

# ASIAN PAINTS

## RESULT UPDATE



### KEY DATA

<b>Rating</b>	<b>BUY</b>
Sector relative	Outperformer
Price (INR)	3,002
12 month price target (INR)	3,550
Market cap (INR bn/USD bn)	2,880/38.5
Free float/Foreign ownership (%)	47.2/19.8
<b>What's Changed</b>	
Target Price	↓
Rating/Risk Rating	—

### QUICK TAKE

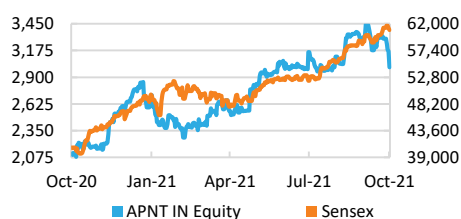
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth	•		
Overall			•

### FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	2,17,128	2,62,787	3,00,922	3,37,192
EBITDA	48,556	47,294	64,824	75,943
Adjusted profit	32,068	31,733	45,401	54,172
Diluted EPS (INR)	33.4	33.1	47.3	56.5
EPS growth (%)	15.4	(1.0)	43.1	19.3
RoAE (%)	28.0	23.2	28.7	29.2
P/E (x)	89.8	90.7	63.4	53.2
EV/EBITDA (x)	58.6	59.8	43.2	36.5
Dividend yield (%)	0.6	0.5	0.7	0.8

### PRICE PERFORMANCE



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## Profitable volume growth desirable

Asian Paints (APL) posted Q2FY22 revenue ahead of estimate (up 32.6% YoY), while EBITDA (down 28.5% YoY) and PAT (down 29% YoY) missed our estimates. The decorative business's volume shot up 34% YoY (base 11% YoY) led by tier 1 and 2 towns. Steep unprecedented inflation in raw material prices compressed gross margin 966bps YoY (lowest quarterly GM in several years) and EBITDA margin by 1,090bps YoY. However, we believe this is temporary, and APL has strong pricing power and is hiking prices with a lag to combat inflation.

Overall, we believe APL's operational prowess and market leadership will help it sustain volume growth. Maintain 'BUY' with a revised TP of INR3,550.

### Revenue robust; margins under pressure

**What we like:** Net sales were up 32.6% YoY (5% ahead of Street estimates). Domestic business continued to grow logging 34% YoY volume growth. The Ess Ess business recorded a positive EBIT after many quarters while the Sleek business is also close to breaking even. Other income shot up 67% YoY.

**What we do not like:** EBITDA fell 28.5% YoY (23% below our estimate although it is 33% below Street's estimate). Gross and EBITDA margins contracted 966bps YoY and 1,090bps YoY, respectively.

**Other highlights:** The industry took price hikes in Q1FY22 and Q2FY22 totalling 7%. However this is still not enough to tackle the unprecedented raw material inflation. South Asia showed good growth while the Middle East and Africa were sluggish (in international business). Industrial coatings registered strong double-digit growth.

### Q2FY22 conference call: Key takeaways

APL is expanding 'Rurban' footprint – into new towns and suburbs, with 40,000+ new retail points added over the last year and a half. Twenty six Beautiful Homes stores are functional. By Q4FY22, the company is confident of getting into reasonable EBITDA margin range on the back of price increases and formulation changes.

### Outlook and valuation: Strong pricing power; maintain 'BUY'

We expect double-digit growth in decorative volumes to sustain, riding potential demand shift from unorganised segment (~30%). Going ahead, APL's ability to raise prices should help it improve margins. Considering the miss on margins, we are lowering the TP to INR3,550 (from INR3,755); retain 'BUY/SO' (63.4x FY23E EPS).

### Financials

Year to March	Q2FY22	Q2FY21	% Change	Q1FY22	% Change
Net Revenue	70,960	53,502	32.6	55,854	27.0
EBITDA	9,045	12,652	(28.5)	9,136	(1.0)
Adjusted Profit	6,052	8,519	(29.0)	5,743	5.4
Diluted EPS (INR)	6.3	8.9	(29.0)	6.0	5.4

## Financial Statements

### Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	2,17,128	2,62,787	3,00,922	3,37,192
Gross profit	96,156	1,04,751	1,31,612	1,50,502
Employee costs	15,408	17,660	20,206	22,648
Other expenses	24,343	29,162	33,659	37,710
EBITDA	48,556	47,294	64,824	75,943
Depreciation	7,913	8,237	8,637	9,037
Less: Interest expense	916	991	931	871
Add: Other income	3,031	4,011	4,945	5,797
Profit before tax	42,758	42,078	60,202	71,832
Prov for tax	10,976	10,814	15,472	18,461
Less: Other adj	0	0	0	0
Reported profit	32,068	31,733	45,401	54,172
Less: Excp.item (net)	0	0	0	0
Adjusted profit	32,068	31,733	45,401	54,172
Diluted shares o/s	959	959	959	959
Adjusted diluted EPS	33.4	33.1	47.3	56.5
DPS (INR)	17.9	14.9	21.3	25.4
Tax rate (%)	25.7	25.7	25.7	25.7

### Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Other exp (% of rev)	11.2	11.1	11.2	11.2
Con A&P (% of rev)	3.6	4.0	4.3	4.2
Gross margin (%)	44.3	39.9	43.7	44.6
EBITDA margin (%)	22.4	18.0	21.5	22.5
Net profit margin (%)	14.8	12.1	15.1	16.1
Revenue growth (% YoY)	7.4	21.0	14.5	12.1
EBITDA growth (% YoY)	16.7	(2.6)	37.1	17.2
Adj. profit growth (%)	15.4	(1.0)	43.1	19.3

### Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	9.0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	75.0	73.0	72.0	71.0
Sales growth std	2.0	26.0	15.0	12.0
Volume growth - std	6.0	26.0	16.0	13.0
COGS % of sales (con)	55.7	60.1	56.3	55.4
COGS % of sales (std)	54.5	60.4	55.9	54.8
Staff cost (% of rev)	7.1	6.7	6.7	6.7
Std A&P (% of rev)	3.7	4.3	4.6	4.5

### Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	89.8	90.7	63.4	53.2
Price/BV (x)	22.5	19.8	16.9	14.4
EV/EBITDA (x)	58.6	59.8	43.2	36.5
Dividend yield (%)	0.6	0.5	0.7	0.8

Source: Company and Edelweiss estimates

### Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	959	959	959	959
Reserves	1,27,104	1,44,557	1,69,527	1,99,322
Shareholders funds	1,28,063	1,45,516	1,70,486	2,00,281
Minority interest	4,229	4,698	5,369	6,169
Borrowings	3,402	3,202	3,002	2,802
Trade payables	33,787	30,308	32,470	35,803
Other liabs & prov	26,228	26,228	26,228	26,228
Total liabilities	2,03,553	2,17,796	2,45,400	2,79,128
Net block	53,219	48,982	44,346	39,309
Intangible assets	5,366	5,366	5,366	5,366
Capital WIP	1,830	3,000	3,000	3,000
Total fixed assets	60,415	57,349	52,712	47,675
Non current inv	14,697	14,697	14,697	14,697
Cash/cash equivalent	38,779	55,953	81,916	1,12,977
Sundry debtors	26,051	23,039	26,382	29,562
Loans & advances	795	795	795	795
Other assets	62,818	65,964	68,899	73,422
Total assets	2,03,553	2,17,796	2,45,400	2,79,128

### Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	32,068	31,733	45,401	54,172
Add: Depreciation	7,913	8,237	8,637	9,037
Interest (net of tax)	916	991	931	871
Others	(286)	(469)	(671)	(801)
Less: Changes in WC	277	(3,614)	(4,116)	(4,370)
Operating cash flow	40,888	36,877	50,182	58,908
Less: Capex	(1,697)	(4,000)	(4,000)	(4,000)
Free cash flow	39,191	32,877	46,182	54,908

### Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	28.0	23.2	28.7	29.2
RoCE (%)	35.7	29.8	36.8	37.5
Inventory days	108	91	92	91
Receivable days	37	34	30	30
Payable days	83	74	68	67
Working cap (% sales)	15.5	14.2	13.8	13.6
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Interest coverage (x)	44.4	39.4	60.4	76.8

