

Neither uncertainty nor discretionarity in sight!

## Summary

Asian Paints (APNT) above expectation result was driven by 11% volume growth in decorative coatings followed by meaningful recovery in home improvement (led by kitchen business). In International markets, except Nepal, all other regions witnessed strong volume growth supported by gradual unlocking of the markets. Stable input cost aided gross margin expansion. APNT forays into lighting, furnishing and furniture to strengthen its home décor and interior design business. Overall, it has been a strong performance. APNT has gained market share both from organized and un-organized players led by distribution reach/efficiency. We continue to maintain our bullish stance on the stock. We have introduced FY23E in our estimates. We maintain ACCUMULATE rating on the stock with a revised TP of Rs 2,376 (55x FY23E EPS).

## Key Highlights and Investment Rationale

- Decorative coatings posts double digit volume growth; HI recovering**  
 Standalone revenue grew 6% YoY led by 6% Yoy growth in paint revenue (11% volume growth in domestic decorative coatings) while revenue from Home Improvement (HI) declined 5%YoY. In home improvement; revenue from kitchen business reached 2QFY20 level while from bath business declined 4%YoY. Revenue from subsidiary increased 6%YoY led by strong performance in all international geographies except Nepal which is facing 2<sup>nd</sup> wave of rise in COVID cases.
- Raw material cost deflation supports gross margin expansion**  
 Consolidated gross margin expanded by 190bp YoY (this is 6th consecutive quarter of GM expansion) to 44.4% in 2QFY21 led by, (i) deflationary raw material cost trend and (ii) rationalization of costs in formulation and sourcing of raw materials. PBT increased 36%YoY while PAT rises 1%YoY due to tax reversal in base quarter w.r.t lowering of corporate tax rate.
- Revise our estimates upward; maintain ACCUMULATE**  
 Based on strong business recovery during 2QFY21 and positive outlook we have revised our EPS estimates for FY21E and FY22E by 11% and 7% respectively. We have introduced FY23E in our estimates. We maintain ACCUMULATE rating with a revised TP of Rs 2376 (55x FY23E EPS).

**TP** Rs2,376  
**CMP** Rs2,100

Potential upside / downside 13%  
 Previous Rating ACCUMULATE

### V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	29.4	37.4	43.2
Consensus	27.3	35.5	41.4
% difference	7.6	5.4	4.3

### Shareholding Pattern (%)

Promoters	52.8
FII	18.2
DII	8.3
Public	20.7

### Price Performance (%)

	-1m	-3m	-12m
Absolute	6.5	21.9	15.6
Rel to Sensex	(0.2)	14.9	12.4

### Key Stock Data

Bloomberg / Reuters	APNT IN / ASPN.BO
Sector	Paints
Shares o/s (mn)	959
Market cap. (Rs mn)	2,014,555
Market cap. (US\$ mn)	29,087
3-m daily average value (Rs mn)	1,094.5
52-week high / low	Rs 2,143 / 1,432
Sensex / Nifty	40,558 / 11,896

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	192,485	202,113	199,889	241,485	274,947
EBITDA	37,654	41,618	44,032	54,629	62,375
EBITDA (%)	19.6	20.6	22.0	22.6	22.7
Adj. PAT	21,672	27,044	28,224	35,894	41,446
EPS (Rs)	22.6	28.2	29.4	37.4	43.2
EPS Growth (%)	6.3	24.8	4.4	27.2	15.5
PE (x)	93.0	74.5	71.4	56.1	48.6
Dividend Yield (%)	0.5	1.1	0.5	0.5	0.6
EV/EBITDA (x)	53.5	48.3	45.1	35.9	30.9
RoE (%)	23.3	26.6	24.7	26.5	25.4
RoCE (%)	29.2	28.4	27.5	30.3	29.8

