

Volume led growth continues...

Asian Paint's Q3FY20 volume growth came in at 11%, in line with our estimates. However, value growth at 3% YoY was lower than our estimate of ~10% YoY mainly due to low realisation and high base of last year. The volume growth in the last three quarters (Q1: 15% YoY, Q2: 14% YoY) of FY20 has remained robust for the company owing to demand remaining intact from tier II & tier III cities and rural India (contributes ~50% in total domestic revenue). Change in product mix (skewed towards economy products category like distemper & putty) and a cumulative price cut of ~0.25% (1% YTD) in solvent based products weighed on overall realisation in Q3FY20. The management has reiterated that demand in the economic product category is growing much faster than premium category owing to declining unorganised pie post implementation of GST in rural India. EBITDA margin increased 100 bps YoY at 22% owing to better gross margin. We cut our revenue, earning estimate of FY21E by 6%, 4% YoY, respectively, and introduce FY22E estimates with volume CAGR of 13% in FY19-22E.

Change in product mix weighs on value growth

While the decorative segment volume growth remained intact in 9MFY20, the change in product mix coupled with slight price cut on select product categories resulting in a decline in realisation of the company. The consistent growth in the decorative segment was largely due to 1) strong demand from tier II, tier III cities and rural India, 2) market share gain in bottom of the pyramid products and 3) launch of new products in the economy range. We believe paint demand will remain strong (~13% CAGR in FY19-22E) in tier II and tier III cities supported by rising per capita income, addition of new dealers and a lower repainting cycle. However, flattish realisation would be largely on account of a change in product mix.

Benign raw material prices drives margin

The company reported ~190 bps YoY increase in gross margin largely supported by benign raw material prices in Q3FY20. However, the benefit of higher gross margin was partly offset by higher employee cost and other expenses during the period limiting EBITDA margin expansion to 100 bps YoY. We believe while gross margin will remain at elevated levels owing to benign raw material prices, cost control at various levels would drive EBITDA margins up by 100 bps YoY in FY21E.

Valuation & Outlook

We believe Asian Paint would record volume CAGR of 13% in FY19-22E supported by demand remaining intact in rural markets. The company is likely to maintain its leadership position in the decorative paint category without diluting EBITDA margin owing to its strong brand. We roll over our valuation to FY22E and maintain **BUY** rating with a target price of ₹ 2050.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (19-22E)
Net Sales	16824.6	19341.5	20942.7	24521.2	27479.7	12.4
EBITDA	3197.6	3762.1	4300.4	5259.1	5925.6	16.4
EBITDA Margin (%)	19.0	19.5	20.5	21.4	21.6	
Net Profit	2097.5	2208.0	2918.5	3556.8	3987.7	21.8
EPS (₹)	21.9	23.0	30.4	37.1	41.6	
P/E (x)	80.7	76.7	58.0	47.6	42.5	
Price/Book (x)	20.1	17.8	15.7	13.7	12.0	
Mcap/Sales (x)	10.1	8.8	8.1	6.9	6.2	
RoE (%)	24.4	23.2	27.0	28.8	28.3	
RoCE (%)	31.6	30.4	31.2	34.5	34.3	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	169,934.8
Total Debt (FY19) (₹ Crore)	616.0
Cash and Inv (FY19) (₹ Crore)	2,569.7
EV (₹ Crore)	167,981.1
52 week H/L (₹)	1824/1120
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Key Highlights

- Volume growth at 11% largely driven by decorative paint segment in Q3FY20
- Lower end of products grew much faster than premium products
- Continuous demand traction from tier II and tier III cities
- Maintain our BUY rating and target price of ₹ 2050/share

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Exhibit 1: Variance Analysis

