

# Asian Paints

## Standing tall

Delivering growth along with improving profitability and untouched free cash generation during a pandemic, especially when top cities are yet to fire (70-80% of base quarter sales) is a testimony to APNT's distribution and product portfolio heft. That said, the recovery is more than priced in at 54x Sept-22 P/E. We revise our FY22/23 EPS estimates marginally (2/4% resp) and, consequently, our DCF-based TP to Rs. 1,850/sh (earlier TP: Rs. 1,800/sh) implying 50x Sep-22 P/E.

- 2QFY21 highlights:** Revenue grew 5.9% YoY to Rs. 53.5bn (HSIE: Rs. 52.4bn) as recovery was stronger than expected. Decorative business volume grew 11% YoY underpinned by encouraging pick up in Emulsions (low-end and Luxury alike), Undercoats and Waterproofing. Demand in Tier 2/3/4 towns have passed the pre-COVID19 level, and metros/Tier 1 cities continue to improve progressively (70-80% of pre-COVID sales). GMs expanded 197bp to 44.4% (in-line), aided by benign RM prices and better sourcing efficiency. EBITDA grew 32.5% YoY to Rs. 12.65bn (HSIE: Rs. 11.3bn). EBITDAM expanded 474bp YoY to 23.6% (HSIE: 21.5%) as GM savings trickled down and management continued to keep a tight leash on marketing, travelling, and other SG&A expenses. International revenue grew 7.8%/-9% YoY to Rs. 6.6/10.56bn in 2Q/1HFY21 and PBT grew 44.3/-5% YoY to Rs. 690/730mn respectively in 2Q/1H. Industrial Paints continues to witness gradual recovery. Kitchen & Bath business nearly touched the pre-COVID level with improving profitability.
- Outlook:** APNT's 2QFY21 recovery is a testimony to its dominance across distribution and product portfolio. However, at 54x Sept-22 P/E, pluses seem more than priced in. We maintain our REDUCE recommendation with a revised target price of Rs. 1,850/sh (earlier TP: 1,800/sh), implying 50x Sep-22 P/E. Note: TP change is a function of EPS change (2/4% for FY22/23).

### Quarterly financial summary

(Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	53,502	50,507	5.9	29,227	83.1	193,415	202,113	195,321	232,453	260,590
EBITDA	12,652	9,548	32.5	4,843	161.3	35,245	41,618	42,288	49,625	55,057
APAT	8,519	8,450	0.8	2,196	287.9	21,595	27,101	26,813	32,712	37,578
EPS (Rs)	8.9	8.8	1.2	2.29	287.9	22.5	28.3	28.0	34.1	39.2
P/E (x)						86.9	69.2	70.0	57.4	49.9
EV/EBITDA (x)						53.3	45.0	43.9	37.1	33.1
Core RoCE(%)						25.2	27.7	25.7	31.5	36.1

Source: Company, HSIE Research, Standalone Financials

### Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	195,321	188,760	3.5	232,453	230,410	0.9	260,590	256,587	1.6
Gross Profit	86,765	85,208	1.8	101,163	100,503	0.7	112,781	111,389	1.3
Gross Profit Margin (%)	44.4	45.1	(72 bps)	43.5	43.6	(10 bps)	43.3	43.4	(13 bps)
EBITDA	42,288	38,689	9.3	49,625	48,500	2.3	55,057	53,015	3.9
EBITDA margin (%)	21.7	20.5	115 bps	21.3	21.0	30 bps	21.1	20.7	47 bps
APAT	26,813	24,211	10.7	32,712	32,032	2.1	37,578	36,148	4.0
APAT margin (%)	13.7	12.8	90 bps	14.1	13.9	17 bps	14.4	14.1	33 bps
EPS (Rs)	28.0	25.2	10.7	34.1	33.4	2.1	39.2	37.7	4.0

Source: Company, HSIE Research

## REDUCE

CMP (as on 22 Oct 2020) Rs 2,100

Target Price Rs 1,850

NIFTY 11,896

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,800	Rs 1,850
EPS %	FY22E	FY23E
	+2.1	+4.0

### KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (Rs bn) / (\$ mn)	2,014/27,350
6m avg traded value (Rs mn)	4,855
52 Week high / low	Rs 2,144/1,431

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.8	15.8	18.0
Relative (%)	16.7	(13.4)	13.9

### SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	52.79	52.79
FIs & Local MFs	3.94	3.23
FPIs	18.21	19.84
Public & Others	25.06	24.14
Pledged Shares	6.18	6.26

Source : BSE

Pledged shares as % of total shares

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