

# INVESTO VISTA



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**ON HOLD**

**Target Price (Rs. Cr) - 2970**

**CMP (Rs. Cr) - 2816.65**

Market Capitalization (Rs. Cr)	- 2,70,172.45
Enterprise Value (Rs. Cr)	- 2,69,820.79
Cash & Cash Equivalent (Rs. Cr)	- 610.75
Total Debt (Rs. Cr)	- 340.23

Equity Capital (Rs. Cr)	- 95.92
P/E Ratio (Rs.)	- 88.51
P/B Ratio (Rs.)	- 22.34
52 Week H/L (Rs.)	- 2871.40/1494

# Executive Summary



Through the valuation we have decided to have a HOLD call on Asian paints till a target price of ₹2970 due to increasing competition by Kansai Nerolac, Berger Paints and Indigo paints.

Main flow of this report goes as follows- Company overview, Industry analysis, Corporate Governance, Financial Analysis and Risk Analysis.

Upon doing a thorough Industry research, we analysed that India's per capita paint consumption has increased by a CAGR of 6.8% in the last seven years. Out of this the decorative paint market is expected to grow at a CAGR of 13% while the industrial paint market is expected to grow at a CAGR of 9.9% by 2024. In this industry, Asian Paints holds a whopping 47% market share. Government Policies, Urbanization and Smart City projects and the current formalization of the industry due to GST (unorganised players losing market share) are the major growth drivers for this industry.

Asian Paints manufactures a wide range of paints for decorative and industrial use. It offers wall finishes and Wood finishes and waterproofing and adhesives in its product portfolio. A key aspect of Asian Paints is the dealer strategy using COLOR WORLDS (dealer tinting systems), ROYALE PLAY (special effect paints) and COLOR NEXT (prediction of colour trends using AI software and in- depth research).

While there has been a decline in the efficiency and profitability ratios of the company which can be largely attributed to the new projects which the company has undertaken namely the company's International business, Ess Ess and Sleek as well as the increased competition from Berger Paints and Kansai Nerolac due to which ROCE nearly halved in a decade and the cash conversion cycle has increased along with blockage of funds in the working capital, Asian Paints has remained the industry leader with more than 60% of the total profits of the sector accruing to it.

Asian Paints faces certain downside risks like the Pandemic hampering the growth of international projects but also several upside risks like a positive change in crude prices and more spending on house aesthetics due to WFH effect.



# Asian Paints - Overview



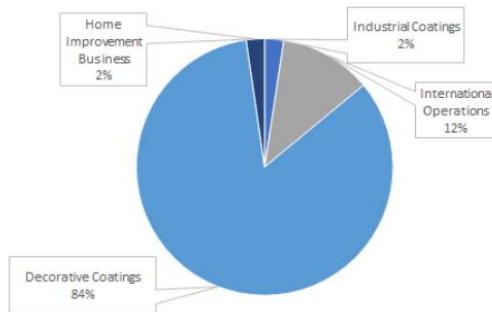
*"We want to be an innovative, agile, and responsive world class research and technology organization that's aligned to future customer needs and catalyzes the growth of the company across existing and future businesses."*

## Company Background

- Asian Paints Ltd is India's largest paint company and Asia's third largest paint company.
- It operates in 15 countries and has 26 paint manufacturing facilities in the world servicing consumers in over 60 countries.
- Manufacturing a wide range of paints for decorative and industrial use, Asian Paints have over the years forayed into providing services such as end to end painting and designing services, color and decor consultancy.