	Q3FY20	Q3FY20E	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Revenue	5,420.3	5,806.3	5,263.0	3.0	5,050.7	7.3	Change in product mix limits value growth at 3% YoY during Q3FY20
Other Income	69.8	81.3	49.3	41.6	105.2	-33.6	Higher treasury income results in strong growth in other income
Raw Material Exp	3,089.0	3,362.8	3,100.7	-0.4	2,907.2	6.3	Increase in gross margin (up 190 bps YoY) supported by benign raw material prices
Employee Exp	343.0	377.4	314.1	9.2	347.6	-1.3	
Manufacturing & Oth exp	798.9	900.0	743.8	7.4	841.1	-5.0	
Total Exp	4,230.9	4,640.2	4,158.6	1.7	4,095.8	3.3	
EBITDA	1,189.4	1,166.1	1,104.4	7.7	954.8	24.6	
EBITDA Margin (%)	21.9	20.1	21.0	96 bps	18.9	304 bps	Higher gross margin coupled with saving in other expenses help increase EBITDA margins during Q3
Depreciation	197.1	197.4	165.0	19.5	197.2	0.0	Higher depreciation charges owing to commencement of new plants
Interest	24.1	25.2	29.1	-17.2	25.9	-7.2	
Exceptional items							
PBT	1,038.1	1,024.8	958.9	8.3	834.0	24.5	
Total Tax	277.6	258.0	326.9	-15.1	7.2	3,739.1	Exercises option of lower tax rate resulting in sharp decline in tax outgo during Q2FY20
PAT	779.7	779.2	647.3	20.5	842.1	-7.4	Strong operating performance coupled with lower tax rate helps drive PAT growth
Key Metrics							
Volume growth (%)	11.0	10.6	20.8		12.0		Despite a higher base, volume growth was largely driven by intact demand from tier II and tier III cities. However, industrial paint demand was impacted by slowdown in automotive industry
Realisation growth (%)	-7.2	-0.8	2.8		-2.3		Change in product mix (skewed more towards lower end products) coupled with price cut (1% YTD) in solvent based products impacted realisation growth in Q3FY20

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY20E			FY21E			FY22E	Comment
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	22,252.5	20,942.7	-5.9	26,033.9	24,521.2	-5.8	27,479.7	We slightly tweak our revenue estimate for FY20E and FY21E considering the sharp cut in realisation due to change in product mix. We introduce FY22E estimate with revenue growth of 12% YoY
EBITDA	4,409.1	4,300.4	-2.5	5,299.6	5,259.1	-0.8	5,925.6	
EBITDA Margin (%)	19.8	20.5	73bps	20.7	21.4	75bps	21.6	We believe long term margin profile of the company will remain intact on account of improving plant utilisation and benign raw material prices
PAT	3080.9	2918.5	-5.3	3694.0	3,556.8	-3.7	3,987.7	
EPS (₹)	32.1	30.4	-5.3	38.5	37.1	-3.7	41.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier				Comments
	FY18	FY19E	FY20E	FY21E	FY22E	FY20E	FY21E	
Volume Growth (%)	11.0	13.2	12.2	15.8	9.7	13.6	14.3	We model volume CAGR of 13% in FY19-22E
Realisation Growth (%)	2.4	1.4	(3.6)	1.1	2.2	1.0	1.1	We believe realisation growth would be limited on account of change in product mix

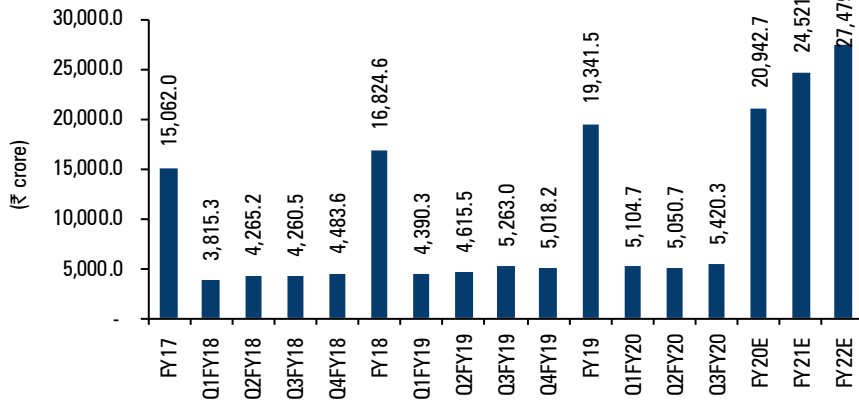
Source: Company, ICICI Direct Research

Conference call highlights

- Paint demand in Q3FY20 was slightly impacted by higher inventory build-up at the dealer level owing to preponing of festive season
- Rural markets (beyond top 100 towns) contribute ~50% to revenues. While urban markets witnessed slow demand growth, rural markets helped drive value growth during Q3FY20
- Economy products (distemper, putty and economic enamels) continued to grow at a faster pace compared to premium products
- The company launched two new products in the economic range (prices are down 15-20% to premium products) in the emulsions categories. However, the gross margin of these products is similar to company's gross margin level
- A slowdown in the automotive sector has impacted the industrial business
- The company took a price cut of ~0.25% on select solvent based product categories. YTD price cut was at ~1%
- The international business was impacted by challenging conditions in the GCC and Sri Lanka
- Raw material prices were benign during Q3FY20 resulting in an increase in gross margin. The management has guided that raw material prices are likely to remain stable in the coming quarter
- Asian Paints has planned a capex of ₹ 700 crore for FY20
- Repainting contributes ~75% of total demand of decorative paints while 25% demand comes from the new construction (project business)

