

# ASIAN PAINTS

## RESULT UPDATE



### KEY DATA

<b>Rating</b>	<b>BUY</b>
Sector relative	Outperformer
Price (INR)	3,306
12 month price target (INR)	3,800
Market cap (INR bn/USD bn)	3,171/42.6
Free float/Foreign ownership (%)	47.2/19.8
<b>What's Changed</b>	
Target Price	↑
Rating/Risk Rating	—

### QUICK TAKE

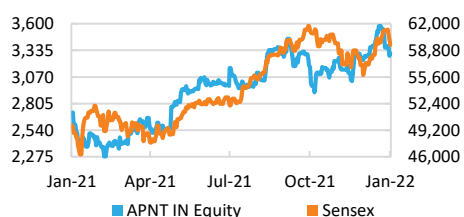
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth	•		
Overall		•	

### FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	2,17,128	2,88,836	3,32,102	3,72,113
EBITDA	48,556	48,701	66,561	77,986
Adjusted profit	32,068	32,661	46,361	55,343
Diluted EPS (INR)	33.4	34.1	48.3	57.7
EPS growth (%)	15.4	1.9	41.9	19.4
RoAE (%)	28.0	23.8	29.2	29.6
P/E (x)	98.9	97.1	68.4	57.3
EV/EBITDA (x)	64.6	64.1	46.5	39.3
Dividend yield (%)	0.5	0.5	0.7	0.8

### PRICE PERFORMANCE



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## Impressive margin recovery

Asian Paints (APL) posted Q3FY22 revenue (up 25.6% YoY) slightly ahead of Street's estimate, but undershot on EBITDA (down 13.7% YoY) and PAT (down 18.5% YoY). The decorative business's volume jumped 18% YoY (base 33% YoY). Steep inflation in raw material prices compressed gross margin by 832bp YoY and EBITDA margin by 825bp YoY; however, they were up QoQ by 201bp and 534bp, respectively—a trajectory we believe would sustain given the two rounds of pricing action in November and December.

Overall, we believe APL's operational prowess and market leadership will help it sustain volume growth. Maintain 'BUY' with a TP of INR3,800.

### Revenue growth robust; margins improve sequentially

**What we like:** Robust volume growth of 18% YoY despite a strong base of 33%. On a two-year basis, revenue, EBITDA and PAT were up 57.3%, 29.7% and 32.3%, respectively. The Home Improvement business sustained its strong performance (Ess Ess and Sleek businesses posted revenue growth of 41.5% YoY and 31.8% YoY, respectively.). The Ess Ess business recorded a positive EBIT for a second consecutive quarter while the Sleek business broke even. The Industrial Coatings business also registered robust double-digit revenue growth, especially in the Protective Coatings segment. Market share gain was 2.7% in Q2FY22; the trend would sustain in Q3FY22.

**What we do not like:** Gross margin/EBITDA margin compressed 832bp/825bp YoY. The automotive coatings business was impacted by the challenges facing the automotive sector. Among international business, the Middle East, Ethiopia and Sri Lanka businesses faced challenges.

### Q3FY22 conference call: Key takeaways

Premium and luxury space outgrew the economy space. Launches in the luxury space are doing well. January demand conditions are slow due to many state-level restrictions. APL expects only deferment of demand—demand wouldn't be lost.

### 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. Rolling forward the valuation to Jun-23E, we are revising the TP to INR3,800 (from INR3,720); retain 'BUY/SO' (68.4x FY23E EPS).

