

CMP: ₹ 2945

Target: ₹ 3425 (16%)

Target Period: 12 months

October 22, 2021

BUY

Higher raw material prices dent margins...

About the stock: Asian Paints (APL) is India's largest decorative paint company. The company derives ~98% revenue from the paints business while 2% business comes from the home improvement business (kitchen and bathroom fittings).

- Strong distribution network of 70,000 dealers, 2x more than the No. 2 player
- Despite being into a capital intensive business, the company has maintained a strong balance sheet with RoCE, RoE of 31%, 27% respectively

Q2FY22 Results: Revenue growth was ahead of our estimates but EBITDA margins came in lower than expected

- Reported revenue growth of 33% YoY to ₹ 7096 crore (up 27% QoQ), led by volume growth of 33%
- Gross margins declined 966 bps YoY, resulting overall fall in EBITDA margin by 1090 bps YoY to 12.7%
- PAT declined 29% YoY to ₹ 605 crore, lower than our estimate of ₹ 886 crore
- The company took a price hike of 4% in Q2FY22 and has further guided to take price hikes to offset higher input prices

What should investors do? Strong brand, market leadership position and a robust balance sheet condition justifies APL's premium valuation. APL has been a consistent compounder with stock price appreciating at 31% CAGR over the last five years.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We revise our target price to ₹ 3425/share and value APL at 65x P/E FY24E EPS

Key triggers for future price performance:

- Repainting represents ~80% of total decorative paint demand. Gradual reduction in re-painting cycle would drive future paint demand
- Increased focus on the 'water proofing & building chemical' category will continue to drive revenue growth for Asian Paints. Water proofing & building chemical industry is pegged at ₹ 6000 crore vs. ₹ 1.5 lakh crore in China
- Model revenue, earnings CAGR of 19%, 16%, respectively, in FY21-24E

Alternate Stock Idea: Apart from APL, in our coverage we also like Havells

- Havells aims to increase its town penetration and launch premium products. We believe a revival in the real estate sector will help drive incremental demand of consumer products where Havells is a major player
- BUY with a target price of ₹ 1545



asianpaints

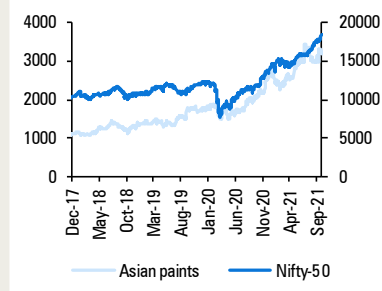
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	2,82,425.5
Total Debt (FY21) (₹ Crore)	340.2
Cash & Inv (FY21) (₹ Crore)	4,252.9
EV (₹ Crore)	2,78,512.8
52 week H/L (₹)	3504/2070
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	52.8	52.8	52.8	52.8	52.8
FII	18.2	19.8	21.1	20.4	20.7
DII	9.0	8.2	7.1	7.4	7.3
Others	20.0	19.2	19.0	19.4	19.2

Price Chart



Recent Event & Key risks

- Price hikes on the cards to offset inflationary pressure
- **Key Risk:** (i) Delay in price hikes (ii) Deterioration of product mix

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Yr CAGR (16-21)	FY22E	FY23E	FY24E	3 Yr CAGR (21-24E)
Net Sales	19240.1	20211.3	21712.8	9	26699.5	30959.2	36482.5	18.9
EBITDA	3765.5	4161.8	4855.6	12	4138.4	5727.4	7296.5	14.5
EBITDA Margin (%)	19.6	20.6	22.4		15.5	18.5	20.0	
Net Profit	2213.8	2779.1	3206.8	12	2716.5	3894.4	5016.6	16.1
EPS (₹)	23.1	29.0	33.4		28.3	40.61	52.31	
P/E (x)	127.6	101.6	88.1		104.0	72.5	56.3	
Price/Book (x)	29.8	27.9	22.1		21.9	20.2	18.1	
Mcap/Sales (x)	14.7	14.0	13.0		10.6	9.1	7.7	
RoE (%)	23.4	27.4	25.0		21.1	27.9	32.1	
RoCE (%)	28.9	30.5	29.6		25.0	33.0	38.5	