### Valuation Drivers

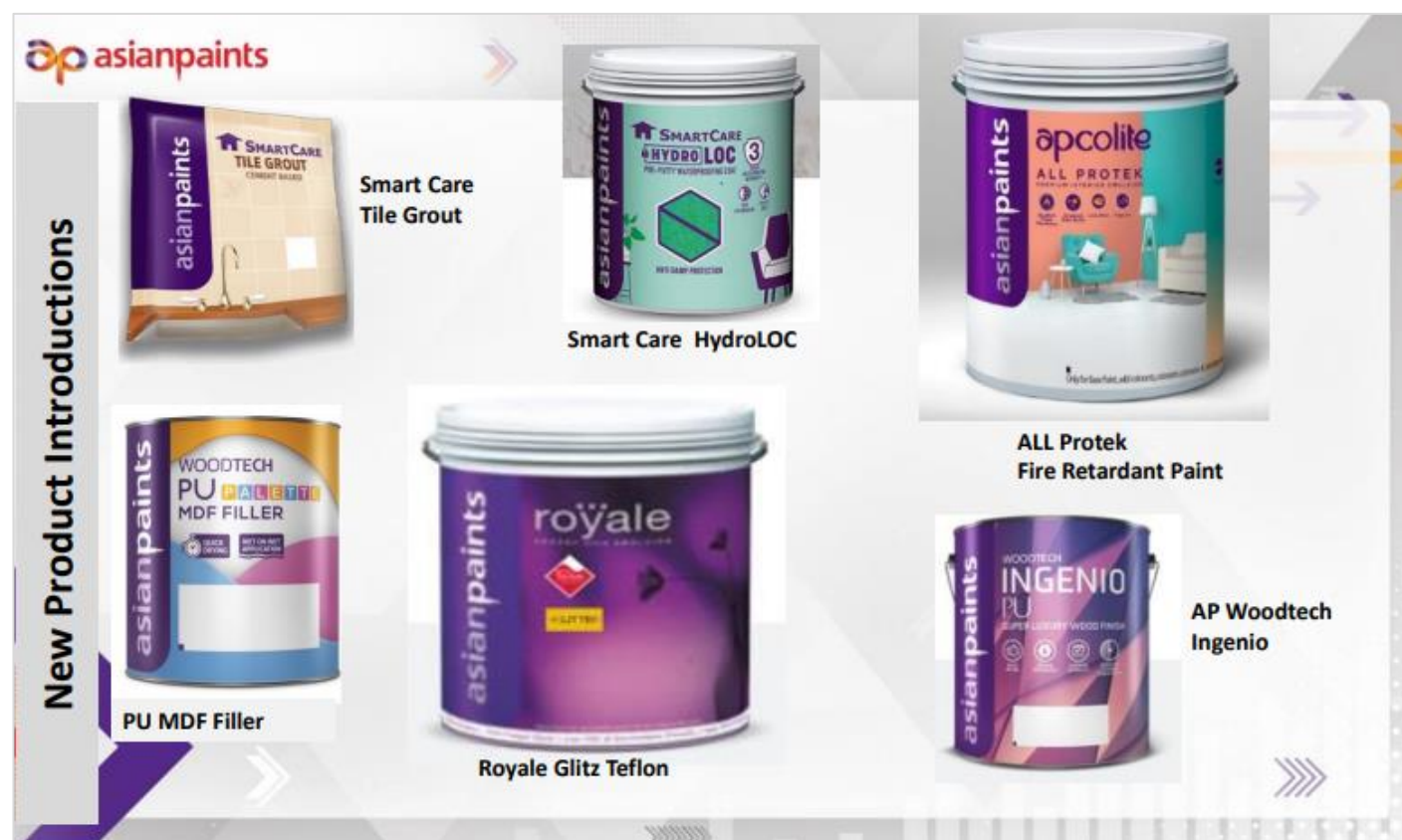
Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	15.4	(1.0)	43.1	19.3
RoE (%)	28.0	23.2	28.7	29.2
EBITDA growth (%)	16.7	(2.6)	37.1	17.2
Payout ratio (%)	53.4	45.0	45.0	45.0

## Exhibit 1: Trends at a glance

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Domestic decorative volume growth (% YoY)	11.0	~1.0	(38.0)	11.0	33.0	48.0	106.0	34.0
Consolidated sales growth (% YoY)	2.4	(7.6)	(42.7)	5.9	25.2	43.5	91.1	32.6
Consolidated gross margin (%)	43.0	45.8	44.7	44.4	45.1	43.2	38.4	34.7
Consolidated staff costs (% of revenue)	6.3	7.2	12.4	7.1	5.7	6.2	7.7	6.2
Consolidated other expenses (% of revenue)	14.7	20.1	15.8	13.7	13.0	17.2	14.3	15.8
Consolidated EBITDA growth (% YoY)	14.0	(2.7)	(58.2)	32.5	50.3	53.4	88.7	(28.5)
Consolidated EBITDA margin (%)	21.9	18.5	16.6	23.6	26.3	19.8	16.4	12.7
Standalone sales growth (% YoY)	2.7	(8.4)	(44.1)	5.8	26.1	46.2	95.6	35.9
Standalone gross margin (%)	44.0	47.0	46.3	45.4	46.1	44.7	39.6	35.7
Standalone EBITDA growth (% YoY)	13.4	(5.4)	(57.2)	31.6	48.0	57.6	88.9	(23.9)
Standalone EBITDA margin (%)	24.0	20.0	19.1	25.4	28.2	21.6	18.4	14.2
Ess Ess revenue (INR mn)	590	508	257	555	726	934	552	935
Ess Ess revenue growth (%)	23.0	(13.9)	(49.8)	(5.1)	23.1	83.9	114.5	68.5
Ess Ess EBIT (INR mn)	(72)	(73)	(75)	1	10	(2)	(16)	33
Sleek revenue (INR mn)	672	520	264	619	808	925	663	1,018
Sleek revenue growth (%)	18.9	(13.7)	(53.4)	(1.0)	20.3	78.1	151.5	64.4
Sleek EBIT (INR mn)	(96)	(149)	(137)	(43)	(17)	(150)	(76)	(2)

Source: Company

## Exhibit 2: New products



Source: Company

## Exhibit 3: International and Industrial business performance

	Q1FY21	Q2FY19	Q3FY19	Q4FY21	Q1FY22	Q2FY22
<b>International Business</b>						
<b>Revenue</b>						
Total revenue (INR mn)	4,010	6,600	7,000	7,290	6,170	7,010
Africa revenues (INR mn)	1,230	1,630	1,520	1,550	1,400	1,380
Middle East revenues (INR mn)	1,320	1,680	1,850	1,810	1,850	1,720
Asia revenues (INR mn)	1,210	3,030	3,420	3,740	2,660	3,660
South Pacific revenues (INR mn)	250	320	320	290	260	310
<b>PBT</b>						
Africa PBT (INR mn)	110	200	140	90	-90	-160
Middle East PBT (INR mn)	80	140	170	90	-10	-110
Asia PBT (INR mn)	20	340	430	160	20	100
South Pacific PBT (INR mn)	60	80	90	80	60	70
<b>Industrial business</b>						
PPG-AP revenue (INR mn)				3,330	2,560	3,770
AP-PPG revenue (INR mn)				1,930	1,560	1,800
PPG-AP PBT (INR mn)				160	-60	270
AP-PPG PBT (INR mn)				110	40	50