Source: Company; IDBI Capital Research

## Conference Call Highlights

### Business operations:

- Demand recovery accelerated in Q2 led by progressive unlocks phases by central and state governments. The paint industry is on recovery mode; the company has seen good growth from last month of the previous quarter to the current month led by tier2/3/4 cities.
- Volume growth improved month over month during the quarter with an overall 11% volume growth during Q2.
- Demand momentum is continuing in October led by festive season across various tier cities. Metro demand improved progressively during the quarter however, sales are not yet back to pre-covid levels. Mumbai has been the most sluggish followed by Bangalore and Chennai. North and East have performed better.
- The company highlighted share gains from organized players in tier 3 and 4 cities due to better reach and range of product portfolio.
- No price cuts have been taken during the quarter as there have been no signs of downtrading. Discounting in trade has increased marginally as dealers were not willing to stock.
- Demand recovery is led across economy, premium and luxury range of products. The key categories where the company saw demand were (i) upgrades in emulsion segment, (ii) expansion of waterproofing category and (iii) luxury emulsions and (iv) Undercoats segment continued to grow.

### Home Décor Segment:

- The company forayed into lightings, furnishings and furniture segment during the quarter. The launch is in line with the company's vision of being a home décor company from a paints company. The company launched 1,500 SKU's across three brands: Nilaya, Royale and Ador.
- The items are sourced via partnering or franchising as long as they meet the design and quality parameters of the company. The company is not incurring any large CAPEX for these launches.
- Go-to-market strategy for the segment includes (i) Retail stores, (ii) APNT's specialty stores (Beautiful Homes), (iii) Projects and institutional business and (iv) Liaison with architects and interior designers
- Opportunity sizes for these segments are huge (e.g. Furniture segment is ~Rs1 lac cr market). However, these markets are largely unorganized.

### Industrial JV

- PPG-AP saw strong recovery driven by an uptick in passenger & 2 wheeler vehicles. OEM business reported good growth after sluggish Q1. Refurnish business improved from Q1 but is still below pre-covid levels
- AP-PPG witnessed a gradual recovery in Q2 with powder business leading the recovery. Industrial paint demand is low as some industries are still lagging.

### Bath & Kitchen segment

- Kitchen business revenue was flat during the quarter while on H1FY21 basis revenue was down by 26%. Components as well as full kitchen segments witnessed good recovery during the quarter.
- Bath business declined by 4%/25% in Q2/H1 respectively. Business recovery in the segment was led by the economy range of products.

### International Business

- The international market reported revenue growth of 7.8% in Q2 and -9% in H1FY21. Volume growth in the international market was close to double digit led by Africa and the Middle East.
- Nepal has been under pressure due to COVID related restrictions while Sri Lanka and Bangladesh reported double - digit growth.
- Company has launched new products/ variants in Premium and luxury emulsions and waterproofing segments which have seen good traction.

**Exhibit 1: Actual vs. Estimates**

(Rs mn)

	Actual	IDBI Estimate	% variation IDBI
Revenue	53,502	44,958	19.0
EBITDA	12,652	7,868	60.8
Margin(%)	23.6	17.5	
APAT	8,304	4,862	70.8

Source: Company; IDBI Capital Research

**Exhibit 2: Standalone Quarterly Snapshot**

(Rs mn)