### Financials

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net Revenue	85,272	67,885	25.6	70,960	20.2
EBITDA	15,423	17,879	(13.7)	9,045	70.5
Adjusted Profit	10,313	12,654	(18.5)	6,052	70.4
Diluted EPS (INR)	10.8	13.2	(18.5)	6.3	70.4

## Financial Statements

### Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	2,17,128	2,88,836	3,32,102	3,72,113
Gross profit	96,156	1,11,717	1,40,093	1,60,066
Employee costs	15,408	19,150	21,991	24,646
Other expenses	24,343	32,144	37,228	41,707
EBITDA	48,556	48,701	66,561	77,986
Depreciation	7,913	8,237	8,637	9,037
Less: Interest expense	916	991	931	871
Add: Other income	3,031	4,011	4,731	5,603
Profit before tax	42,758	43,484	61,724	73,682
Prov for tax	10,976	11,306	16,048	19,157
Less: Other adj	0	0	0	0
Reported profit	32,068	32,661	46,361	55,343
Less: Excp.item (net)	0	0	0	0
Adjusted profit	32,068	32,661	46,361	55,343
Diluted shares o/s	959	959	959	959
Adjusted diluted EPS	33.4	34.1	48.3	57.7
DPS (INR)	17.9	15.3	21.7	26.0
Tax rate (%)	25.7	26.0	26.0	26.0

### 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	4.1	4.3	4.2
Gross margin (%)	44.3	38.7	42.2	43.0
EBITDA margin (%)	22.4	16.9	20.0	21.0
Net profit margin (%)	14.8	11.3	14.0	14.9
Revenue growth (% YoY)	7.4	33.0	15.0	12.0
EBITDA growth (% YoY)	16.7	0.3	36.7	17.2
Adj. profit growth (%)	15.4	1.9	41.9	19.4

### 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	41.0	15.5	12.0
Volume growth - std	6.0	36.0	15.5	13.0
COGS % of sales (con)	55.7	61.3	57.8	57.0
COGS % of sales (std)	54.5	62.0	58.0	57.0
Staff cost (% of rev)	7.1	6.6	6.6	6.6
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)	98.9	97.1	68.4	57.3
Price/BV (x)	24.8	21.7	18.5	15.7
EV/EBITDA (x)	64.6	64.1	46.5	39.3
Dividend yield (%)	0.5	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	1,45,067	1,70,566	2,01,004
Shareholders funds	1,28,063	1,46,026	1,71,525	2,01,964
Minority interest	4,229	4,711	5,396	6,214
Borrowings	3,402	3,202	3,002	2,802
Trade payables	33,787	33,968	36,824	40,667
Other liabs & prov	26,228	26,228	26,228	26,228
Total liabilities	2,03,553	2,21,980	2,50,820	2,85,719
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	52,887	78,694	1,09,906
Sundry debtors	26,051	25,323	29,116	32,624
Loans & advances	795	795	795	795
Other assets	62,818	70,931	74,806	80,022
Total assets	2,03,553	2,21,980	2,50,820	2,85,719

### Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	32,068	32,661	46,361	55,343
Add: Depreciation	7,913	8,237	8,637	9,037
Interest (net of tax)	916	991	931	871
Others	(286)	(483)	(685)	(818)
Less: Changes in WC	277	(7,205)	(4,813)	(4,880)
Operating cash flow	40,888	34,201	50,430	59,552
Less: Capex	(1,697)	(4,000)	(4,000)	(4,000)
Free cash flow	39,191	30,201	46,430	55,552

### Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	28.0	23.8	29.2	29.6
RoCE (%)	35.7	30.7	37.5	38.1
Inventory days	108	87	91	91
Receivable days	37	32	30	30
Payable days	83	70	67	67
Working cap (% sales)	15.5	14.1	13.8	13.6
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Interest coverage (x)	44.4	40.8	62.2	79.2

### Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	15.4	1.9	41.9	19.4
RoE (%)	28.0	23.8	29.2	29.6
EBITDA growth (%)	16.7	0.3	36.7	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	Q3FY22
Consolidated sales (INR mn)	54,203	46,356	29,227	53,502	67,885	66,514	55,854	70,960	85,272
Consolidated EBITDA (INR mn)	11,894	8,596	4,843	12,652	17,879	13,183	9,136	9,045	15,423
Consolidated PAT (INR mn)	7,797	4,803	2,196	8,519	12,654	8,699	5,743	6,052	10,313
Domestic decorative volume growth (% YoY)	11.0	~1.0	(38.0)	11.0	33.0	48.0	106.0	34.0	18.0
Consolidated sales growth (% YoY)	2.4	(7.6)	(42.7)	5.9	25.2	43.5	91.1	32.6	25.6
Consolidated gross margin (%)	43.0	45.8	44.7	44.4	45.1	43.2	38.4	34.7	36.8
Consolidated staff costs (% of revenue)	6.3	7.2	12.4	7.1	5.7	6.2	7.7	6.2	5.3
Consolidated other expenses (% of revenue)	14.7	20.1	15.8	13.7	13.0	17.2	14.3	15.8	13.3
Consolidated EBITDA growth (% YoY)	14.0	(2.7)	(58.2)	32.5	50.3	53.4	88.7	(28.5)	(13.7)
Consolidated EBITDA margin (%)	21.9	18.5	16.6	23.6	26.3	19.8	16.4	12.7	18.1
Standalone sales growth (% YoY)	2.7	(8.4)	(44.1)	5.8	26.1	46.2	95.6	35.9	27.6
Standalone gross margin (%)	44.0	47.0	46.3	45.4	46.1	44.7	39.6	35.7	37.5
Standalone EBITDA growth (% YoY)	13.4	(5.4)	(57.2)	31.6	48.0	57.6	88.9	(23.9)	(11.2)
Standalone EBITDA margin (%)	24.0	20.0	19.1	25.4	28.2	21.6	18.4	14.2	19.6
Ess Ess revenue (INR mn)	590	508	257	555	726	934	552	935	1,028
Ess Ess revenue growth (%)	23.0	(13.9)	(49.8)	(5.1)	23.1	83.9	114.5	68.5	41.5
Ess Ess EBIT (INR mn)	(72)	(73)	(75)	1	10	(2)	(16)	33	13
Sleek revenue (INR mn)	672	520	264	619	808	925	663	1,018	1,065
Sleek revenue growth (%)	18.9	(13.7)	(53.4)	(1.0)	20.3	78.1	151.5	64.4	31.8
Sleek EBIT (INR mn)	(96)	(149)	(137)	(43)	(17)	(150)	(76)	(2)	1

Source: Company

## Exhibit 2: International and Industrial business performance

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>International Business</b>							
<b>Revenue</b>							
Total revenue (INR mn)	4,010	6,600	7,000	7,290	6,170	7,070	7760
Africa revenues (INR mn)	1,230	1,630	1,520	1,550	1,400	1,380	1,250
Middle East revenues (INR mn)	1,320	1,680	1,850	1,810	1,850	1,720	2,050
Asia revenues (INR mn)	1,210	3,030	3,420	3,740	2,660	3,660	4,050
South Pacific revenues (INR mn)	250	320	320	290	260	310	410
<b>PBT</b>							
Africa PBT (INR mn)	110	200	140	90	(90)	(160)	(160)
Middle East PBT (INR mn)	80	140	170	90	(10)	(110)	20
Asia PBT (INR mn)	20	340	430	160	20	100	220
South Pacific PBT (INR mn)	60	80	90	80	60	70	110
<b>Industrial business</b>							
PPG-AP revenue (INR mn)				3,330	2,560	3,770	4,150
AP-PPG revenue (INR mn)				1,930	1,560	1,800	2,110
PPG-AP PBT (INR mn)				160	(60)	270	400
AP-PPG PBT (INR mn)				110	40	50	120

Source: Company

Exhibit 3: New products



Source: Company

Exhibit 4: Segmental performance - Consolidated

Segment revenue (INR mn)	Q3FY22	Q3FY21	YoY growth (%)	Q2FY22	QoQ growth (%)
Paints	83,194	66,351	25.4	69,017	20.5
Home Improvement (both Sleek and Ess Ess)	2,093	1,534	36.4	1,952	7.2
<b>Total</b>	<b>85,287</b>	<b>67,885</b>	<b>25.6</b>	<b>70,970</b>	<b>20.2</b>
<b>Segment PBIT (INR mn)</b>					
Paints	14,488	17,226	(15.9)	8,454	71.4
Home Improvement (both Sleek and Ess Ess)	14	(8)	NM	31	NM
<b>Total</b>	<b>14,502</b>	<b>17,218</b>	<b>(15.8)</b>	<b>8,485</b>	<b>70.9</b>
<b>PBIT margins (%)</b>					
Paints	17.4	26.0	(855)	12.2	517
Home Improvement	0.7	(0.5)	118	1.6	(91)
<b>Total</b>	<b>17.0</b>	<b>25.4</b>	<b>(836)</b>	<b>12.0</b>	<b>505</b>