Source: Company

## Exhibit 4: Segmental performance - Consolidated (INR mn)

Segment revenue (INR mn)	Q2FY22	Q2FY21	YoY growth (%)	Q1FY22	QoQ growth (%)
Paints	69,017	52,329	31.9	54,647	26.3
Home Improvement (both Sleek and Ess Ess)	1,952	1,174	66.4	1,215	60.7
Total	70,970	53,502	32.6	55,862	27.0
<b>Segment PBIT (INR mn)</b>					
Paints	8,454	11,818	(28.5)	8,091	4.5
Home Improvement (both Sleek and Ess Ess)	31	(42)	NM	(92)	NM
Total	8,485	11,776	(27.9)	7,999	6.1
<b>PBIT margins (%)</b>					
Paints	12.2	22.6	(1,033)	14.8	-256
Home Improvement	1.6	(3.6)	516	(7.6)	914
Total	12.0	22.0	(1,005)	14.3	-236

Source: Company

## Exhibit 5: Segmental performance - Standalone

Segment revenue (INR mn)	Q2FY22	Q2FY21	YoY growth (%)	Q1FY22	QoQ growth (%)
Paints	60,584	44,713	35.5	47,307	28.1
Home Improvement (only Ess Ess)	935	555	68.5	552	69.4
Total	61,519	45,267	35.9	47,859	28.5
Segment PBIT (INR mn)					
Paints	8,483	10,921	(22.3)	8,178	3.7
Home Improvement (only Ess Ess)	33	1	NM	(16)	NM
Total	8,516	10,922	(22.0)	8,162	4.3
PBIT margins (%)					
Paints	14.0	24.4	(1,042)	17.3	-328
Home Improvement	3.5	0.2	332	(3.0)	647
Total	13.8	24.1	(1,028.5)	17.1	-321

Source: Company

## Q2FY22 conference call: Key takeaways

### Overall

- Mr. Milind Sarwate has been appointed as an additional and independent director of the company for a period of 5 years with effect from 21 October, 2021
- Strong topline momentum continued with 16.2% value growth and 20.3% volume growth vs. Q2FY19
- Three year compounded volume growth was at 20.3% at Q2FY22 end
- Volume growth was led by tier 1 and 2 cities, despite covid related restrictions
- Tier 3 and 4 regions have also done fairly well
- Economy as well as luxury range continued to grow strongly
- SmarCare waterproofing portfolio is on a high growth trajectory
- Range of premium products have been introduced in wood finishing category
- 40000+ new retail points have been added over last year and half
- Colour Worlds continues its expansion
- 16 new Colour Idea shops have been added
- 26 Beautiful Home store are now functional
- All protect, a fire retardant paint has been getting good traction
- Home décor segment has helped drive premiumization
- Sabyasachi by Nilaya, a first of its kind designer home furnishing has been launched
- More than 500+ sites were booked under Beautiful Home services in the first half of the year
- Safe painting service also saw good momentum
- Lockdown had impact on labour turning up on time, which impacted production
- Kitchen business hit INR1000mn revenue milestone in this quarter

- Demand for kitchen business in projects segment has been recovering
- Improving scale benefitted the Kitchen and Bath business despite inflation
- Bath business saw good trajectory with premium products doing well
- Interim dividend of INR3.65 per share has been announced
- Going ahead, Q3FY22 demand looks positive, with festive season and good monsoon
- Upturn in housing construction should help projects business going ahead
- Strategically improving mix to higher margin product and formulation efficiency will help growth and margins
- Company will ensure that there is no fall in order fill rate to retailers and institutional business
- There would be some inventory buildup in channels before price hike, but this inventory is mostly on cash basis
- Only some retailers can afford the inventory buildup and the overall buildup will not be significant

#### **International business**

- Asia business showed good growth of 21% YoY, despite covid challenges
- Middle East was sluggish as several retail markets were shut
- High inflation and regional disturbances were challenge for African markets
- Egypt and Ethiopia saw lagged topline performance
- Overall international business revenue was at INR7010mn
- Profitability was impacted due to steep inflation leading to PBT loss of INR280mn

#### **Institutional business**

- PPG-AP business continues to recover, and has received strong push from price increase across B2B customers
- AP-PPG business did well led by protective coatings
- Both retail and projects segment did well in AP-PPG
- Powder segment has seen sequential uptick

#### **Margins**

- Q1FY22 saw roughly 15% YoY material inflation and 3% YoY price increase was taken
- Q2FY22 saw roughly 6% YoY material inflation and 4% YoY price increase was taken
- Price increases were taken keeping in mind not to hurt consumer sentiment during covid second wave
- A very high price increase in a short time could have a negative effect on sentiments and destabilize demand