Financial Snapshot	Q2FY21	Q1FY21	YoY (%)	Q2FY20	QoQ (%)	YTD21	YTD20	YoY (%)
<b>Revenues</b>	<b>45,267</b>	<b>42,780</b>	<b>5.8</b>	<b>24,466</b>	<b>85.0</b>	<b>69,733</b>	<b>86,582</b>	<b>-19.5</b>
COGS	24,713	24,223	2.0	13,128	88.2	37,841	48,403	-21.8
Gross profit	20,554	18,557	10.8	11,337	81.3	31,892	38,179	-16.5
Gross Margin (%)	45.4	43.4	203 bps	46.3	-93 bps	45.7	44.1	164 bps
Employee expenses	2,767	2,532	9.3	2,719	1.8	5,486	5,008	9.6
% of net sales	6.1	5.9	19 bps	11.1	-500 bps	7.9	5.8	208 bps
Other Expenses	6,291	7,290	-13.7	3,949	59.3	10,240	13,538	-24.4
% of net sales	13.9	17.0	-314 bps	16.1	-224 bps	14.7	15.6	-95 bps
<b>EBITDA</b>	<b>11,496</b>	<b>8,735</b>	<b>31.6</b>	<b>4,670</b>	<b>146.2</b>	<b>16,166</b>	<b>19,633</b>	<b>-17.7</b>
EBITDA Margin (%)	25.4	20.4	498 bps	19.1	631 bps	23.2	22.7	51 bps
Depreciation	1,687	1,743	-3.2	1,669	1.0	3,356	3,441	-2.5
<b>EBIT</b>	<b>9,810</b>	<b>6,991</b>	<b>40.3</b>	<b>3,001</b>	<b>226.90</b>	<b>12,810</b>	<b>16,192</b>	<b>-20.9</b>
Other Income	945	1,141	-17.2	518	82.3	1,463	1,996	-26.7
Interest Expenses	153	202	-24.3	149	2.6	303	395	-23.3
<b>PBT</b>	<b>10,601</b>	<b>7,930</b>	<b>33.7</b>	<b>3,370</b>	<b>214.6</b>	<b>13,971</b>	<b>17,794</b>	<b>-21.5</b>
Taxes	2,670	25		851		3,521	3,364	4.7
<b>Adjusted PAT</b>	<b>7,931</b>	<b>7,905</b>	<b>0.3</b>	<b>2,519</b>	<b>214.9</b>	<b>10,450</b>	<b>14,430</b>	<b>-27.6</b>
Extra-ordinary items	0	0		0		0	0	
<b>Reported PAT</b>	<b>7,931</b>	<b>7,905</b>	<b>0.3</b>	<b>2,519</b>	<b>214.9</b>	<b>10,450</b>	<b>14,430</b>	<b>-27.6</b>
<b>Diluted EPS (Rs)</b>	<b>8.27</b>	<b>8.2</b>	<b>0.3</b>	<b>2.6</b>	<b>214.9</b>	<b>10.9</b>	<b>15.0</b>	<b>-27.6</b>

Source: Company; IDBI Capital Research

**Exhibit 3: Consolidated Quarterly Snapshot**

(Rs mn)