Source: Company

Exhibit 5: Segmental performance - Standalone

Segment revenue (INR mn)	Q3FY22	Q3FY21	YoY growth (%)	Q2FY22	QoQ growth (%)
Paints	73,884	58,002	27.4	60,584	22.0
Home Improvement (only Ess Ess)	1,028	726	41.5	935	9.9
<b>Total</b>	<b>74,911</b>	<b>58,728</b>	<b>27.6</b>	<b>61,519</b>	<b>21.8</b>
<b>Segment PBIT (INR mn)</b>					
Paints	14,226	16,139	(11.9)	8,483	67.7
Home Improvement (only Ess Ess)	13	10	35.4	33	NM
<b>Total</b>	<b>14,239</b>	<b>16,148</b>	<b>(11.8)</b>	<b>8,516</b>	<b>67.2</b>
<b>PBIT margins (%)</b>					
Paints	19.3	27.8	(857)	14.0	525
Home Improvement	1.3	1.3	(6)	3.5	(225)
<b>Total</b>	<b>19.0</b>	<b>27.5</b>	<b>(848.9)</b>	<b>13.8</b>	<b>516</b>

Source: Company

## Q3FY22 conference call: Key takeaways

### Overall

- Strong double digit topline trajectory continued in Q3FY22.
- 3 year volume CAGR was at 20.2% and 2 year CAGR was at 25%
- 3 year value CAGR was at 18.1% and 2 year CAGR was at 26.7%
- Company has now seen strong double digit growth for 5 quarters in a row
- Company saw market share gain of 2.7% last quarter and trend continues in Q3FY22
- Volume was led by tier 1 and 2 cities, tier 3 cities continue to grow albeit at slower pace
- Premium and luxury end of portfolio outpaced the economy end significantly
- New launches in premium end is doing well
- Smartcare waterproofing registered 50%+ growth consistently
- Company has gained share from unorganised sector
- Company has been gaining in wood finishing category consistently
- Company has been expanding its rural footprint with over 45000 new retail points over last 7 quarters
- Company has added 28 new Colour Idea stores
- Projects business has shown strong performance in Q3FY22
- 29 Beautiful Homes stores are now functional
- Alignment with "PURE" has paid off in fabric and furnishing segment, company has reached out to more than 600 shops
- Company has been establishing itself in high end décor with Nilaya and Royale brands
- More than 1050 sites have been booked under Beautiful Home service
- Services GMV will soon be 7-8% of total business, tentatively by March 2025, today it is about 5-6%
- Kitchen and bath business revenue grew 37% and 42% YoY respectively
- Kitchen and bath business PBT grew 0% and 37% YoY respectively
- Kitchen business maintained its INR1000mn topline mark which it crossed last quarter
- PBT breakeven in kitchen was achieved last quarter and trend was maintained
- Bath business crossed INR1000mn mark for first time in the quarter
- Bath business saw improving scale benefit despite inflation
- January month demand has been slow given many state restrictions, however demand is expected to be better from second half of Feb

- Inflation is expected to continue albeit less intense
- Covid wave could result in deferment of demand to March and Q1FY23
- Festive season in the quarter was very strong, October and to some extent November were healthy in terms of volume
- In Q2FY22 tier 3 and 4 performed well, but in Q3FY22 tier 1 and 2 performed better but tier 3 and 4 remained healthy
- Demand has not been impacted due to the price hike, strong elasticity remains in the industry as cost of paints in painting job is only around 30%
- Repainting market demand has only seen deferment of demand due to covid and no significant reduction
- New construction demand is around 30% of overall demand today, government spending has also helped projects business
- Government spending on infrastructure should help fresh construction
- North, Central and Eastern India have seen relatively more retail point addition
- Current utilization is about 70-75%