- Raw material inflation looks to persist going ahead
- There are also challenges of availability and lead time with respect to some raw materials
- Company is looking at further price action
- A large part of inflation will be covered by pricing action over next 3 months
- Pricing action will be phased to not create shock for consumer
- On standalone basis, gross margin contracted by 975bps YoY for the quarter and 837bps YoY for the first half
- The company is always on the lookout for replacements of raw material that can save price without hampering quality
- Roughly INR3000mn efficiency have accrued in first half due to formulation efficiency
- If there are aggressive price increases then rebating will come down as price increase itself will be an incentive to dealers

## **Outlook and valuation: Strong pricing power; maintain 'BUY'**

The domestic paints industry commands strong pricing power, which is evident from frequent price hikes amid inflationary raw material prices; moreover, price cuts happen with a lag in a deflationary environment. Industry volume growth has a strong correlation with GDP growth (1.5–2x). Recovery in GDP in FY22 should give volumes a boost. Furthermore, innovation and strong repainting demand (90% of total) are big drivers of growth. Besides, considering the industry's low penetration (~50% according to our analysis), growth potential remains huge.

APL has sharpened the focus on other allied segments such as waterproofing. The entry in adhesives with bigger plans for home décor (Color Ideas, AP Homes) is an additional growth trigger.

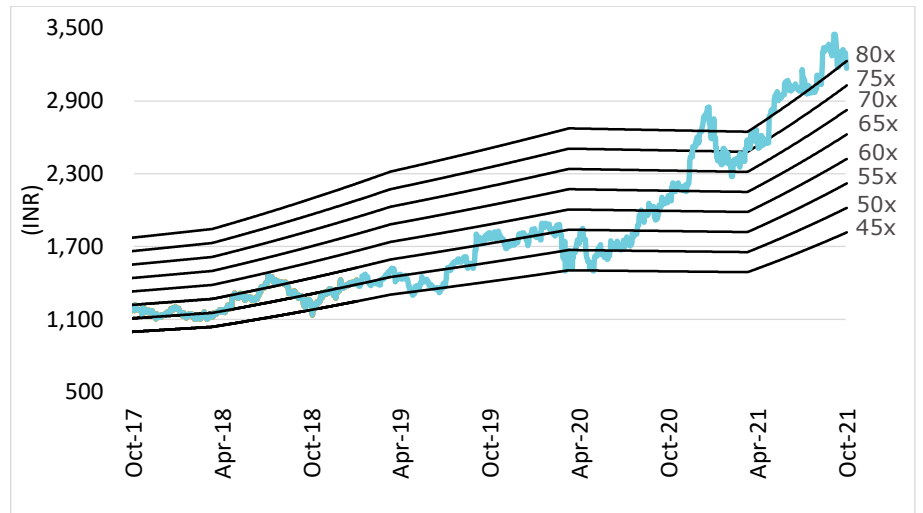
With raw materials being inflationary at present, we believe, if the inflationary pressure sustains, APL has pricing power to deal with it.

We expect distribution synergies between the home décor segment and the existing paint distribution network to spur operating leverage. The GST rate cut has further triggered a shift from the unorganised towards organised. Capacity expansion of 600,000KL bodes well for revenue growth.

We expect double-digit decorative volumes to sustain, riding the potential demand shift from the unorganised segment (~30%). Going ahead, APL's capability to hike prices should help improve margin.

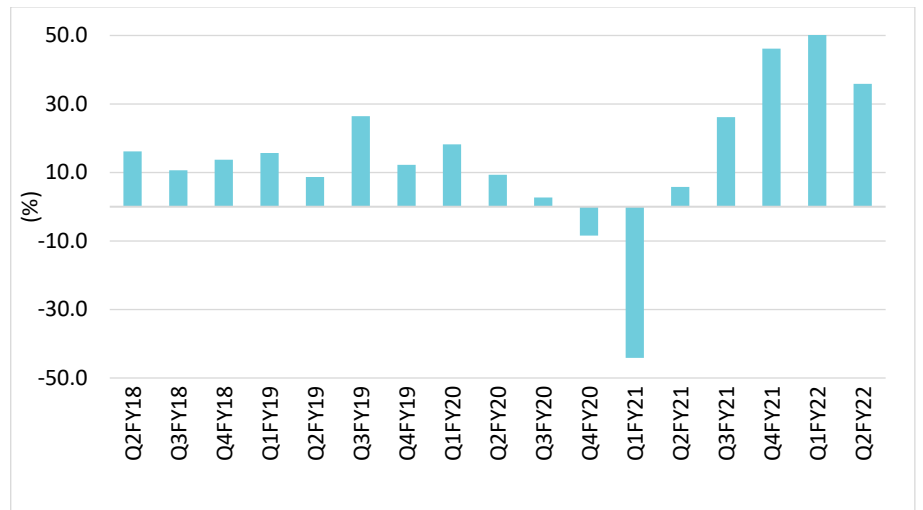
Considering the miss on margins, we are lowering the TP to INR3,550 (from INR3,755); retain **'BUY/SO'** (63.4x FY23E EPS).

