

Tax cut to boost earnings

The recent tax cut by the government from 33% to 25.2% is likely to boost earnings of Asian Paints (APL) by ~12% each for FY20E and FY21E. We change our earnings estimates along with ratings accordingly. We believe a tax cut would help demand revival in the decorative paints segment, especially in the premium category of products. This would also help organised players to gain market share from the unorganised segment, which are ~25% of the domestic paint industry.

Strong volume growth to drive profitability

APL is the industry leader in the decorative paint segment with 53% market share and a dealer network of over 55,000 across India. It derives 89% of its topline from the decorative segment while the rest comes from the industrial segment. APL witnessed strong volume growth of 13% FY19, factoring in structural demand given the lower per capita paint consumption in India. Volume growth is likely to remain strong in FY19-21E (at 14%) supported by sustained demand of decorative paints from tier II, tier III cities and a shorter repainting cycle. With capacity expansion in Andhra Pradesh and Karnataka, APL is best placed to capture this additional demand, going ahead. APL has witnessed a significant expansion in EBITDA margin from ~16% in FY17 to ~19% in FY15-18 owing to lower raw material prices and rising proportion of premium products in the portfolio. However, a reversal was witnessed in FY19 mainly due to a sudden rise in crude based raw material prices and change in product mix (skewed more towards lower end products). We believe EBITDA margins will moderate in the near term from current level given the strong growth in the economic product category and low utilisation of new plants (that would lead to lower operating leverage). However, the long term outlook on margin remains intact owing to rising trend of premiumisation and improving plant utilisation.

Valuation & Outlook

We model revenue, earnings CAGR of 16%, 27%, respectively, in FY19-21E led by strong volume growth of ~14%. Despite a challenging FY19 (on account of tightening credit conditions, construction slowdown due to general election, supply chain disturbances due to GST rate reduction from 28% to 18%) Asian Paints witnessed strong volume growth of ~13% YoY in FY19. The company also commissioned two large paint manufacturing units of 300,000 KL/annum each at Mysuru and Visakhapatnam in FY19. For FY19-21E, we believe APL would report strong earnings growth supported by volume growth, change in product mix and tax cut in FY19-21E. This coupled with strong balance sheet position (with RoE and RoCE of 32% and 27% in FY20E and 33% and 29% for FY21E, respectively) and average dividend payout to the tune of ~50% (despite heavy capex plan) would justify its premium valuation. We change our rating from HOLD to **BUY** with a revised target price of ₹ 1950/share.



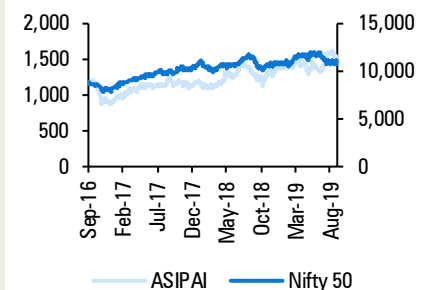
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	160,153.0
Total Debt (FY19) (₹ Crore)	616.0
Cash and Inv (FY19) (₹ Crore)	2,569.7
EV (₹ Crore)	158,199.3
52 week H/L (₹)	1724/1120
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Key Highlights

- Tax cut to boost earnings growth of APL by ~12%
- Strong volume growth
- Change rating from HOLD to BUY with revised target price of ₹ 1950/ share

Price Chart



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (19-21E)
Net Sales	15062.0	16824.6	19341.5	22445.4	26033.9	16.0
EBITDA	2986.4	3197.6	3762.1	4442.4	5299.6	18.7
EBITDA Margin (%)	19.8	19.0	19.5	19.8	20.4	
Net Profit	2016.3	2097.5	2208.0	2901.9	3553.7	26.9
EPS (₹)	21.0	21.9	23.0	30.3	37.1	
P/E (x)	79.5	76.4	72.6	55.3	45.1	
Price/Book (x)	21.1	19.1	16.9	14.9	12.5	
Mcap/Sales (x)	10.6	9.5	8.3	7.1	6.2	
RoE (%)	26.3	24.4	23.2	26.9	27.8	
RoCE (%)	32.8	31.6	30.4	31.9	33.0	

Source: Company, ICICI Direct Research

Exhibit 1: Change in estimates

(₹ crore)	FY20E			FY21E			Comment
	Old	New	% Change	Old	New	% Change	
Revenue	22,446.4	22,445.4	0.0	26,033.9	26,033.9	0.0	We slightly tweak our volume growth estimate to 14% (from earlier 13%). Volume growth would largely be driven by repainting demand and upcoming manufacturing facilities in Mysuru and Vizag
EBITDA	4,442.4	4,442.4	0.0	5,299.6	5,299.6	0.0	
EBITDA Margin (%)	19.8	19.8	0bps	20.4	20.4	0bps	We believe long term margin profile of the company will remain intact on account of improving plant utilisation and change in sales mix more towards premium products
PAT	2595.1	2901.9	11.8	3169.7	3,553.7	12.1	
EPS (₹)	27.1	30.3	11.8	33.1	37.1	12.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Operating Revenue	16,824.6	19,341.5	22,445.4	26,033.9
Growth (%)		15.0	16.0	16.0
Raw Material Expenses	9,691.2	11,342.3	12,939.8	14,606.0
Employee Expenses	1,115.5	1,257.2	1,440.2	1,694.1
Other expenses	2,820.3	2,979.9	3,623.0	4,434.2
Total Operating Expenditure	13,626.9	15,579.4	18,003.0	20,734.3
Growth (%)		14.3	15.6	15.2
EBITDA	3,197.6	3,762.1	4,442.4	5,299.6
Growth (%)		17.7	18.1	19.3
Depreciation	360.5	625.6	763.1	833.1
Interest	35.1	105.7	100.3	69.6
Other Income	220.6	233.1	224.5	234.3
PBT	3,092.7	3,263.9	3,803.4	4,631.2
Total Tax	1,041.0	1,096.6	954.7	1,144.8
Profit from Associates	45.8	40.7	53.2	67.3
PAT	2,097.5	2,208.0	2,901.9	3,553.7

