

28 November 2019

## Asian Paints – BUY

**CMP** :Rs.1,721.0  
**Target Price** :Rs.2,125.0  
**Upside** : 23%+  
**Stop Loss** :Rs.1,550.0 (Closing basis)

### Investment Thesis

Recently, the stock price of Asian Paints Ltd. (Asian Paints) corrected by ~6% from 52-week high of Rs.1,820.00 as it reported lower than expected margin due to change in product mix towards lower end of products.

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. A reduction in the GST rate from 28% to 18% would benefit organized players in the long run while rising tax compliance would hit the unorganized segment, which is commanding ~25% of the total industry. 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.

Owing to lower raw material prices and rising proportion of premium products, Asian Paints has witnessed a significant expansion in EBITDA 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.

### Financials

- During the past 5 years, revenue of Asian Paints grew at a CAGR of 9.0% while PAT grew at a CAGR of 11.4% in the same period.

Consol. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	170,848	172,622	193,498	222,523	255,902
EBITDA	30,214	31,976	35,245	40,532	46,612
% growth	7.6	5.8	10.2	15.0	15.0
PAT	19,666	20,517	21,711	24,968	28,713
EPS (INR)	20.5	21.4	22.6	26.0	29.9
P/E (x)	86.4	82.8	78.2	68.0	59.2
RoE (%)	28.3%	26.3%	24.4%	25.6%	26.7%

- Asian Paints has reported 11.9% YoY growth in revenue in Q4FY19 to Rs.50,182mn largely driven by ~11.0% YoY volume growth in decorative paints in Q4FY19.

### Stock Data

Market Cap (Rs. Mn)	1,698,451
Market Cap (\$ Mn)	23,962.3
Shares O/S (in Mn)	959.2
Avg. Volume (3 month)	1,335,000
52-Week Range (Rs.)	1,820/ 1,118

### Shareholding Pattern

Promoters	52.79%
FII's	16.33%
Institutions	9.56%
Others (incl. body corporate)	21.32%

Performance (%)	1M	6M	1Yr
Absolute	10.8%	19.2%	38.1%
BSE 500	5.4%	-0.6%	1.6%

### Key Ratios

Div Yield	0.6%
TTM PE	75.3x
ROE	24.5%
TTM EPS (Rs.)	23.5/-

- Asian Paints' decorative paint volume grew at ~11.0% YoY mainly driven by economy product range such as distemper and putty.
- Asian Paints' EBITDA grew by 15.1% YoY to Rs.8,798mn in Q4FY19. However, EBITDA margin has declined by 233bps YoY to 16.4% due to change in product mix towards lower end of products. Further, higher fixed cost associated with new plants also weigh on EBITDA margin.
- Asian Paints' PAT marginally declined by 1.7% YoY to Rs.4,872mn attributable to higher depreciation and lower margins during Q4FY19.

## Key Business Highlights

- Asian Paints is India's largest and Asia's third largest paint company with ~53% market share in the domestic decorative paint market.
- With operation in 16 countries and 26 paint manufacturing facilities in the world, Asian Paints serves consumers in over 65 countries with its 7,000 employees. It has the widest distribution network with retail reach of 55,000 outlets of which 27,000 are colour world outlets.
- 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

- To further expand its capacity to cater growing demand, Asian Paints is setting 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 investing ~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 envisages a capex of Rs.7,000mn for FY20E. Once the entire capacity become operational, Asian Paints will be able to cater the future paint demand.
- Asian Paints has built a strong supply chain as it has rapidly identified lucrative catchment areas and set-up depots around it to cater the local demands. This led them to achieve the shortest delivery time of 4-5 hours compared to 24 hours of peers. It also has a wide product portfolio that spans all price points from distempers to premium emulsions. The company is able to deliver 90-95% of the order placed as inventory availability is high at all times as compared to 60-65% of peers. The inventory churn is also much faster due to strong supply chain and wider distribution network at all levels. The strength of its network and supply chain has giving it the pricing power to charge a premium of 5% over other players in all the segments.
- With market leader in paint industry with 53% 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, expansion plan to auger capacities and strong supply chain management along with strong dealer networks, we value Asian Paints at 71x FY21E EPS of Rs.29.90 to arrive at target price of Rs.2,125.00, an upside of ~23%.