**Exhibit 6: One-year forward PE**



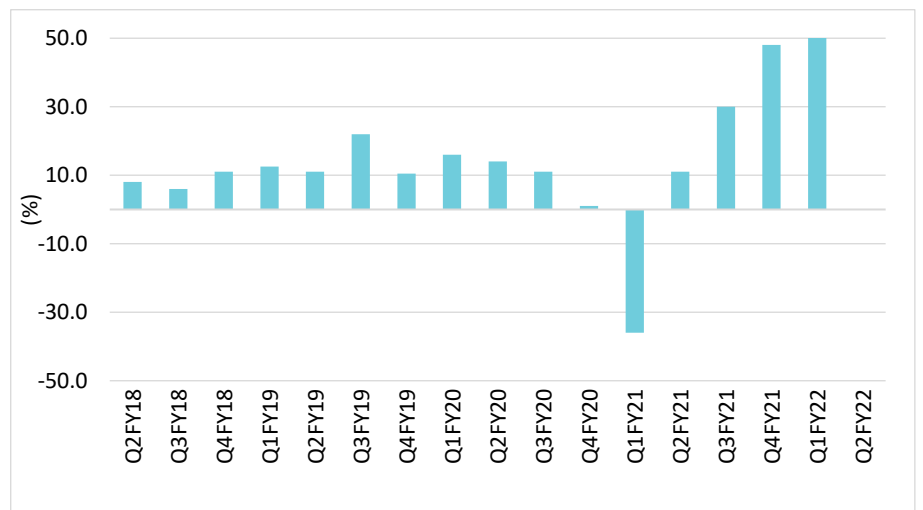
Source: Edelweiss Research

**Exhibit 7: Standalone sales growth**



Source: Company

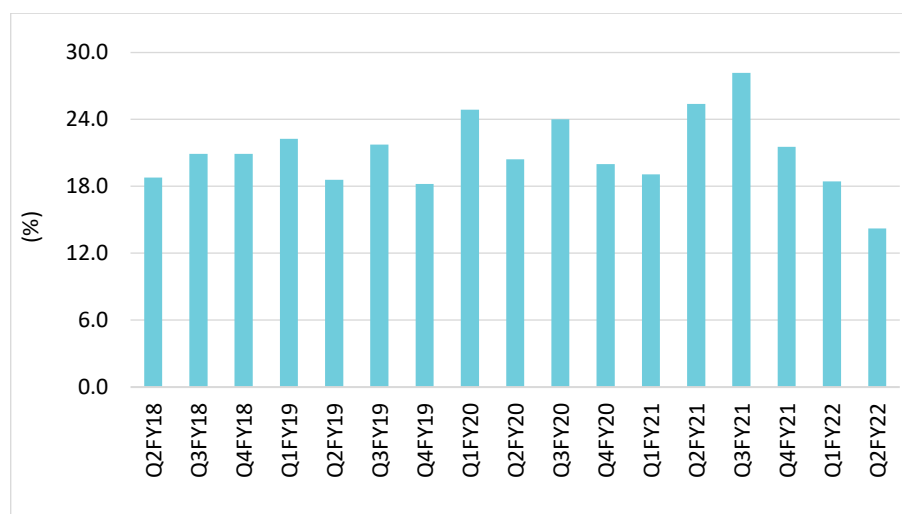
**Exhibit 8: Domestic decorative segment volume growth**



Source: Company



**Exhibit 9: Standalone EBITDA margin**



Source: Company

**Exhibit 10: Standalone financial snapshot (INR mn)**

Year to March	Q2FY22	Q2FY21	% Change	Q1FY22	% Change
Net sales	61,519	45,267	35.9	47,859	28.5
COGS	39,584	24,713	60.2	28,925	36.8
Gross Profit	21,935	20,554	6.7	18,934	15.9
Staff costs	3,229	2,767	16.7	3,161	2.2
Other expenditure	9,956	6,291	58.3	6,953	43.2
Total expenditure	13,186	9,058	45.6	10,113	30.4
EBITDA	8,749	11,496	(23.9)	8,820	(0.8)
Depreciation	1,799	1,687	6.6	1,764	2.0
EBIT	6,951	9,810	(29.1)	7,057	(1.5)
Interest	181	153	17.9	164	10.2
Other income	1,525	945	61.4	1,056	44.4
PBT	8,295	10,601	(21.8)	7,949	4.4
Exceptional item	0	0	NA	0	NA
Tax expenses	2,109	2,670	(21.0)	1,988	6.1
Net profit	6,186	7,931	(22.0)	5,961	3.8
As % of net revenues					
COGS	64.3	54.6	975	60.4	391
Staff expenses	5.2	6.1	(86)	6.6	(136)
Others	16.2	13.9	229	14.5	166
EBITDA	14.2	25.4	(1,117)	18.4	(421)
PAT	10.1	17.5	(746)	12.5	(240)
Tax rate	25.4	25.2	24	25.0	41

