5
Depreciation	780.5	791.3	909.9	1,052.4
Interest	102.3	91.6	84.1	59.4
Other Income	304.3	303.1	355.8	387.1
PBT	3,583.3	4,275.8	4,669.5	5,776.0
Total Tax	854.9	1,097.6	1,176.5	1,455.2
Profit from Associates	50.7	28.6	30.8	30.6
PAT	2,779.1	3,206.8	3,523.8	4,351.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit before Tax	2,779.1	3,206.8	3,523.8	4,351.3
Add: Depreciation	780.5	791.3	909.9	1,052.4
(Inc)/dec in Current Assets	-395.9	-1,888.9	-1,412.7	-1,808.9
Inc/(dec) in CL and Provisions	-522.0	1,566.4	34.6	1,074.9
Others	102.3	91.6	84.1	59.4
CF from operating activities	2,744.1	3,767.2	3,139.8	4,729.2
(Inc)/dec in Investments	549.7	-2,718.0	-40.0	-540.0
(Inc)/dec in Fixed Assets	-488.1	-437.6	-500.0	-600.0
Others	29.6	-161.6	-105.4	-148.1
CF from investing activities	91.2	-3,317.2	-645.4	-1,288.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-275.5	0.1	22.0	-130.0
Dividend paid & dividend tax	-1,383.1	-1,711.1	-2,244.1	-2,244.1
Inc/(dec) in Sec. premium	-838.8	1,088.8	-715.2	-59.4
CF from financing activities	-2,497.3	-622.1	-2,937.3	-2,433.5
Net Cash flow	337.9	-172.1	-442.9	1,007.6
Opening Cash	444.9	782.8	610.7	167.9
Closing Cash	782.8	610.7	167.9	1,175.4

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	10,034.2	12,710.4	13,359.0	15,466.3
Total Shareholders funds	10,130.1	12,806.3	13,454.9	15,562.2
Total Debt	340.1	340.2	362.2	232.2
Deferred Tax Liability	443.8	415.6	415.6	415.6
Minority Interest	403.5	422.9	444.0	466.2
Total Liabilities	12,089.0	14,737.4	15,429.2	17,428.6
Gross Block	8,328.1	8,722.9	9,222.9	9,822.9
Less: Acc Depreciation	2,375.8	3,167.1	4,077.0	5,129.4
Capital WIP	140.2	183.0	183.0	183.0
Total Fixed Assets	6,092.6	5,738.9	5,329.0	4,876.6
Other Investments	456.6	483.9	523.9	563.9
Liquid Investments	1,562.2	4,252.9	4,252.9	4,752.9
Goodwill on Consolidation	320.0	302.6	302.6	302.6
Current Assets				
Inventory	3,389.8	3,798.6	4,501.0	5,354.8
Debtors	1,799.4	2,605.1	3,032.4	3,607.6
Loans and Advances	86.9	79.5	81.5	83.5
Other Current Assets	1,030.0	1,711.8	1,992.7	2,370.6
Cash	782.8	610.7	167.9	1,175.4
Total Current Assets	7,088.9	8,805.7	9,775.5	12,591.9
Liabilities				
Creditors	2,136.6	3,378.7	3,116.1	3,707.1
Provisions	243.2	299.6	276.3	328.8
Other current liabilities	1,686.0	1,953.8	2,274.4	2,705.8
Total Current Liabilities	4,065.8	5,632.2	5,666.8	6,741.7
Net Current Assets	3,023.2	3,173.5	4,108.7	5,850.2
Other Non Current Assets Tc	634.4	785.6	912.2	1,082.5
Total Assets	12,089.0	14,737.4	15,429.2	17,428.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	29.0	33.4	36.7	45.4
Cash EPS	37.1	41.7	46.2	56.3
BV	105.6	133.5	140.3	162.3
DPS	14.4	17.8	23.4	23.4
Cash Per Share	24.8	33.0	42.5	53.5
Operating Ratios (%)				
EBITDA Margin	20.6	22.4	21.0	21.6
EBIT Margin	16.7	18.7	17.4	18.1
PAT Margin	13.8	14.8	13.9	14.5
Activity Ratios				
Inventory days	61.2	63.9	65.0	65.0
Debtor days	32.5	43.8	43.8	43.8
Creditor days	38.6	56.8	45.0	45.0
Return Ratios (%)				
RoE	30.5	29.6	30.8	33.5
RoCE	27.4	25.0	26.2	28.0
RoIC	39.1	47.2	45.8	54.9
Valuation Ratios (x)				
P/E	88.2	76.4	69.6	56.3
EV / EBITDA	58.4	49.6	45.4	36.8
EV / Net Sales	12.0	11.1	9.5	8.0
Market Cap / Sales	12.1	11.3	9.7	8.2
Price to Book Value	24.2	19.1	18.2	15.8
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.5	1.7	1.7
Quick Ratio	0.7	0.8	0.9	0.9

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)	2,556	2,970	Buy	2,45,120	33.4	36.7	45.4	76.4	69.6	56.3	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnic (ASTPOL)	1,564	1,670	Hold	23,564	22.2	30.4	37.1	70.4	51.4	42.2	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	3,010	3,015	Buy	9,465	29.8	68.2	97.6	100.9	44.1	30.9	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,132	1,075	Buy	12,870	18.9	25.4	35.2	NM	36.3	26.1	31.0	25.0	18.2	17.6	21.4	24.8	13.5	17.3	19.9
Berger Paints (BERPAI)	723	810	Hold	70,218	7.6	9.7	12.4	95.1	74.4	58.5	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	377	480	Buy	23,638	7.9	9.5	12.0	47.4	39.6	31.3	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
Dixon Technologies (DIXTEC)	3,866	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	238	250	Hold	7,509	7.8	8.9	10.8	30.4	26.7	22.1	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,005	1,255	Hold	62,702	16.1	17.8	22.9	62.5	56.5	43.8	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	566	655	Buy	30,503	9.9	12.1	14.4	57.4	46.7	39.3	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	474	600	Buy	1,314	16.5	20.8	28.0	28.8	22.8	16.9	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,846	1,920	Buy	93,740	22.1	28.2	32.9	83.4	65.5	56.1	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,492	1,385	Buy	22,213	57.9	67.2	79.7	25.8	22.2	18.7	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,149	2,390	Hold	27,298	77.0	64.9	72.4	27.9	33.1	29.7	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,105	1,345	Hold	7,730	15.3	28.5	39.5	72.2	38.8	27.9	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	84	75	Buy	1,900	4.4	9.6	-	19.1	8.7		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	225	265	Buy	9,636	4.2	6.1	7.1	53.2	37.0	31.8	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	968	1,260	Buy	32,015	15.7	25.8	32.1	61.5	37.5	30.2	58.5	35.6	28.4	16.3	22.6	24.2	11.4	16.8	17.9

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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