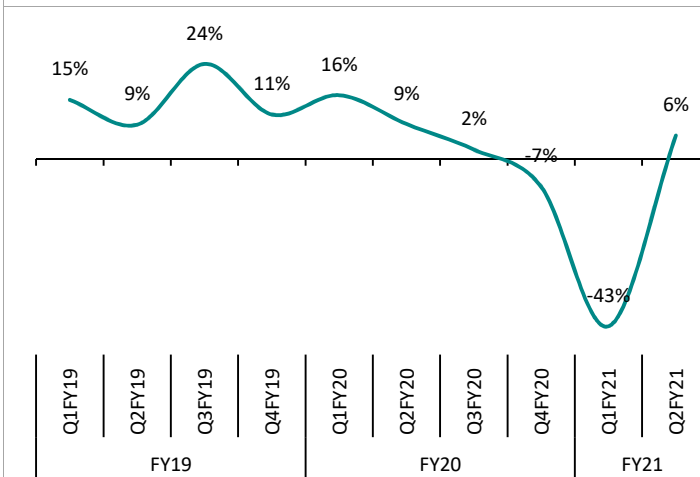
Financial Snapshot	Q2FY21	Q1FY21	YoY (%)	Q2FY20	QoQ (%)	YTD21	YTD20	YoY (%)
<b>Revenues</b>	<b>53,502</b>	<b>50,507</b>	<b>5.9</b>	<b>29,227</b>	<b>83.1</b>	<b>82,729</b>	<b>1,01,554</b>	<b>-18.5</b>
COGS	29,745	29,072	2.3	16,150	84.2	45,894	57,839	-20.7
Gross profit	23,758	21,435	10.8	13,077	81.7	36,835	43,715	-15.7
<i>Gross Margin (%)</i>	44.4	42.4	197 bps	44.7	-34 bps	44.5	43.0	148 bps
Employee expenses	3,789	3,476	9.0	3,615	4.8	7,404	6,875	7.7
<i>% of net sales</i>	7.1	6.9	20 bps	12.4	-529 bps	8.9	6.8	218 bps
Other Expenses	7,317	8,411	-13.0	4,619	58.4	11,936	15,713	-24.0
<i>% of net sales</i>	13.7	16.7	-298 bps	15.8	-213 bps	14.4	15.5	-104 bps
<b>EBITDA</b>	<b>12,652</b>	<b>9,548</b>	<b>32.5</b>	<b>4,843</b>	<b>161.3</b>	<b>17,495</b>	<b>21,128</b>	<b>-17.2</b>
<i>EBITDA Margin (%)</i>	23.6	18.9	474 bps	16.6	708 bps	21.1	20.8	34 bps
Depreciation	1,936	1,972	-1.8	1,912	1.3	3,848	3,889	-1.1
<b>EBIT</b>	<b>10,716</b>	<b>7,577</b>	<b>41.4</b>	<b>2,931</b>	<b>265.64</b>	<b>13,647</b>	<b>17,238</b>	<b>-20.8</b>
Other Income	826	1,052	-21.4	471	75.5	1,297	1,787	-27.4
Interest Expenses	205	259	-20.9	201	1.9	406	526	-22.7
<b>PBT</b>	<b>11,337</b>	<b>8,369</b>	<b>35.5</b>	<b>3,200</b>	<b>254.2</b>	<b>14,538</b>	<b>18,499</b>	<b>-21.4</b>
Taxes	2,936	72		862		3,798	3,583	
<b>Adjusted PAT</b>	<b>8,401</b>	<b>8,296</b>	<b>1.3</b>	<b>2,339</b>	<b>259.2</b>	<b>10,740</b>	<b>14,916</b>	<b>-28.0</b>
Extra-ordinary items	0	0		0		0	0	
<b>Reported PAT</b>	<b>8,401</b>	<b>8,296</b>	<b>1.3</b>	<b>2,339</b>	<b>259.2</b>	<b>10,740</b>	<b>14,916</b>	<b>-28.0</b>
Share in the profit/Loss of associate	118	154	-23.4	-143	-182.5	-25	276	-109.1
Minority Interest	215	229	-6.1	12	1756.0	227	408	-44.4
<b>Profit attributable to owners</b>	<b>8,304</b>	<b>8,242</b>	<b>0.8</b>	<b>2,185</b>	<b>280.1</b>	<b>10,488</b>	<b>14,784</b>	<b>-29.1</b>
<b>EPS</b>	<b>8.66</b>	<b>8.58</b>	<b>0.9</b>	<b>2.3</b>	<b>280.1</b>	<b>10.9</b>	<b>15.4</b>	<b>-29.1</b>

Source: Company; IDBI Capital Research

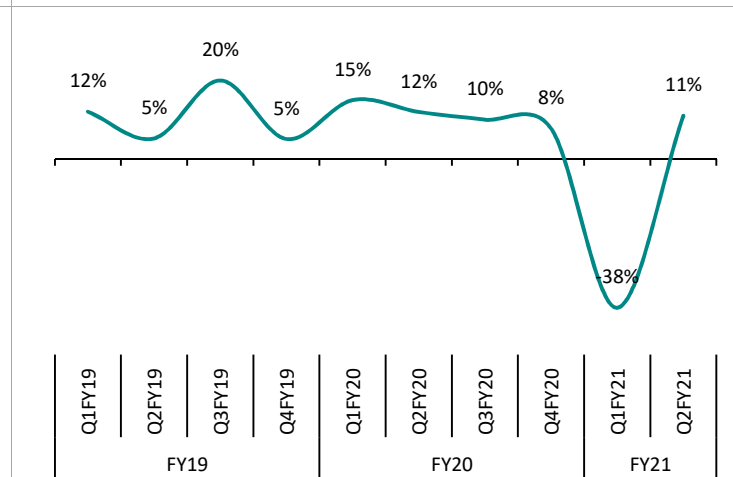
**Exhibit 4: Change in estimates**

	FY21E			FY22E			FY23E
	Old	New	(%) Chg	Old	New	(%) Chg	New
Revenue (Rs mn)	1,79,908	1,99,889	11.1	2,24,082	2,41,485	7.8	2,74,947
EBITDA (Rs mn)	40,137	44,032	9.7	51,349	54,629	6.4	62,375
EBITDA margin (%)	22.3	22.0		22.9	22.6		22.7
Net profit (Rs mn)	25,323	28,224	11.5	33,451	35,894	7.3	41,446
EPS (Rs)	26.4	29.4	11.5	34.9	37.4	7.3	43.2