## 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 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

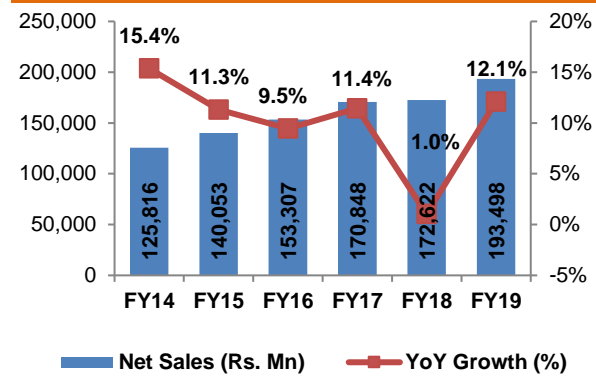


Figure 2: EBITDA & EBITDA Margin Trend

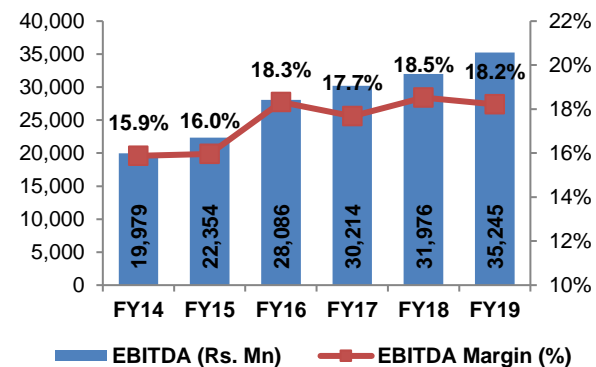


Figure 3: PAT Trend

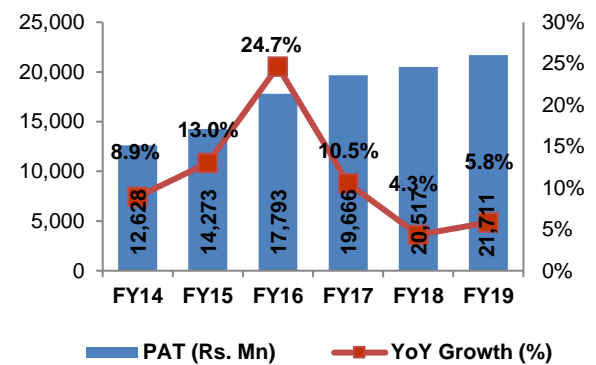
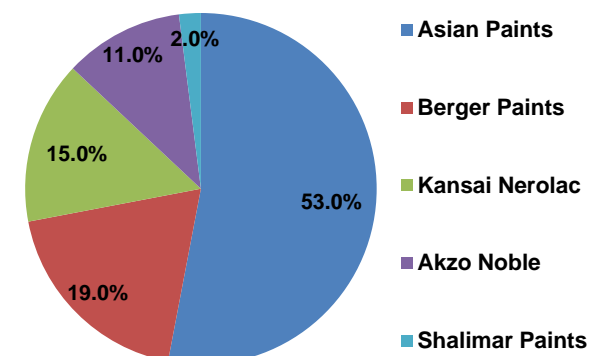


Figure 4: Market-share of Paint Companies



Name	Designation
Jitendra Upadhyay	Research Analyst

**Disclosure:**

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. Bonanza Portfolio Ltd or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

Bonanza Portfolio Ltd operates under the regulation of SEBI RegnNo.INM000012306

**Disclaimer:**

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