Key takeaways of recent quarter & conference call highlight

Q2FY22 Results: Robust recovery on favourable base

- Strong volume growth of 33% YoY supported by continuous demand from tier-1, 2 cities. The industrial coatings business also registered strong double digit revenue growth led by robust demand for protective coatings and uptick in the automotive sector
- New products (in wood finishes, water proofing) are seeing good demand traction across regions. Robust growth in project and institutional sales
- Price hikes of ~3% turned out to be insufficient to offset the inflationary pressure on margins. EBITDA margins declined 1090 bps YoY

Q2FY22 Earnings Conference Call highlights

Demand Outlook:

- Decorative paint demand looks strong, supported by festive demand and low possibility of a third wave. Strong demand outlook of wood finishes and water proofing business
- The company has added 40,000 new retail touch points over the last 18 months

Margins:

- The company has taken a price hike of ~7% (YTD) against ~21% of raw material inflation
- APL will take price hikes in Q3 and Q4 to offset inflationary pressure of raw material and exit the year with ~18-20% EBITDA margin

Home décor business:

- Kitchen and bath business revenue increased 94% and 83% YoY to ₹ 171 crore and ₹ 149 crore, respectively, in H1FY22

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints	2,82,426	21713	26700	30959	36482	22	16	19	20	3207	2716	3894	5017	30	25	33	39	25	21	28	32	88	104	73	56
Berger Paints	71,480	6818	8351	9728	11321	17	17	18	19	720	918	1155	1432	25	29	34	36	21	25	28	29	99	78	62	50
Kansai Nero	29,317	4690	6395	7456	8548	18	16	17	18	531	698	867	1010	17	21	23	24	13	17	18	18	55	42	34	29
Pidilite Ind	1,16,743	7293	9267	10535	11762	23	21	22	23	1126	1286	1561	1866	24	23	27	31	20	20	23	26	104	91	75	63

Source: BSE, ICICI Direct Research

With ~42% value market share, Asian Paints is the leader, by a distance, in the decorative paints, much ahead of 13% market share of the second largest paint player. The company has gained market share in the last four years with aggressive product launches and expansion in the tier 2, 3 cities. Historically, strong brand recall of Asian Paints and launches of innovative products has helped the company to pass through inflationary pressures keeping EBITDA margin intact. This was evident in FY11-15, wherein the company's gross margin had expanded by ~200 bps despite a sharp rise in crude prices. In the current inflationary scenario, we believe APL will be able to pass on inflationary pressure and recover its EBITDA margin in the coming quarters. Asian Paints is one of the biggest beneficiaries of a shortening of the repainting cycle and revival in the real estate industry. This will help absorb the price hikes taken by the company without much impact on volumes. We maintain our positive stance on the company given its strong brand, market leadership position and growth opportunities in the domestic paint industry. We revise our target price to ₹ 3425/share and maintain our BUY rating on the stock.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	7,096.0	6,454.0	5,350.2	32.6	5,585.4	27.0	Strong revenue growth led by ~33% volume growth in the decorative paint segment
Other Income	138.2	99.7	82.6	67.3	89.6	54.2	
Raw Material Exp	4,630.4	3,743.3	2,974.5	55.7	3,438.9	34.6	Sharp decline in gross margin by ~966 YoY, mainly due to adverse product mix and higher raw material prices
Employee Exp	441.5	438.9	378.9	16.5	432.1	2.2	
Manufacturing & Oth exp	1,119.6	968.1	731.7	53.0	800.8	39.8	
Total Exp	6,191.6	5,150.3	4,085.0	51.6	4,671.8	32.5	
EBITDA	904.5	1,303.7	1,265.2	-28.5	913.6	-1.0	
EBITDA Margin (%)	12.7	20.2	23.6	1090 bps	16.4	361 bps	Lower-than-expected EBITDA margin mainly due to a sharp decline in gross margin
Depreciation	202.8	208.5	193.6	4.7	200.6	1.1	
Interest	23.9	20.9	20.5	16.3	21.5	11.1	
Exceptional items							
PBT	816.0	1,173.9	1,133.7	-28.0	781.1	4.5	
Total Tax	221.1	295.8	293.6	-24.7	204.3	8.2	
PAT	605.2	886.0	851.9	-29.0	574.3	5.4	Sharp decline in EBITDA margin takes toll on bottomline
Key Metrics							
Volume growth (%)	34.0	15.0	11.0		106.0		Strong demand from metros & Tier 1 cities and launch of new products (water proofing) business drives overall volume growth in Q2FY22
Realisation growth (%)	-1.0	4.9	4.6		-7.2		Price hike of ~4% was completely offset by adverse product mix