## Business Strategy

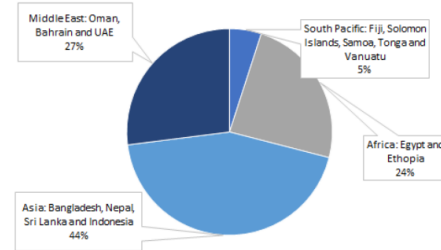
- Leveraging expertise in paints segment and the superior brand name to offer complete Home Décor solutions.
- Continuous product innovation to capture gaps in the market by increasing the width and depth of the product portfolio in economy as well as luxury customer segments.
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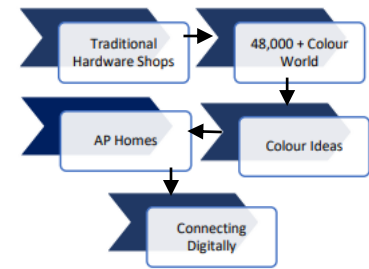
## Product Mix

APNT	Interior	Price Range	Exterior	Price Range
Top End/Luxury	Royale	420-1100	Ultima	330-460
Mid-Segment	Apcolite	260-320	Apex	160-210
Bottom of Pyramid /Economy/Value for Money	Tractor/TruCare	60-160	Ace/TruCare	30-210

## Current Base of Operations

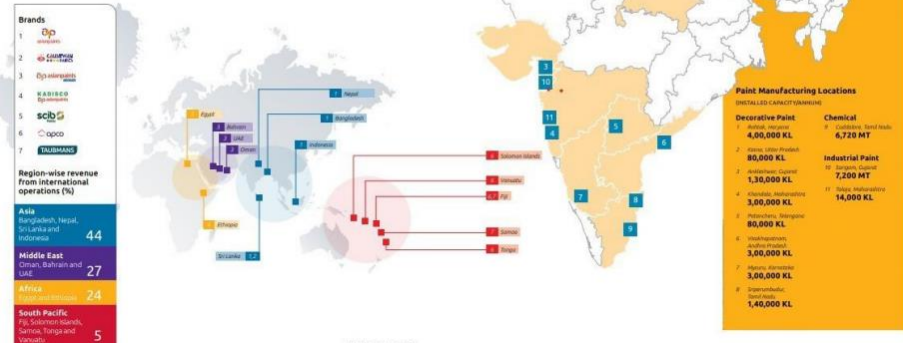


## Distribution Network



## AROUND THE WORLD

Our manufacturing operations encompass 15 countries of the world including India, with considerable presence in South Asia and the Middle East. We have steadily enhanced our global capacities and our facilities are equipped with technologies that ensure resolute focus on quality and consistently high productivity.



## Labour – Oriented Offerings

Company	Inventory Days	Supply Schedules	Incentives/ Margins	New Products/Services
Asian Paints	6-10 Days	4-6 Hours after Order Placement	3-5%	Sanitizer, Safe Paints
Kansai Nerolac	15-18 Days	12-24 Hours after Order Placement	8-10%	
Berger	15-18 Days	12-24 Hours after Order Placement	10-15%	Sanitizer, Express Painting Services
Akzo Nobel	15-20 Days	12-24 Hours after Order Placement	8-10%	
Indigo Paints	15-18 Days	12-24 Hours after Order Placement	Cash & Scheme	

# Company Overview



## Corporate Governance

- Asian Paints is the only paints company in the sector which has not seen a change in its controlling shareholders (promoters) over the past seventy years. All its competitors have seen: a) a change in the controlling shareholder; and b) significant presence of a foreign entity on the board of directors.
- Industry experts say that this consistency at the board level has helped Asian Paints maintain focus on execution of a stable, long-term strategy over these decades.

## Board of Directors

- The Company has received declarations from all the Independent Directors confirming that they abide by the criteria of independence as prescribed under the provisions of the Act.
- The Company understands that sound succession planning for the members of the Board and Senior Management is essential for sustained growth of the Company.
- As a part of the succession planning exercise, Mr. Amit Syngle was identified as the successor to the Managing Director & CEO of the Company and was groomed and mentored for the role by Mr. KBS Anand for over a period of two years.
- Before being chosen as the Managing Director & CEO, Mr. Amit Syngle was operating as the Chief Operating Officer of the Company.
- As of 2020, the Board comprised 14 (fourteen) members, 7 (seven) of which are Independent Directors constituting half of the Board strength, 6 (six) are Non-Executive/ Promoter Directors and 1 (one) Additional Director/ Managing Director & CEO.
- All of the CEOs in the lifetime of the Company have been associated with the company for decades and hence understand and envision what the company truly stands for.