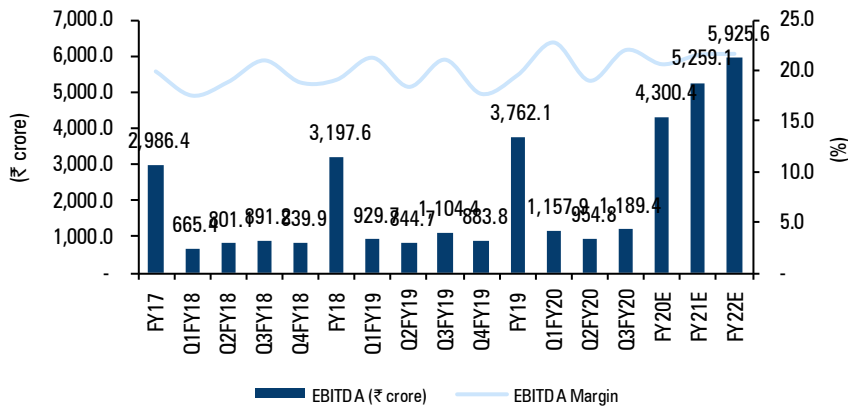
Financial story in charts

Exhibit 4: Revenue growth led by strong volume growth



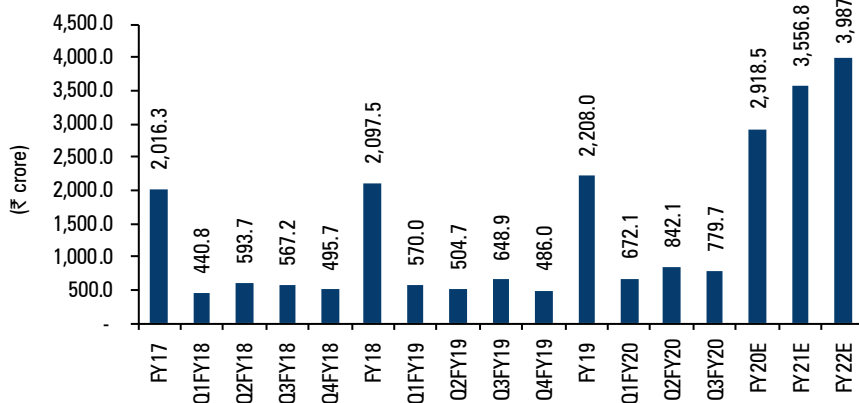
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