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY22E			FY23E			FY24E			Comment
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	27377.8	26699.5	-2.5	32254.5	30959.2	-4.0	37646.7	36482.5	-3.1	We tweak our revenue estimate downwards. We build in paint revenue CAGR of 19% FY21-24E led by volume CAGR of ~15% during the same period
EBITDA	5612.5	4138.4	-26.3	7031.5	5727.4	-18.5	8207.0	7296.5	-11.1	
EBITDA Margin (%)	20.5	15.5	-500bps	21.8	18.5	-330bps	21.8	20.0	-180bps	We tweak our EBITDA margin estimate downwards considering higher input prices and the company's increased focus on mid range of products
PAT	3786.4	2716.5	-28.3	4836.6	3894.4	-19.5	5672.2	5016.6	-11.6	
EPS (₹)	39.5	28.3	-28.3	50.4	40.6	-19.5	59.1	52.3	-11.6	

Source: Company, ICICI Direct Research

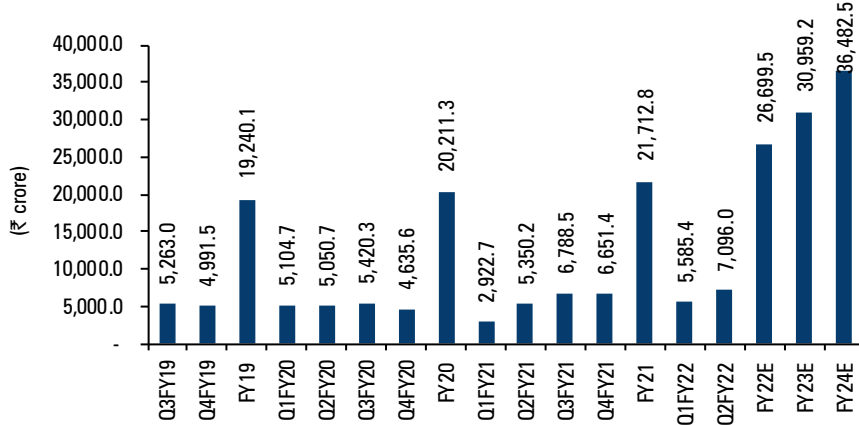
Exhibit 4: Assumptions

	Current				introduce d FY24E	Earlier		Comments
	FY20E	FY21E	FY22E	FY23E		FY22E	FY23E	
Volume Growth (%)	10.2	13.4	20.7	10.5	12.9	12.8	15.5	We build in volume CAGR of ~15% in FY21-24E supported by new product launches, shortening of repainting cycle, market share gains and government schemes (Housing for All)
Realisation Growth (%)	(5.3)	(5.3)	1.1	5.0	4.5	2.4	2.9	We believe price hikes would help drive realisation growth, going forward

Source: Company, ICICI Direct Research

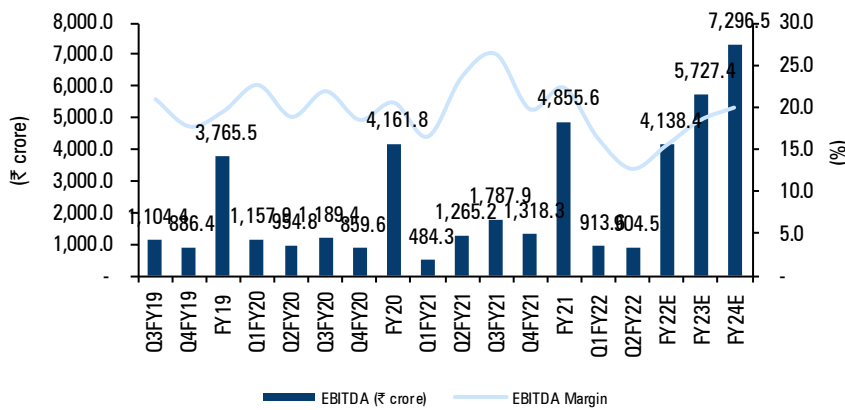
Financial story in charts....