## Remuneration of Key Managerial Personnel

Company Name	2018	2019	2020
Asian Paints	139.62	141.52	160.96
Berger	48.52	55.09	69.3
Kansai Nerolac	94.14	102	120.27
Akzo Nobel	31.91	39.56	32.78
Industry Mean	78.55	84.54	95.83

- While KMP and Director remuneration seems justified, this ratio helps us understand how skewed is the compensation policy in favor of KMP, i.e. MD and CEO of Asian Paints. It has been way above industry mean. While KMP deserves being rewarded for creating shareholder value, this certainly seems too overboard.
- The increase in remuneration of employees other than the KMP is considerably in line with the increase in remuneration of KMP, which points at equality and fairness in corporate culture.

## Management Change

- This year company witnessed a drastic change in its top management when Mr. KBS Anand stepped down as Managing Director and CEO after successful 8 years.
- Under his tenure, the stock price went 4.5x. He was replaced by equally component Amit Syngle who joined as a Management Trainee 30 years back and climbed up the corporate ladder to become the CEO.
- It appears that the transition would be smooth since both former and latter share very similar background. Both of them headed Sales and Marketing team after which they were given the onus of managing the Indian Decorative Business division of the company, which has proved to be the cash cow for it.
- The CFO and Company Secretary of the company too changed on 27th November from Mr. Jayesh Merchant to Mr. R J Jeyamurugan.
- This change too won't impact the operations too much owing to similar background of these individuals.

## Audit Committee

Name of Director(s)	Nature of membership	Meeting date(s)			
		1	2	3	4
		8 <sup>th</sup> May, 2019	23 <sup>rd</sup> July, 2019	22 <sup>nd</sup> October, 2019	21 <sup>st</sup> January, 2020
M K Sharma	Chairman	✓	✓	✓	✓
R Seshasayee	Member	✓	✓	✓	✓
Abhay Vakil	Member	✓	✓	✓	✓
Suresh Narayanan	Member	✓	✓	✓	✓

✓ Present

Auditor's quality can be checked by comparing the remuneration received by them with the profits earned. Any unusual anomaly must raise eyebrows of the investors, which certainly doesn't seem to be the case with Asian Paints.

Company Name	2018	2019	2020
Asian Paints	0.22%	0.22%	0.16%
Berger	0.18%	0.25%	0.19%
Kansai Nerolac	0.13%	0.20%	0.17%
Akzo Nobel	0.68%	0.62%	0.63%



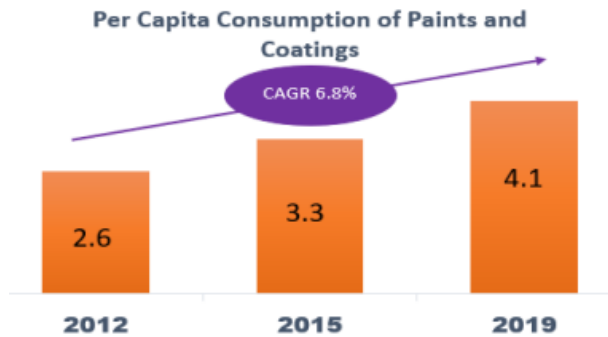
# Industry Analysis



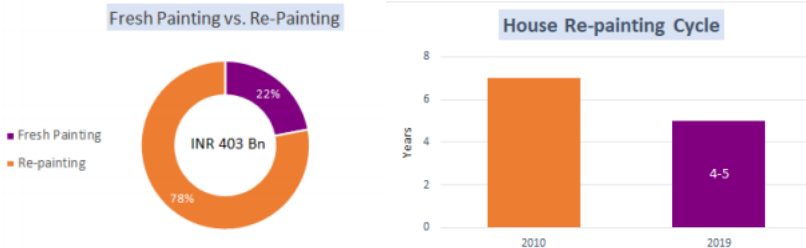
As against the worldwide paints industry, which generates revenue of ₹11,70,665 Cr., the Indian paint industry is valued at ≈₹50,000 Cr. as on FY20. Asia Pacific Region (APAC), the world's largest coatings market with 45% market share and valued at ₹5,00,000 Cr.+ in 2019, has been growing faster than the global markets on account of relatively higher growth in the economy, especially in China and India.