#### **International business**

- Overall international business at 9% YoY revenue growth at INR7640mn
- Profitability was impacted due to inflation, though price hikes helped to an extent, PBT was at INR110mn for Q3FY22
- Barring Africa other regions recorded double digit topline growth
- Revenues in Africa, Middle East, Asia and South Pacific saw -19% fall, 10%, 18% and 32% YoY growth
- PBT in Africa, Middle East, Asia and South Pacific saw -16%, 88%, 48% fall and 22% YoY growth
- High inflation and regional disturbances were challenges in Africa
- Forex condition, regional disturbances and FOREX issues in certain markets will continue to be a concern in coming quarter

#### **Institutional business**

- PPG-AP continues to be impacted by auto sector, company has been taking needed hikes here
- Strong performance continue in protective coatings in AP-PPG, both project and retail has performed well here
- PPG-AP and AP-PPG revenue grew at 5% and 33% YoY respectively
- PPG-AP and AP-PPG PBT fell 40% and 23% YoY respectively

#### **Margins**

- Unprecedented inflation continues and has impacted margins
- Q1FY22 saw ~15% material inflation and 3% hike was taken
- Q2FY22 saw ~6% material inflation and 6% additional hike was taken

- Q3FY22 saw ~4% material inflation and 15% additional hike was taken
- PBIT margin improved on sequential basis after sharp deterioration in first two quarters (19.6% in Q3FY22 vs 18.4% in Q1FY22 and 14.2% in Q2FY22)
- Overall inflation has been around 26%+ and hike in Indian market hikes is around 22% and in international around 18%
- Waterproofing price hike is similar to overall portfolio hike

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

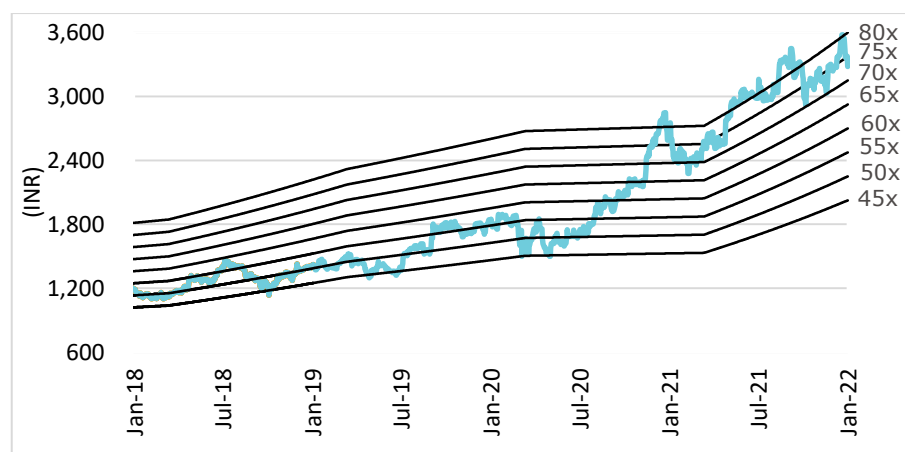
The domestic paints industry commands strong pricing power, which is evident from frequent price hikes amid inflationary raw material prices; moreover, price cuts happen with a lag in a deflationary environment. Industry volume growth has a strong correlation with GDP growth (1.5–2x). Recovery in GDP in FY23 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.