Exhibit 5: Strong volume growth, going ahead, to drive revenue



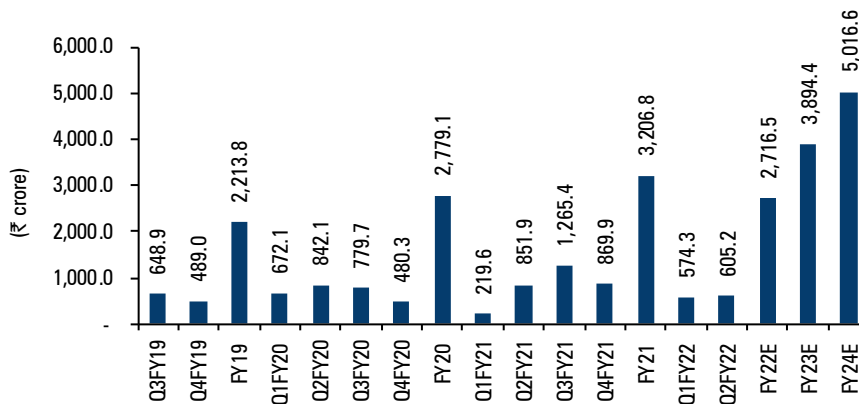
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA likely to remain robust while EBITDA margin to normalise



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Revenue	21,712.8	26,699.5	30,959.2	36,482.5
Growth (%)	7.4	23.0	16.0	17.8
Raw Material Expenses	12,097.2	16,820.7	18,575.5	21,342.2
Employee Expenses	1,540.8	1,735.5	1,857.5	2,188.9
Other expenses	3,219.2	4,004.9	4,798.7	5,654.8
Total Operating Expenditure	16,857.2	22,561.1	25,231.7	29,186.0
Growth (%)	5.0	33.8	11.8	15.7
EBITDA	4,855.6	4,138.4	5,727.4	7,296.5
Growth (%)	16.7	-14.8	38.4	27.4
Depreciation	791.3	827.7	897.8	1,021.5
Interest	91.6	84.6	59.4	33.4
Other Income	303.1	408.1	400.3	418.1
PBT	4,275.8	3,634.3	5,170.4	6,659.7
Total Tax	1,097.6	938.7	1,302.6	1,677.8
Profit from Associates	28.6	20.9	26.6	34.8
PAT	3,206.8	2,716.5	3,894.4	5,016.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit before Tax	3,206.8	2,716.5	3,894.4	5,016.6
Add: Depreciation	791.3	827.7	897.8	1,021.5
(Inc)/dec in Current Assets	-1,888.9	-851.0	-1,277.4	-2,011.3
Inc/(dec) in CL and Provisions	1,566.4	576.9	730.0	1,128.5
Others	91.6	84.6	59.4	33.4
CF from operating activities	3,767.2	3,354.6	4,304.3	5,188.8
(Inc)/dec in Investments	-2,718.0	-10.0	-540.0	-540.0
(Inc)/dec in Fixed Assets	-437.6	-400.0	-500.0	-500.0
Others	-161.6	-142.0	-126.9	-170.0
CF from investing activities	-3,317.2	-552.0	-1,166.9	-1,210.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.1	22.0	-130.0	-130.0
Dividend paid & dividend tax	-1,711.1	-2,019.7	-2,805.1	-3,366.1
Inc/(dec) in Sec. premium	1,088.8	-715.6	-59.4	-33.4
CF from financing activities	-622.1	-2,713.3	-2,994.5	-3,529.5
Net Cash flow	-172.1	89.3	142.9	449.3
Opening Cash	782.8	610.7	700.1	842.9
Closing Cash	610.7	700.1	842.9	1,292.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	12,710.4	12,776.1	13,865.5	15,516.0
Total Shareholders funds	12,806.3	12,872.0	13,961.4	15,611.9
Total Debt	340.2	362.2	232.2	102.2
Deferred Tax Liability	415.6	415.6	415.6	415.6
Minority Interest	422.9	444.0	466.2	489.5
Total Liabilities	14,737.4	14,846.3	15,827.8	17,371.7
Gross Block	8,722.9	9,122.9	9,622.9	10,122.9
Less: Acc Depreciation	3,167.1	3,994.7	4,892.6	5,914.1
Capital WIP	183.0	183.0	183.0	183.0
Total Fixed Assets	5,738.9	5,311.2	4,913.4	4,391.9
Other Investments	483.9	493.9	533.9	573.9
Liquid Investments	4,252.9	4,252.9	4,752.9	5,252.9
Goodwill on Consolidation	302.6	302.6	302.6	302.6
Current Assets				
Inventory	3,798.6	4,535.3	5,258.8	6,197.0
Debtors	2,605.1	2,560.2	2,968.7	3,498.3
Loans and Advances	79.5	81.5	83.5	85.5
Other Current Assets	1,711.8	1,869.0	2,012.3	2,553.8
Cash	610.7	700.1	842.9	1,292.2
Total Current Assets	8,805.7	9,746.0	11,166.2	13,626.8
Liabilities				
Creditors	3,378.7	3,657.5	4,241.0	4,997.6
Provisions	299.6	324.4	376.1	443.2
Other current liabilities	1,953.8	2,227.2	2,321.9	2,626.7
Total Current Liabilities	5,632.2	6,209.1	6,939.0	8,067.5
Net Current Assets	3,173.5	3,536.9	4,227.2	5,559.2
Other Non Current Assets To	785.6	948.8	1,097.9	1,291.2
Total Assets	14,737.4	14,846.3	15,827.8	17,371.7