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit before Tax	2,047.5	2,208.0	2,901.9	3,553.7
Add: Depreciation	360.5	625.6	763.1	833.1
(Inc)/dec in Current Assets	-639.6	-640.5	-1,554.5	-745.7
Inc/(dec) in CL and Provisions	572.3	567.8	542.6	-1,551.6
Others	35.1	105.7	100.3	69.6
CF from operating activities	2,375.7	2,866.6	2,753.5	2,159.2
(Inc)/dec in Investments	511.3	-429.0	150.0	350.0
(Inc)/dec in Fixed Assets	-1,802.8	-1,360.1	-700.0	-700.0
Others	-180.4	267.0	-69.0	-81.7
CF from investing activities	-1,471.9	-1,522.2	-619.0	-431.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-24.8	95.3	-130.0	22.0
Dividend paid & dividend tax	-1,187.4	-1,210.2	-1,383.1	-1,570.8
Inc/(dec) in Sec. premium	-88.9	2.2	-338.5	-69.6
CF from financing activities	-1,301.1	-1,112.7	-1,851.6	-1,618.5
Net Cash flow	-397.2	231.7	282.9	109.0
Opening Cash	801.5	404.3	636.0	918.9
Closing Cash	404.3	636.0	918.9	1,027.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	8,314.3	9,419.9	10,700.6	12,683.4
Total Shareholders funds	8,410.2	9,515.8	10,796.5	12,779.3
Total Debt	520.8	616.0	486.0	508.0
Deferred Tax Liability	417.1	567.7	567.7	567.7
Minority Interest	327.7	363.1	381.2	400.3
Total Liabilities	9,684.2	11,069.5	12,238.3	14,262.2
Gross Block	4,378.1	6,933.7	7,193.4	8,043.4
Less: Acc Depreciation	973.1	1,598.8	2,361.9	3,195.0
Capital WIP	1,405.1	209.7	650.0	500.0
Total Fixed Assets	4,810.1	5,544.6	5,481.5	5,348.4
Other Investments	1,084.0	1,395.2	1,295.2	995.2
Liquid Investments	1,056.7	1,174.5	1,124.5	1,074.5
Goodwill on Consolidation	327.3	321.3	321.3	321.3
Current Assets				
Inventory	2,658.3	3,149.9	3,689.7	3,994.2
Debtors	1,730.6	1,907.3	2,459.8	2,674.7
Loans and Advances	12.8	94.2	96.2	98.2
Other Current Assets	1,051.0	941.9	1,402.1	1,626.3
Cash	404.3	636.0	918.9	1,027.8
Total Current Assets	5,857.1	6,729.2	8,566.6	9,421.3
Liabilities				
Creditors	2,160.0	2,394.3	2,644.3	3,352.3
Provisions	196.7	310.4	240.8	305.3
Other current liabilities	1,742.1	1,961.8	2,324.1	0.0
Total Current Liabilities	4,098.8	4,666.5	5,209.2	3,657.6
Net Current Assets	1,758.3	2,062.7	3,357.4	5,763.7
Other Non Current Assets To	647.9	571.3	658.4	759.2
Total Assets	9,684.3	11,069.6	12,238.3	14,262.3

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	21.9	23.0	30.3	37.1
Cash EPS	25.6	29.5	38.2	45.7
BV	87.7	99.2	112.6	133.3
DPS	12.4	12.6	14.4	16.4
Cash Per Share	10.1	16.7	24.6	33.3
Operating Ratios (%)				
EBITDA Margin	19.0	19.5	19.8	20.4
EBIT Margin	16.9	16.2	16.4	17.2
PAT Margin	12.2	11.4	12.9	13.7
Activity Ratios				
Inventory days	57.7	59.4	60.0	56.0
Debtor days	37.5	36.0	40.0	37.5
Creditor days	46.9	45.2	43.0	47.0
Return Ratios (%)				
RoE	31.6	30.4	31.9	33.0
RoCE	24.4	23.2	26.9	27.8
RoIC	48.6	38.5	43.0	42.2
Valuation Ratios (x)				
P/E	76.4	72.6	55.3	45.1
EV / EBITDA	49.9	42.3	35.7	30.0
EV / Net Sales	9.5	8.2	7.1	6.1
Market Cap / Sales	9.5	8.3	7.1	6.2
Price to Book Value	19.1	16.9	14.9	12.5
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.1	0.1
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.3	1.3	1.5	2.3
Quick Ratio	0.7	0.6	0.8	1.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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