Source: Company

**Exhibit 11: Consolidated cash flow statement (INR mn)**

Year to March (INR mn)	30-Sep-21	30-Sep-20	% YoY
Operating profit before working capital changes	19,306	18,045	7.0
Less: Changes in WC	(20,328)	(2,380)	754.0
Less: Direct taxes paid	(4,770)	(3,710)	28.6
Operating cash flow	-5,792	11,954	(148.5)
Financing cash flow	(13,377)	(946)	NM
Investing cash flow	(4,035)	1,389	NM
Change in cash	-23,203	12,398	(287.2)

Source: Company

**Exhibit 12: Consolidated balance sheet (INR mn)**

INR mn	30-Sep-21	31-Mar-21	% YoY
<b>Sources of funds</b>			
Share capital	959	959	0.0
Reserves and surplus	1,24,067	1,27,104	-2.4
Shareholders fund	1,25,026	1,28,063	-2.4
Minority Interest	3,705	4,229	-12.4
Long term borrowings	509	145	250.6
Deferred tax liability (net)	3,954	4,156	-4.9
Other long term liabilities	5,674	5,693	-0.3
Long term provisions	2,210	2,152	2.7
Non-current liabilities	12,348	12,146	1.7
Short term borrowings	7,888	5,172	52.5
Trade payables	57,767	49,734	16.2
Other current liabilities	2,972	3,508	-15.3
Short term provisions	888	844	5.1
Current liabilities	69,515	59,259	17.3
<b>Total sources of funds</b>	<b>2,10,594</b>	<b>2,03,696</b>	<b>3.4</b>
<b>Uses of funds</b>			
Fixed assets	43,090	44,764	-3.7
Capital work in progress	3,095	1,830	69.1
Other intangible assets	10,804	10,795	0.1
Goodwill	2,971	3,026	-1.8
Non-current investments	11,630	14,697	-20.9
Long term loans & advances	5,705	5,970	-4.4
Deferred tax assets (net)	167	143	16.9
Other non current asset	2,873	2,206	30.2
<b>Total non-current assets</b>	<b>80,336</b>	<b>83,430</b>	<b>-3.7</b>
Current investments	12,647	32,671	-61.3
Inventories	58,610	37,986	54.3
Trade receivables	30,954	26,022	19.0
Cash and cash equivalents	5,673	6,108	-7.1
Short term loans and advances	16,410	11,965	37.1
Other current assets	5,964	5,514	8.1
<b>Total current assets</b>	<b>1,30,258</b>	<b>1,20,266</b>	<b>8.3</b>
<b>Total uses of funds</b>	<b>2,10,594</b>	<b>2,03,696</b>	<b>3.4</b>

Source: Company

**Exhibit 13: Consolidated financial snapshot (INR mn)**

Year to March	Q2FY22	Q2FY21	% change	Q1FY22	% change	YTD22	FY22E	FY23E
Net sales and operating income	70,960	53,502	32.6	55,854	27.0	1,26,814	2,62,787	3,00,922
Cost of goods sold	46,304	29,745	55.7	34,389	34.6	80,694	1,58,036	1,69,310
Employees' remuneration	4,415	3,789	16.5	4,321	2.2	8,736	17,660	20,206
Other expenditure	11,196	7,317	53.0	8,008	39.8	19,204	39,798	46,582
Total expenditure	61,916	40,850	51.6	46,718	32.5	1,08,634	2,15,493	2,36,098
EBITDA	9,045	12,652	(28.5)	9,136	(1.0)	18,180	47,294	64,824
Depreciation	2,028	1,936	4.7	2,006	1.1	4,033	8,237	8,637
EBIT	7,017	10,716	(34.5)	7,130	(1.6)	14,147	39,058	56,187
Interest Expense	239	205	16.3	215	11.1	453	991	931
Other income	1,382	826	67.3	896	54.2	2,278	4,011	4,945
Profit Before Tax	8,160	11,337	(28.0)	7,811	4.5	15,971	42,078	60,202
Provision for Tax	2,211	2,936	NM	2,043	8.2	4,254	10,814	15,472
Minority Interest	102	118	(13.4)	-25	(504.8)	-77	-469	-671
Reported Profit	6,052	8,519	(29.0)	5,743	5.4	11,795	31,733	45,401
Adjusted Profit	6,052	8,519	(29.0)	5,743	5.4	11,795	31,733	45,401
No. of Shares outstanding (mn)	959	959		959		959	959	959
Adjusted Diluted EPS	6.3	8.9	(29.0)	6.0	5.4	12.3	33.1	47.3
as % of net revenues								
COGS	65.3	55.6	966	61.6	368	63.6	60.1	56.3
Staff expenses	6.2	7.1	(86)	7.7	(151)	6.9	6.7	6.7
Others expenditure	15.8	13.7	210	14.3	144	15.1	15.1	15.5
EBITDA	12.7	23.6	(1,090)	16.4	(361)	14.3	18.0	21.5
EBIT	9.9	20.0	(1,014)	12.8	(288)	11.2	14.9	18.7
Adjusted Profit	8.7	16.1	(747)	10.2	(157)	9.2	11.9	14.9
Tax rate	27.1	25.9	119	26.2	94	26.6	25.7	25.7

Source: Company, Edelweiss Research

## Company Description

APL is the largest paints company in India and figures among the top 10 players in the world. The decorative segment accounts for almost 80% of the overall paints market. Paints sales in domestic and international markets contributed 81% and 13%, respectively, to the company's consolidated revenue; chemical sales accounted for the balance. Among APL's international businesses, Asia contributes the lion's share at 49% to revenue, Africa and Middle East contributes 21% and 24% respectively.