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	33.4	28.3	40.6	52.3
Cash EPS	41.7	37.0	50.0	63.0
BV	133.5	134.2	145.6	162.8
DPS	17.8	21.1	29.3	35.1
Cash Per Share	33.0	41.7	51.0	61.7
Operating Ratios (%)				
EBITDA Margin	22.4	15.5	18.5	20.0
EBIT Margin	18.7	12.4	15.6	17.2
PAT Margin	14.8	10.2	12.6	13.8
Activity Ratios				
Inventory days	63.9	62.0	62.0	62.0
Debtor days	43.8	35.0	35.0	35.0
Creditor days	56.8	50.0	50.0	50.0
Return Ratios (%)				
RoE	29.6	25.0	33.0	38.5
RoCE	25.0	21.1	27.9	32.1
RoIC	47.2	39.1	55.8	69.3
Valuation Ratios (x)				
P/E	88.1	104.0	72.5	56.3
EV / EBITDA	57.2	67.1	48.4	37.8
EV / Net Sales	12.8	10.4	8.9	7.6
Market Cap / Sales	13.0	10.6	9.1	7.7
Price to Book Value	22.1	21.9	20.2	18.1
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.5	1.5	1.5
Quick Ratio	0.8	0.7	0.7	0.8

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Consumer Discretionary)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	2,945	3,425	Buy	2,82,426	33.4	28.3	40.6	52.3	88.1	104.0	72.5	56.3	57.2	67.1	48.4	37.8	29.6	25.0	33.0	38.5	25.0	21.1	27.9	32.1
Berger Paints (BERPAI)	736	860	Hold	71,480	7.4	9.5	11.9	14.7	99.3	77.9	61.9	49.9	59.9	49.8	40.7	33.1	24.9	29.0	33.9	36.0	21.3	24.7	27.6	29.2
Kansai Nerolac (KANNER)	544	750	Buy	29,317	9.9	13.0	16.1	18.7	55.2	42.0	33.8	29.0	35.2	28.0	22.7	19.4	17.2	21.5	23.4	24.2	13.2	16.6	18.0	18.4
Pidilite Industries (PIDIND)	2,299	2,390	Hold	1,16,743	22.2	25.3	30.7	36.8	103.7	90.8	74.8	62.5	69.2	60.5	51.0	43.0	23.8	23.0	26.9	30.8	20.2	19.5	22.5	25.7
Bajaj Electricals (BAJELE)	1,162	1,250	Buy	13,311	16.5	23.0	34.0	39.2	70.4	50.6	34.2	29.6	44.7	32.4	23.1	20.6	15.1	19.3	25.2	24.2	10.7	16.3	19.9	19.1
Crompton Greaves(CROGR)	463	540	Buy	29,021	9.8	9.3	12.0	13.7	47.1	49.7	38.7	33.8	38.8	37.2	29.5	25.6	34.4	36.6	42.1	42.1	31.9	29.0	33.2	32.8