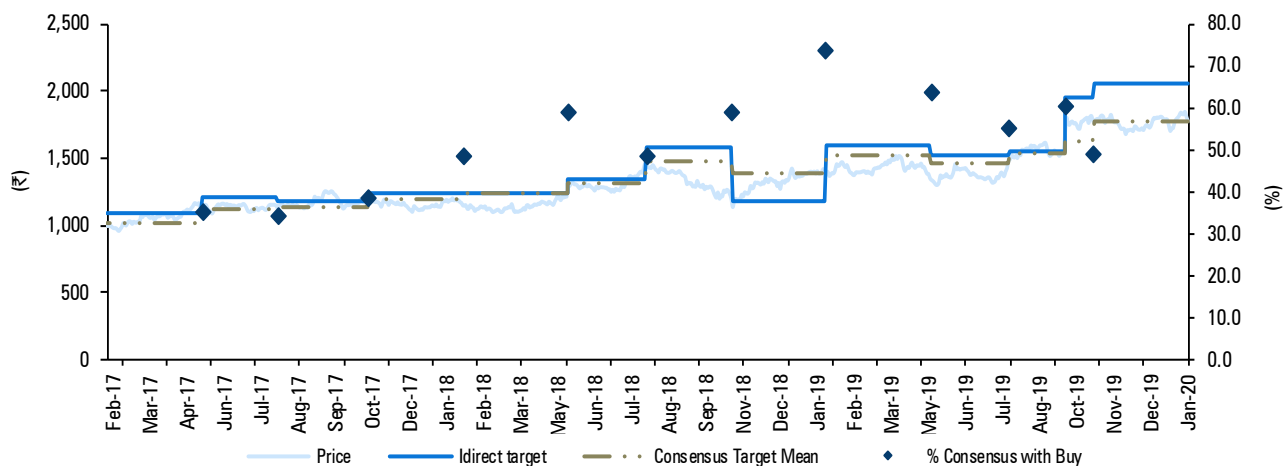
Source: Company, ICICI Direct Research

Exhibit 6: Better EBITDA margin to drive PAT



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	SMITI HOLDING & TRAD	3-Dec-19	5.7	54.77m	0.06m
2	SATTVA HOLDING & TRA	18-Dec-19	5.7	54.71m	1.15m
3	TEESTA RETAIL PRIVAT	30-Jun-19	4.9	46.99m	0.00m
4	GEETANJALI TRADING &	18-Dec-19	4.9	46.87m	(1.15)m
5	Vakil Abhay Arvind	30-Jun-19	3.0	28.47m	0.00m
6	ELCID INVESTMENTS LI	30-Jun-19	3.0	28.31m	0.00m
7	LIFE INSURANCE CORP	30-Jun-19	2.9	28.02m	(22.0)m
8	GUJARAT ORGANICS LTD	30-Jun-19	2.4	23.15m	0.00m
9	SUDHANAVA INV & TRAD	30-Jun-19	2.0	19.00m	0.00m
10	RUPEN INVESTMENT & I	30-Jun-19	2.0	18.85m	0.00m

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	52.8	52.8	52.8	52.8	52.8
FII	15.7	15.7	16.7	16.7	17.2
DII	10.1	10.1	8.9	10.8	10.3
Others	21.5	21.5	21.6	19.8	19.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total Operating Revenue	19,341.5	20,942.7	24,521.2	27,479.7
Growth (%)		8.3	17.1	12.1
Raw Material Expenses	11,342.3	11,985.8	13,730.9	15,117.5
Employee Expenses	1,257.2	1,374.0	1,598.2	1,782.1
Other expenses	2,979.9	3,282.5	3,933.0	4,654.5
Total Operating Expenditure	15,579.4	16,642.3	19,262.1	21,554.1
Growth (%)		6.8	15.7	11.9
EBITDA	3,762.1	4,300.4	5,259.1	5,925.6
Growth (%)		14.3	22.3	12.7
Depreciation	625.6	795.8	858.2	956.3
Interest	105.7	100.0	104.5	119.3
Other Income	233.1	314.1	367.8	384.7
PBT	3,263.9	3,718.7	4,664.1	5,234.8
Total Tax	1,096.6	859.3	1,174.1	1,316.2
Profit from Associates	40.7	59.0	66.7	69.1
PAT	2,208.0	2,918.5	3,556.8	3,987.7

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit before Tax	2,208.0	2,918.5	3,556.8	3,987.7
Add: Depreciation	625.6	795.8	858.2	956.3
(Inc)/dec in Current Assets	-640.5	-1,048.9	-1,474.7	-1,255.7
Inc/(dec) in CL and Provisions	567.8	119.7	523.6	174.4
Others	105.7	100.0	104.5	119.3
CF from operating activities	2,866.6	2,885.0	3,568.4	3,982.0
(Inc)/dec in Investments	-429.0	150.0	-800.0	-900.0
(Inc)/dec in Fixed Assets	-1,360.1	-700.0	-700.0	-800.0
Others	267.0	-26.8	-81.4	-63.1
CF from investing activities	-1,522.2	-576.8	-1,581.4	-1,763.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	95.3	-130.0	22.0	22.0
Dividend paid & dividend tax	-1,210.2	-1,383.1	-2,019.7	-2,244.1
Inc/(dec) in Sec. premium	2.2	-338.2	-104.5	-119.3
CF from financing activities	-1,112.7	-1,851.3	-2,102.2	-2,341.3
Net Cash flow	231.7	457.0	-115.2	-122.4
Opening Cash	404.3	636.0	1,093.0	977.7
Closing Cash	636.0	1,093.0	977.7	855.3