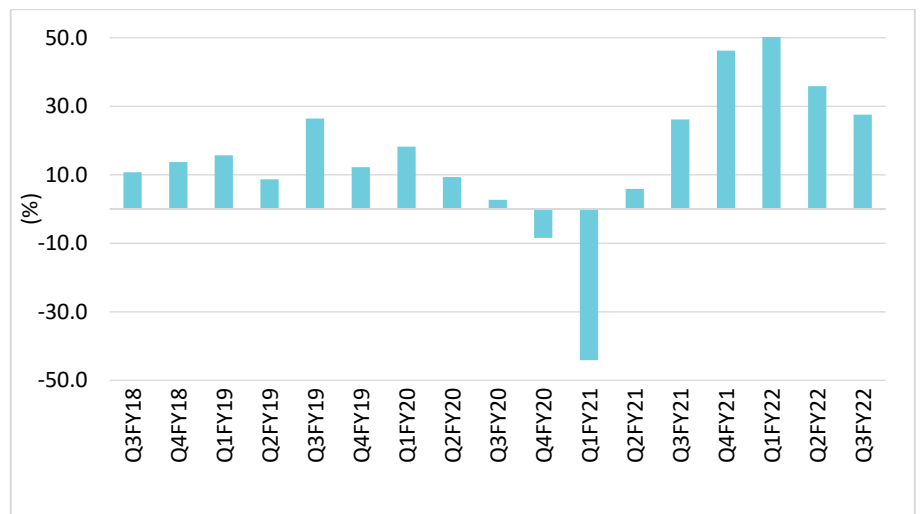
We expect double-digit decorative volumes to sustain, riding the potential demand shift from the unorganised segment (~30%). Rolling forward the valuation to Jun-23E, we are revising the TP to INR3,800 (from INR3,720) while retaining **'BUY/SO'** (68.4x FY23E EPS).