Source: Company; IDBI Capital Research

**Exhibit 5: Consolidated Revenue growth trend (% YoY)**


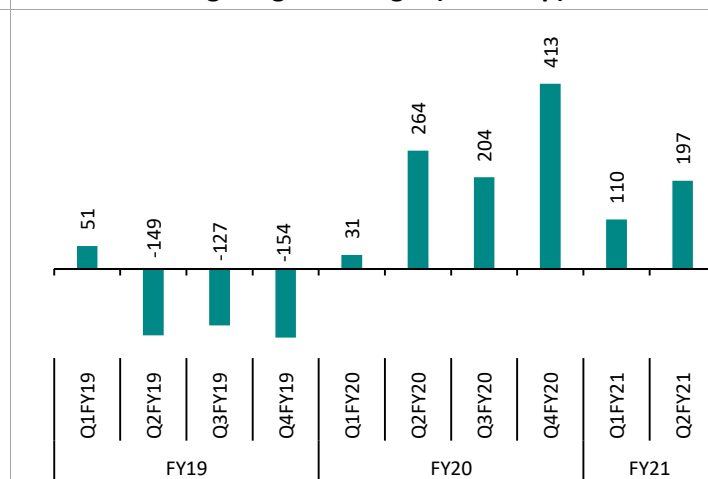
Source: Company; IDBI Capital Research

**Exhibit 6: Decorative paints volume growth**


Source: Company; IDBI Capital Research

**Exhibit 7: Consolidated Gross margin trend (% YoY)**

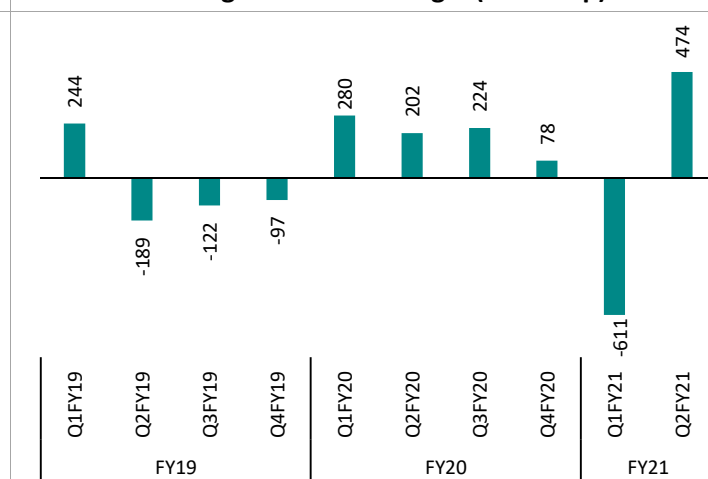

Source: Company; IDBI Capital Research

**Exhibit 8: Change in gross margin (YoY in bp)**


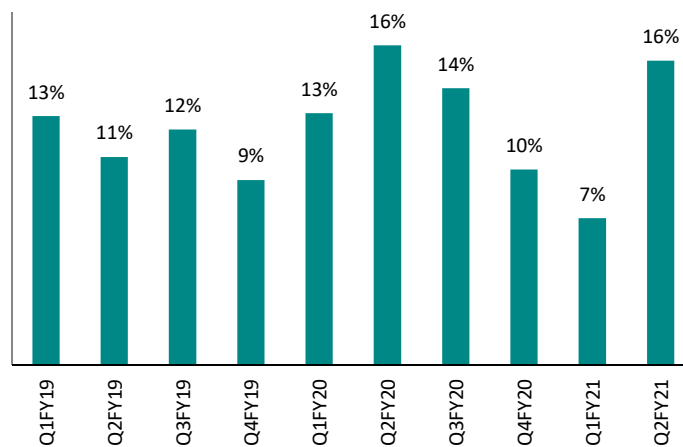
Source: Company; IDBI Capital Research

**Exhibit 9: Consolidated EBITDA margin trend (% YoY)**

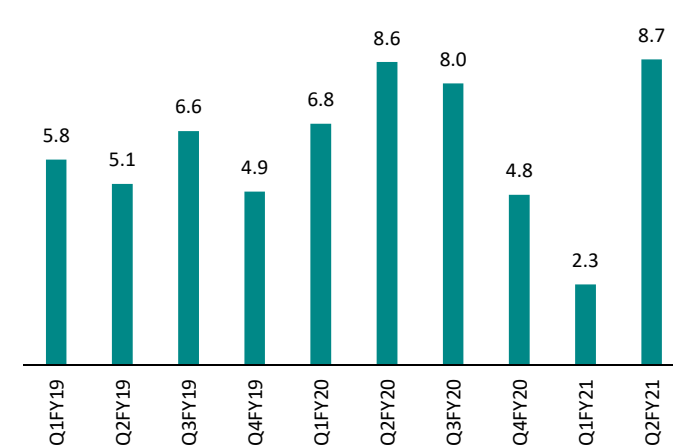

Source: Company; IDBI Capital Research

**Exhibit 10: Change in EBITDA margin (YoY in bp)**


Source: Company; IDBI Capital Research

**Exhibit 11: Net Profit Margin trend**


Source: Company; IDBI Capital Research

**Exhibit 12: Earning Per share (in Rs)**


Source: Company; IDBI Capital Research



## Financial Summary

Profit & Loss Account					(Rs mn)
