

17 November 2021

Asian Paints – BUY

CMP : Rs.3,235.0
Target Price : Rs.3,860.0
Upside : 19%+
Stop Loss : Rs.2,830.0 (Closingbasis)

Investment Thesis

Recently, the stock price of Asian Paints Ltd. (Asian Paints) corrected by ~10% from 52-week high of Rs.3,505.00 as the company has reported lower-than-expected operating margin in the recent quarters due to adverse product mix and higher raw material prices.

Asian Paints' decorative paint volume reported strong double digit growth in the first two months of 2021 led by demand recovery. However, the lockdown due to second-wave of Covid-19 in March 2021 has limited volume growth to single digit in Q4FY21. Performance of industrial business has also remained under pressure due to slowdown in the automotive industry. Asian Paints saw volume recovery from June 2021 after a washout in April and May 2021 due to lockdown. Despite being a lean season due to monsoons, the strong decorative volume growth is due to significant growth of demand in rural and semi urban regions led by repainting/maintenance activities. Gradual opening up of metro regions along with inventory build-up in the wake of festive seasons at dealer would have also help drive the volume growth of 33.0% in Q2FY22.

With its innovative and premium products, Asian Paints has emerged as industry leader in the decorative paint segment with ~53% market share. Over the period, it has spread its presence pan India with its dealer network of over 60,000 across India. Its decorative segment contributes ~83% of its revenue while the rest comes from the industrial segment. It has plans to add ~3,000 dealer and ~4,000 colour world every year to further increase its penetration. Asian Paints is well placed to capture sustained demand of decorative paints going ahead. We expect Asian Paint will grow at healthy rate going ahead led by volume growth owing to sustained demand for decorative paints in tier-II and tier-III cities as well as a shorter repainting cycle.

Financials

- During the past 5 years, revenue of Asian Paints grew at a CAGR of 8.8% while PAT grew at a CAGR of 12.5% in the same period.

Consol. (Rs. Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,93,498	2,02,635	2,17,128	2,49,697	2,87,152
EBITDA	37,635	41,639	48,556	55,839	64,215
% growth	17.3	10.6	16.6	15.0	15.0
PAT	21,559	27,052	31,393	35,913	41,157
EPS (INR)	22.5	28.2	32.7	37.4	42.9
P/E (x)	140.1	111.7	96.2	84.1	73.4
RoE (%)	22.8%	26.7%	24.5%	25.5%	26.6%

- Asian Paints has reported 32.6% YoY growth in revenue in Q2FY22 to Rs.70,960mn largely driven by strong volume growth of ~33.0% YoY in decorative paint segment in the quarter.

Stock Data

Market Cap (Rs. Mn)	30,33,992
Market Cap (\$ Mn)	40,817.8
Shares O/S (in Mn)	959.2
Avg. Volume (3 month)	1,340,000
52-Week Range (Rs.)	3,505.00/ 2,117.15

Shareholding Pattern

Promoters	52.79%
FIIIs	20.96%
Institutions	6.87%
Others (incl. body corporate)	19.38%

Performance (%)	1M	6M	1Yr
Absolute	-3.9%	14.2%	45.0%
BSE 500	-1.2%	10.67%	49.51%

Key Ratios

Div Yield	0.6%
TTM PE	93.3x
ROE	24.9%
TTM EPS (Rs.)	33.9/-

- Asian Paints' volume grew by 33.0% YoY in Q2FY22 by supported by continuous demand from tier-I and tier-II cities. Industrial coatings also registered strong double digit revenue growth led by robust demand for protective coatings and uptick in automotive sector.
- Asian Paints' EBITDA declined by 28.5% YoY to Rs.9,045mn in Q2FY22 led by adverse product mix and higher raw material prices. As a result, EBITDA margin declined by 1,090bps YoY to 12.7% in Q2FY22.
- Asian Paints' PAT also declined by 29.0% YoY to Rs.6,052mn as sharp decline in EBITDA margin impacted PAT in Q2FY22.

Key Business Highlights

- Asian Paints is India's largest and Asia's third largest paint company with ~42% market share in the domestic decorative paint market.
- With operation in 15 countries and 26 paint manufacturing facilities in the world, Asian Paints serves consumers in over 60 countries. It has the widest distribution network with 70,000 retail outlets of which 27,000 are colour world outlets spread across India.
- Asian Paints has entered into a JV with PPG of the US for the industrials and automotive segment. It has also acquired Berger International of Singapore to expand its operations in other markets in Asia, the Middle East and the Caribbean.