### Exhibit 6: One-year forward PE



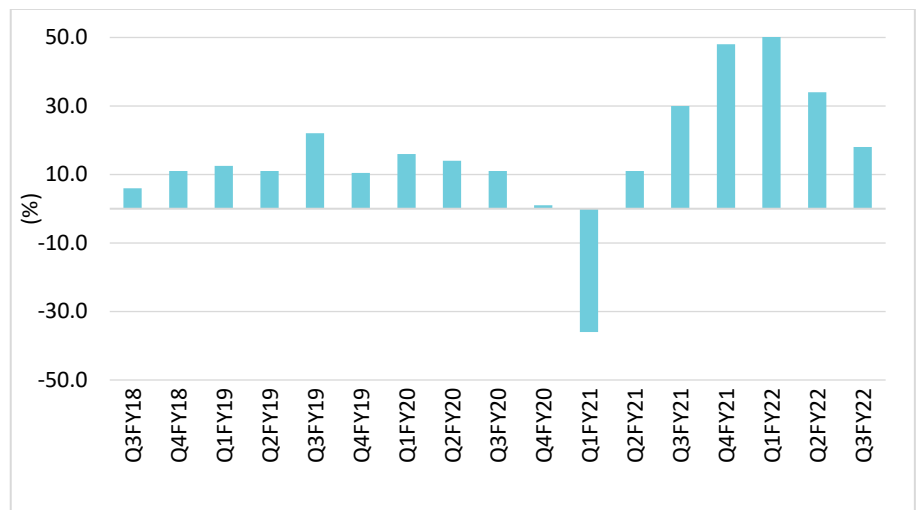
Source: Edelweiss Research

**Exhibit 7: Standalone sales growth**



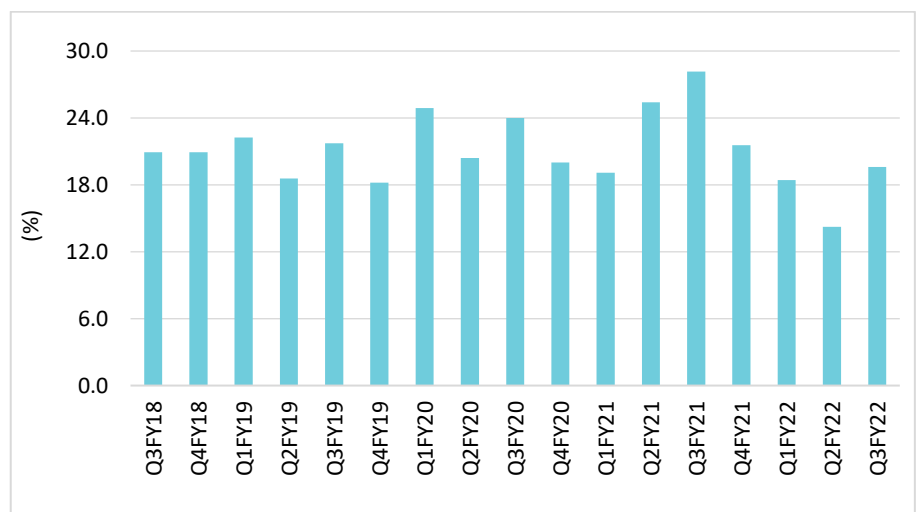
Source: Company

**Exhibit 8: Volume growth**



Source: Company

**Exhibit 9: Standalone EBITDA margin**



Source: Company



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

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net sales	74,911	58,728	27.6	61,519	21.8
COGS	46,824	31,628	48.0	39,584	18.3
Gross Profit	28,087	27,100	3.6	21,935	28.0
Staff costs	3,378	2,809	20.3	3,229	4.6
Other expenditure	10,027	7,749	29.4	9,956	0.7
Total expenditure	13,405	10,558	27.0	13,186	1.7
EBITDA	14,682	16,542	(11.2)	8,749	67.8
Depreciation	1,840	1,690	8.9	1,799	2.3
EBIT	12,842	14,852	(13.5)	6,951	84.8
Interest	215	168	28.1	181	18.9
Other income	1,047	1,214	(13.7)	1,525	(31.3)
PBT	13,674	15,898	(14.0)	8,295	64.8
Exceptional item	0	0	NA	0	NA
Tax expenses	3,472	4,019	(13.6)	2,109	64.6
Net profit	10,203	11,879	(14.1)	6,186	64.9
As % of net revenues					
COGS	62.5	53.9	865	64.3	(184)
Staff expenses	4.5	4.8	(27)	5.2	(74)
Others	13.4	13.2	19	16.2	(280)
EBITDA	19.6	28.2	(857)	14.2	538
PAT	13.6	20.2	(661)	10.1	356
Tax rate	25.4	25.3	11	25.4	(4)

Source: Company

**Exhibit 11: Consolidated financial snapshot (INR mn)**

Year to March	Q3FY22	Q3FY21	% change	Q2FY22	% change	YTD22	FY22E	FY23E
Net sales and operating income	85,272	67,885	25.6	70,960	20.2	2,12,086	2,88,836	3,32,102
Cost of goods sold	53,933	37,285	44.7	46,304	16.5	1,34,627	1,77,119	1,92,009
Employees' remuneration	4,557	3,883	17.4	4,415	3.2	13,293	19,150	21,991
Other expenditure	11,359	8,839	28.5	11,196	1.5	30,563	43,866	51,542
Total expenditure	69,849	50,006	39.7	61,916	12.8	1,78,483	2,40,135	2,65,542
EBITDA	15,423	17,879	(13.7)	9,045	70.5	33,603	48,701	66,561
Depreciation	2,079	1,932	7.6	2,028	2.5	6,113	8,237	8,637
EBIT	13,344	15,947	(16.3)	7,017	90.2	27,491	40,464	57,924
Interest Expense	275	211	29.9	239	15.0	728	991	931
Other income	718	979	(26.7)	1,382	(48.0)	2,996	4,011	4,731
Profit Before Tax	13,788	16,715	(17.5)	8,160	69.0	29,759	43,484	61,724
Provision for Tax	3,624	4,314	NM	2,211	63.9	7,878	11,306	16,048
Minority Interest	150	253	(40.8)	102	46.7	-226	-483	-685
Reported Profit	10,313	12,654	(18.5)	6,052	70.4	22,108	32,661	46,361
Adjusted Profit	10,313	12,654	(18.5)	6,052	70.4	22,108	32,661	46,361
No. of Shares outstanding (mn)	959	959		959		959	959	959
Adjusted Diluted EPS	10.8	13.2	(18.5)	6.3	70.4	23.0	34.1	48.3
as % of net revenues								
COGS	63.2	54.9	832	65.3	(201)	63.5	61.3	57.8
Staff expenses	5.3	5.7	(37)	6.2	(88)	6.3	6.6	6.6
Others expenditure	13.3	13.0	30	15.8	(246)	14.4	15.2	15.5
EBITDA	18.1	26.3	(825)	12.7	534	15.8	16.9	20.0
EBIT	15.6	23.5	(784)	9.9	576	13.0	14.0	17.4
Adjusted Profit	12.3	19.0	(674)	8.7	360	10.3	11.1	13.8
Tax rate	26.3	25.8	48	27.1	(80)	26.5	26.0	26.0