Year-end: March	FY20	FY21E	FY22E	FY23E	
<b>Net sales</b>	<b>202,113</b>	<b>199,889</b>	<b>241,485</b>	<b>274,947</b>	
<i>growth (%)</i>	5.0	(1.1)	20.8	13.9	
Operating expenses	(160,495)	(155,857)	(186,856)	(212,571)	
<b>EBITDA</b>	<b>41,618</b>	<b>44,032</b>	<b>54,629</b>	<b>62,375</b>	
<i>growth (%)</i>	10.5	5.8	24.1	14.2	
Depreciation	(7,805)	(8,312)	(8,772)	(9,232)	
<b>EBIT</b>	<b>33,813</b>	<b>35,719</b>	<b>45,857</b>	<b>53,143</b>	
Interest paid	(1,023)	(1,020)	(1,020)	(1,020)	
Other income	3,043	3,195	3,355	3,523	
<b>Pre-tax profit</b>	<b>35,833</b>	<b>37,894</b>	<b>48,191</b>	<b>55,645</b>	
Tax	(8,549)	(9,538)	(12,130)	(14,006)	
<i>Effective tax rate (%)</i>	23.9	25.2	25.2	25.2	
Minority Interest	(182.8)	(132.0)	(167.8)	(193.8)	
<b>Net profit</b>	<b>27,044</b>	<b>28,224</b>	<b>35,894</b>	<b>41,446</b>	
Exceptional items	-	-	-	-	
<b>Adjusted net profit</b>	<b>27,044</b>	<b>28,224</b>	<b>35,894</b>	<b>41,446</b>	
<i>growth (%)</i>	24.8	4.4	27.2	15.5	
<i>Shares o/s (mn nos)</i>	959	959	959	959	