Valuation

- Owing to lower raw material prices and rising proportion of premium products, Asian Paints has witnessed a significant expansion in EBTIDA margin, which improved by ~400bps during FY15-17. However, a reversal was witnessed from FY18 onwards, owing to inability to pass on a sudden rise in crude based raw material prices. Asian Paints has taken a price hike of ~6% during May-December 2018. However, change in product mix towards lower-end products weighed on margins. We believe, increasing proportion of premium products and price hike at regular interval will counter rise in raw material prices and help to sustain EBITDA margin at current level.
- To further expand its capacity to cater growing demand, Asian Paints has set-up a paint manufacturing plant with a capacity of 4,00,000KL in phases at Vizag in Andhra Pradesh at an approximate investment of Rs.17.5bn. First phase of Vizag plant has commenced its production by end of FY19. Additionally, the company is also invested ~Rs.23.0bn to set up a paint manufacturing facility with a capacity of 6,00,000KL in phases at Mysuru in Karnataka. The first phase of Mysuru plant has commenced operation in September 2018. Asian Paints has incurred a total capex of Rs.10,000mn in FY19 and Rs.7,000mn in FY20. Once the entire capacity become operational, Asian Paints will be able to cater the future paint demand.
- With pent up demand in rural and semi urban regions, market leader in paint industry with 42% market share, growing demand due to government's initiatives, indication to further price hike to counter raw material price inflation, EBITDA margin is expected to remain flat and expansion plan to auger capacities, we value Asian Paints at 90x FY23E EPS of Rs.42.90 to arrive at target price of Rs.3,860.00 an upside of 19%.

Risk & Concern

- Any delay in pick up in domestic investment cycle may lead to lower than expected volume growth of Asian Paints.
- Rupee depreciation against the major currencies may lead to erosion of margin of Asian Paints as it imports ~40% of its raw materials.
- Any further increase in prices of its main raw material may lead Asian Paints to increase prices of its paints and hence weaken volume growth.

Graphs & Charts

Figure 1: Net Sales Trend

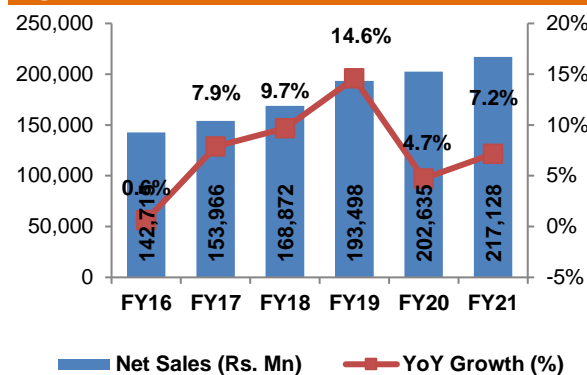


Figure 2: EBITDA & EBITDA Margin Trend

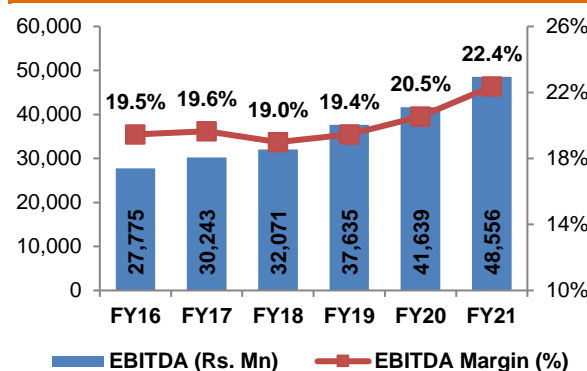


Figure 3: PAT Trend

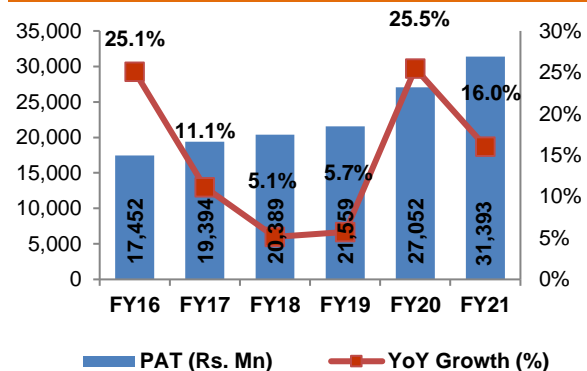
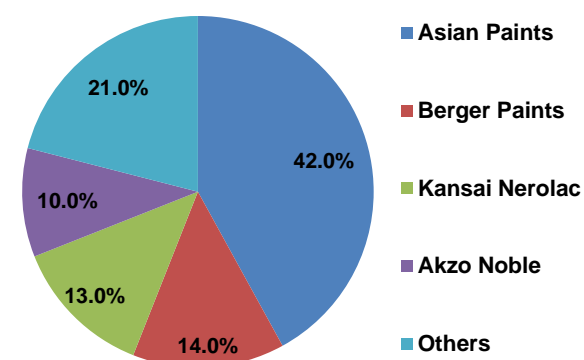


Figure 4: Market-share of Paint Companies



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