## Investment Theme

The paints industry is expected to post robust volume growth led by strong repainting demand and from construction. Growth in the repainting segment, accounting for about ~75% of decorative demand, is on account of good demand in rural and small towns. Further, anticipated growth in construction activity over the next five years creates opportunity for fresh painting. APL is expected to grow ahead of the market on account of its pricing strategy at the lower end, higher growth in premium products, brand equity and distribution strength. However, moderation in real estate and auto segments can act as barrier.

## Key Risks

A slowdown in the economy is the biggest risk for the paints industry, as about 75% of demand for decorative paints arises from repainting, which, in turn, depends heavily on the country's economic condition.

A rise in crude oil price and INR depreciation could hurt APL's margin as crude derivatives account for majority of APL's input costs

## Additional Data

### Management

MD and CEO	Mr. Amit Syngle
CFO	Mr. R J Jeyamurugan
Non-Executive Director	Mr. Abhay Vakil
Non Ex Chairman	Mr. Ashwin Dani
Auditor	Deloitte Haskin & Sells

### Holdings – Top 10\*

	% Holding		% Holding
Life Insurance	1.95	Jpmorgan Chase	0.76
Vanguard Group	1.72	Uti Asset Manag	0.41
Blackrock Inc	1.56	First State Inv	0.36
Capital Group	1.19	Axis Asset Mana	0.33
Sbi Funds Manag	1.12	Sands Capital M	0.29

\*Latest public data

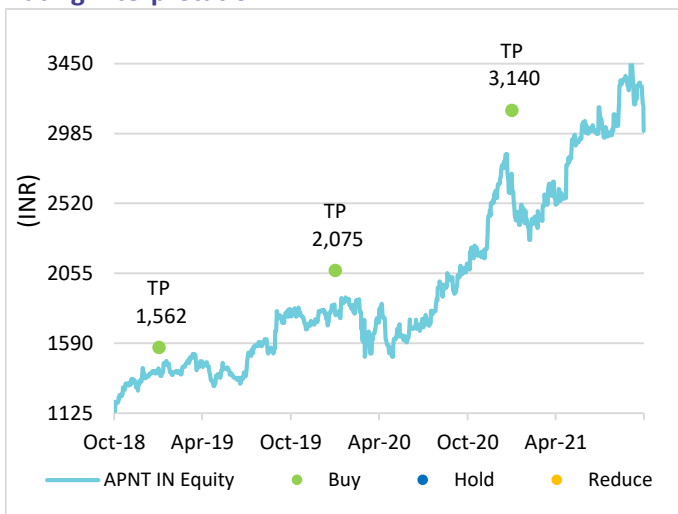
### Recent Company Research

Date	Title	Price	Reco
13-Oct-21	Designer furnishing: A well-fitting fora; <i>Company Update</i>	3,323	Buy
16-Aug-21	Strong volume recovery; <i>Company Update</i>	2,989	Buy
20-Jul-21	Volume looks up; input cost inflationary; <i>Result Update</i>	3,159	Buy

### Recent Sector Research

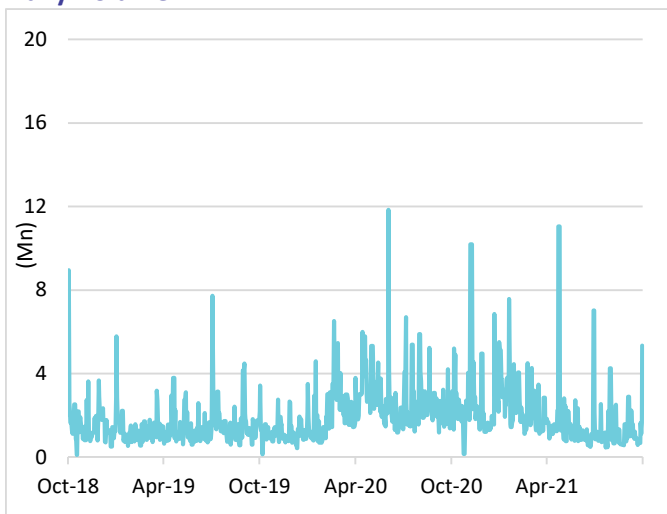
Date	Name of Co./Sector	Title
11-Oct-21	United Spirits	High valuation: Time to sober up; <i>Company Update</i>
04-Oct-21	Consumer discretionary	JSW 2.0: Implications for incumbents; <i>Sector Update</i>
01-Oct-21	Pidilite	Sealing the growth bond; <i>Company Update</i>

### Rating Interpretation



Source: Bloomberg, Edelweiss research

### Daily Volume



Source: Bloomberg

### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	53	19	252
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	228	40	3	271

\*1 stocks under review

### Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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