Cash Flow Statement					(Rs mn)
Year-end: March	FY20	FY21E	FY22E	FY23E	
Pre-tax profit	36,340	37,894	48,191	55,645	
Depreciation	7,819	8,312	8,772	9,232	
Tax paid	(10,108)	(9,538)	(12,130)	(14,006)	
Chg in working capital	(7,371)	3,103	(5,698)	(4,584)	
Other operating activities	(362)	1,020	1,020	1,020	
<b>Cash flow from operations (a)</b>	<b>26,319</b>	<b>40,792</b>	<b>40,156</b>	<b>47,308</b>	
Capital expenditure	(4,035)	(4,000)	(4,000)	(4,000)	
Chg in investments	(2,103)	-	1,308	-	
Other investing activities	925	-	-	-	
<b>Cash flow from investing (b)</b>	<b>(5,214)</b>	<b>(4,000)</b>	<b>(2,692)</b>	<b>(4,000)</b>	
Equity raised/(repaid)	-	-	-	(0)	
Debt raised/(repaid)	(2,755)	-	-	-	
Dividend (incl. tax)	(21,207)	(10,551)	(10,551)	(12,434)	
Chg in minorities	-	-	-	-	
Other financing activities	(690)	(1,152)	(1,188)	(1,214)	
<b>Cash flow from financing (c)</b>	<b>(24,652)</b>	<b>(11,704)</b>	<b>(11,739)</b>	<b>(13,648)</b>	
<b>Net chg in cash (a+b+c)</b>	<b>(3,547)</b>	<b>25,088</b>	<b>25,725</b>	<b>29,661</b>	

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	54,924	50,611	45,839	40,606
Investments	15,064	15,064	13,952	13,952
Other non-curr assets	15,758	15,758	15,562	15,562
<b>Current assets</b>	<b>75,801</b>	<b>101,065</b>	<b>137,616</b>	<b>175,986</b>
Inventories	33,898	32,311	39,035	44,443
Sundry Debtors	17,952	19,715	23,818	27,118
Cash and Bank	7,828	32,916	58,642	88,302
<b>Total assets</b>	<b>161,547</b>	<b>182,498</b>	<b>212,969</b>	<b>246,106</b>
<b>Shareholders' funds</b>	<b>105,337</b>	<b>123,010</b>	<b>148,353</b>	<b>177,365</b>
Share capital	959	959	959	959
Reserves & surplus	104,378	122,051	147,393	176,405
<b>Total Debt</b>	<b>3,401</b>	<b>3,401</b>	<b>3,401</b>	<b>3,401</b>
Secured loans	3,401	3,401	3,401	3,401
Other liabilities	12,221	12,221	12,221	12,221
<b>Curr Liab &amp; prov</b>	<b>40,588</b>	<b>43,866</b>	<b>48,994</b>	<b>53,120</b>
Current liabilities	39,964	43,243	48,371	52,496
Provisions	624	624	624	624
<b>Total liabilities</b>	<b>56,210</b>	<b>59,488</b>	<b>64,616</b>	<b>68,742</b>
<b>Total equity &amp; liab.</b>	<b>161,547</b>	<b>182,498</b>	<b>212,969</b>	<b>246,106</b>
<b>Book Value (Rs)</b>	<b>110</b>	<b>128</b>	<b>155</b>	<b>185</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	28.2	29.4	37.4	43.2
Adj. EPS growth (%)	24.8	4.4	27.2	15.5
EBITDA margin (%)	20.6	22.0	22.6	22.7
Pre-tax margin (%)	17.7	19.0	20.0	20.2
ROE (%)	26.6	24.7	26.5	25.4
ROCE (%)	28.4	27.5	30.3	29.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.2	1.2	1.2	1.2
Leverage factor (x)	1.6	1.5	1.5	1.4
Net margin (%)	13.4	14.1	14.9	15.1
Net Debt/Equity (x)	(0.0)	(0.2)	(0.4)	(0.5)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	61	59	59	59
Receivable days	32	36	36	36
Payable days	49	58	58	58

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	74.5	71.4	56.1	48.6
Price / Book value (x)	19.1	16.4	13.6	11.4
PCE (x)	57.8	55.1	45.1	39.8
EV / Net sales (x)	9.9	9.9	8.1	7.0
EV / EBITDA (x)	48.3	45.1	35.9	30.9
Dividend Yield (%)	1.1	0.5	0.5	0.6



# Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

### Key to Ratings Stocks:

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

### IDBI Capital Markets & Securities Ltd.

#### Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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**Compliance Officer:** Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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