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
Vanguard Group	1.75	Jpmorgan Chase	0.75
Blackrock Inc	1.58	Uti Asset Manag	0.50
Life Insurance	1.49	Axis Asset Mana	0.33
Sbi Funds Manag	1.24	First State Inv	0.30
Capital Group	1.23	Sands Capital M	0.29

\*Latest public data

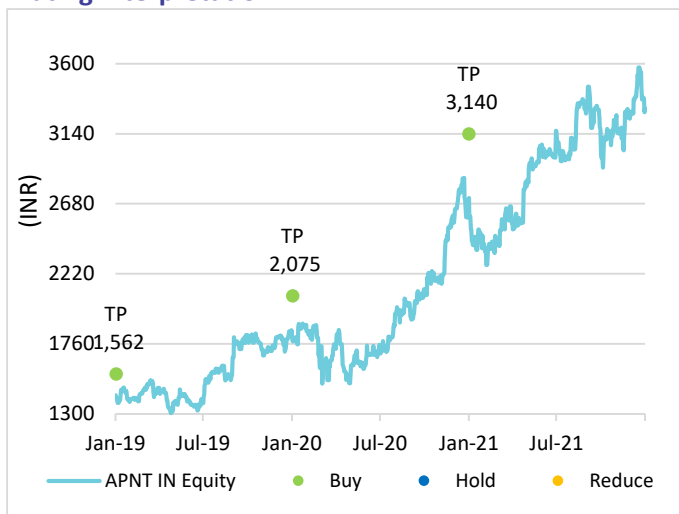
### Recent Company Research

Date	Title	Price	Reco
16-Nov-21	Another month, Another price hike; <i>Edel Flash</i>	3,002	Buy
27-Oct-21	Worst of margin pressure behind; <i>Edel Flash</i>	3,002	Buy
21-Oct-21	Profitable volume growth desirable; <i>Result Update</i>	3,002	Buy

### Recent Sector Research

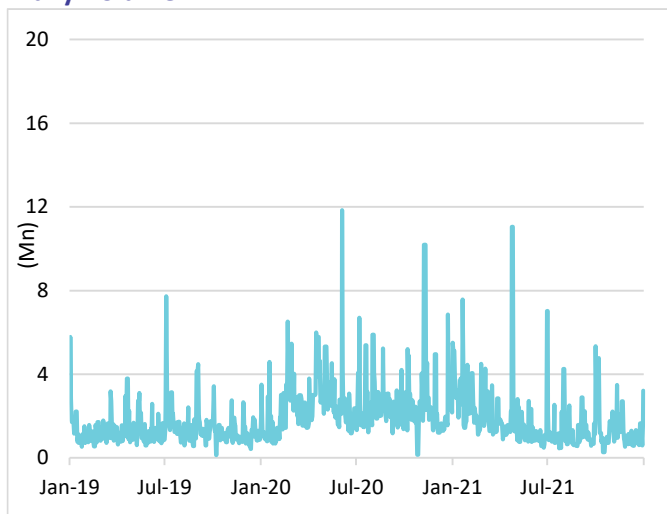
Date	Name of Co./Sector	Title
29-Nov-21	Consumer discretionary	Paint & adhesives: Performance decoded; <i>Sector Update</i>
12-Nov-21	Berger Paints	Decent showing; <i>Result Update</i>
11-Nov-21	Pidilite	All-round good show; <i>Result Update</i>

### Rating Interpretation



Source: Bloomberg, Edelweiss research

### Daily Volume



Source: Bloomberg

### Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	189	53	18	261
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	236	38	4	278

\*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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