Havells India (HAVIND)	1,286	1,545	Buy	80,234	16.7	20.6	24.7	28.9	77.2	62.5	52.0	44.4	50.5	42.2	35.2	29.9	24.9	27.5	30.9	32.9	20.1	22.9	25.5	26.8
Polycab India (POLI)	2,223	2,100	Hold	33,149	59.4	59.2	77.7	91.3	37.4	37.5	28.6	24.3	27.6	25.4	19.6	16.6	21.9	21.1	24.2	24.2	18.5	16.5	18.5	18.5
Symphony (SYMLIM)	1,058	1,050	Hold	7,401	15.3	20.8	32.1	39.3	69.2	50.9	32.9	27.0	52.0	39.9	25.7	20.9	15.2	21.1	29.1	30.7	14.9	19.9	27.0	28.0
V-Guard Ind (VGUARD)	253	310	Buy	10,836	4.7	5.3	7.0	8.2	53.7	47.9	35.9	30.8	33.9	32.9	25.7	21.8	23.9	24.2	28.4	29.0	16.7	18.5	22.0	22.5
Voltas Ltd (VOLTAS)	1,192	1,170	Buy	39,423	16.0	22.0	28.8	34.2	74.6	54.2	41.4	34.8	60.8	48.3	36.0	33.4	15.0	20.2	22.8	21.1	10.6	14.9	17.0	17.4
Amber Enterprises (AMBER)	3,324	3,365	Buy	11,200	24.7	43.2	87.7	109.7	134.5	76.9	37.9	30.3	50.6	37.2	21.5	17.4	7.7	11.0	18.3	19.7	5.2	8.8	15.2	16.0
Dixon Technologies (DIXTE)	5,267	5,050	Buy	30,838	27.3	52.3	97.4	152.5	193.1	100.7	54.1	34.5	107.6	65.4	37.3	24.0	23.5	34.6	47.4	50.6	21.7	33.9	41.7	41.4
Supreme Indus (SUPIND)	2,328	2,458	Buy	29,572	77.0	64.0	76.2	72.3	30.2	36.3	30.6	32.2	22.4	25.5	20.9	21.8	33.1	25.1	25.9	20.9	30.9	23.4	23.6	19.6
Astral Polytechnik (ASTPOL)	2,167	2,160	Hold	43,531	20.3	24.6	31.8	40.6	106.6	88.0	68.1	53.4	66.9	56.7	44.3	34.9	27.5	29.2	32.5	34.0	21.5	22.8	24.9	26.0
EPL (ESSPRO)	217	279	Hold	6,842	7.7	9.4	11.6	13.3	28.0	23.0	18.8	16.4	11.6	10.4	8.6	7.6	16.2	17.7	20.8	21.5	14.8	16.6	18.9	19.7
Time Techno (TIMTEC)	72	100	Buy	1,628	4.8	8.3	10.7	11.5	15.1	8.6	6.7	6.3	5.7	4.6	3.8	3.5	8.7	12.2	13.9	13.9	5.7	9.5	11.3	11.1
Moldtek Packaging (MOLP)	688	675	Buy	1,908	17.3	22.5	30.6	38.0	39.8	30.6	22.5	18.1	21.3	16.7	13.0	10.7	21.4	24.8	29.1	30.1	20.7	21.9	24.1	23.9

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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