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	9,419.9	10,717.2	12,254.3	13,997.9
Total Shareholders funds	9,515.8	10,813.1	12,350.2	14,093.8
Total Debt	616.0	486.0	508.0	530.0
Deferred Tax Liability	567.7	567.7	567.7	567.7
Minority Interest	363.1	381.2	400.3	420.3
Total Liabilities	11,069.5	12,254.9	13,833.1	15,618.8
Gross Block	6,933.7	7,193.4	8,043.4	8,843.4
Less: Acc Depreciation	1,598.8	2,394.6	3,252.8	4,209.1
Capital WIP	209.7	650.0	500.0	500.0
Total Fixed Assets	5,544.6	5,448.8	5,290.5	5,134.2
Other Investments	1,395.2	1,295.2	1,595.2	1,995.2
Liquid Investments	1,174.5	1,124.5	1,624.5	2,124.5
Goodwill on Consolidation	321.3	321.3	321.3	321.3
Current Assets				
Inventory	3,149.9	3,442.6	4,165.2	4,667.8
Debtors	1,907.3	2,295.1	2,821.6	3,387.9
Loans and Advances	94.2	96.2	98.2	100.2
Other Current Assets	941.9	1,308.3	1,531.8	1,716.6
Cash	636.0	1,093.0	977.7	855.3
Total Current Assets	6,729.2	8,235.1	9,594.6	10,727.8
Liabilities				
Creditors	2,394.3	2,467.2	2,888.8	3,011.5
Provisions	310.4	224.7	263.1	274.3
Other current liabilities	1,961.8	2,094.3	2,157.9	2,198.4
Total Current Liabilities	4,666.5	4,786.2	5,309.8	5,484.1
Net Current Assets	2,062.7	3,448.9	4,284.8	5,243.7
Other Non Current Assets Tc	571.3	616.2	716.7	799.8
Total Assets	11,069.6	12,255.0	13,833.1	15,618.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	23.0	30.4	37.1	41.6
Cash EPS	29.5	38.7	46.0	51.6
BV	99.2	112.8	128.8	147.0
DPS	12.6	14.4	21.1	23.4
Cash Per Share	16.7	25.0	33.9	43.9
Operating Ratios (%)				
EBITDA Margin	19.5	20.5	21.4	21.6
EBIT Margin	16.2	16.7	17.9	18.1
PAT Margin	11.4	13.9	14.5	14.5
Activity Ratios				
Inventory days	59.4	60.0	62.0	62.0
Debtor days	36.0	40.0	42.0	45.0
Creditor days	45.2	43.0	43.0	40.0
Return Ratios (%)				
RoE	30.4	31.2	34.5	34.3
RoCE	23.2	27.0	28.8	28.3
RoIC	38.5	41.5	45.4	45.1
Valuation Ratios (x)				
P/E	76.7	58.0	47.6	42.5
EV / EBITDA	44.7	39.0	31.8	28.2
EV / Net Sales	8.7	8.0	6.8	6.1
Market Cap / Sales	8.8	8.1	6.9	6.2
Price to Book Value	17.8	15.7	13.7	12.0
Solvency Ratios				
Debt/EBITDA	0.2	0.1	0.1	0.1
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.3	1.5	1.6	1.8
Quick Ratio	0.6	0.8	0.8	0.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Asian Paints (ASIPAI)	1,778	2,050	Buy	170,510	23.0	30.4	37.1	77.2	58.4	47.9	44.7	39.0	31.8	30.4	31.2	34.5	23.2	27.0	28.8
Astral Polytechnik (ASTPOL)	1,087	1,275	Hold	16,377	13.1	18.1	23.7	83.0	60.1	45.9	44.8	35.4	27.6	20.8	22.2	25.4	15.5	17.8	19.2
Bajaj Electricals (BAJELE)	384	270	Sell	3,919	16.3	3.3	11.0	23.5	118.1	35.0	13.9	19.6	14.1	13.8	9.4	12.6	15.5	3.3	10.5
Havells India (HAVIND)	601	640	Hold	37,496	12.7	12.8	15.6	47.4	46.9	38.6	30.8	32.7	25.6	25.3	22.3	25.1	18.7	18.5	19.7
Kansai Nerolac (KANNER)	511	620	Buy	27,539	8.7	11.9	13.7	58.9	43.0	37.4	38.0	31.3	25.9	20.2	21.6	22.9	13.6	17.4	17.5
Pidilite Industries (PIDIND)	1,428	1,475	Hold	73,211	18.8	19.2	24.1	75.9	74.5	59.3	50.4	40.6	35.7	29.6	33.6	34.5	22.7	26.9	27.3
Essel Propack (ESSPRO)	170	95	Reduce	5,341	6.2	7.1	8.0	27.4	23.8	21.3	7.5	6.8	5.9	16.9	16.6	18.5	13.9	13.9	14.9
Supreme Indus (SUPIND)	1,314	1,420	Buy	16,691	35.3	40.8	45.2	37.2	32.2	29.0	18.3	17.8	14.9	25.0	23.9	26.0	18.7	22.2	21.6
Symphony (SYMLIM)	1,195	1,295	Hold	8,360	13.0	23.0	34.1	91.9	52.0	35.1	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	225	230	Hold	9,578	3.9	5.0	5.7	57.7	45.0	39.5	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	695	765	Hold	22,986	15.5	18.7	24.3	44.7	37.2	28.6	33.5	35.3	26.3	19.8	17.3	22.5	14.8	12.7	16.3
Time Techno (TIMTEC)	58	55	Hold	1,312	9.0	8.5	10.2	6.5	6.9	5.7	3.5	3.7	3.2	15.0	13.7	15.4	12.1	10.9	12.0

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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