## Consumption Patterns

- The average consumption of paints and coatings for the Asia Pacific is 4.7 kg while that of the developed nations in the Asia Pacific has an average consumption of 9.7 kg.
- The highest Per Capita consumption of Paints & Coatings is in the USA consuming 15.8 kg followed by Singapore consuming 15 kg.
- As compared to this, the Average Paint Consumption in India is half that of leading countries like the USA and Singapore.



## Demand Side

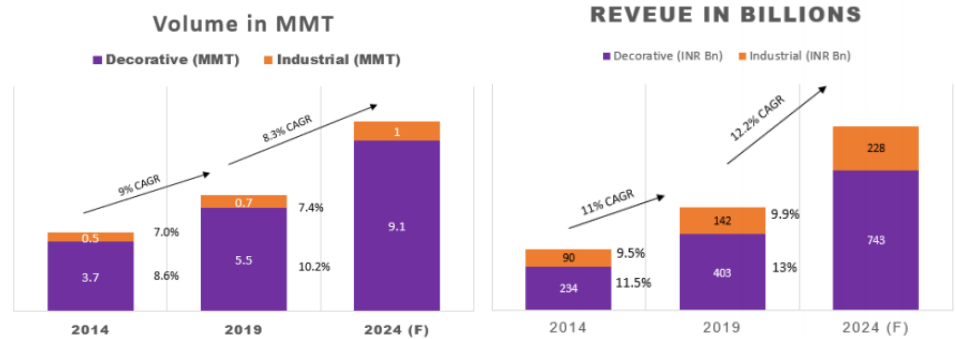


## Key Growth Drivers

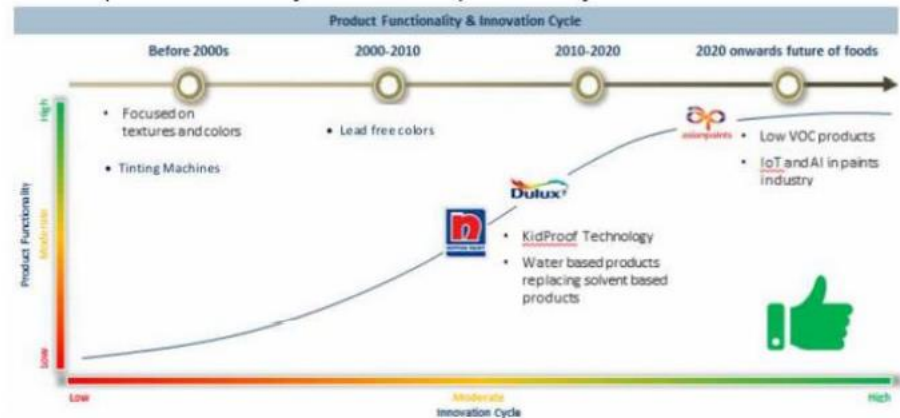


## Industry Size

- The high growth trajectory and shift of preference toward odour-free, and dust and water-resistant paints can be attributed to the rise in urbanization, growth in the popularity of branded paints, shortening of the repainting cycle and robust pricing power prevalent in the paint industry.
- There is a strong correlation between the Indian paint industry and the GDP growth of India. It has historically almost doubled India's GDP growth rate.



## Product Functionality

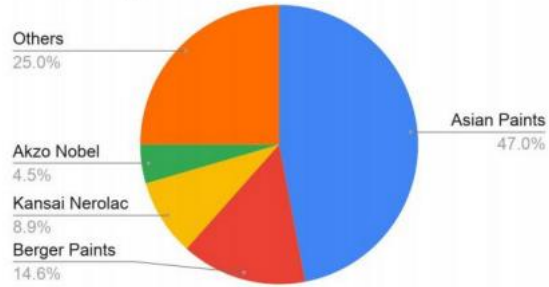


# Industry Analysis

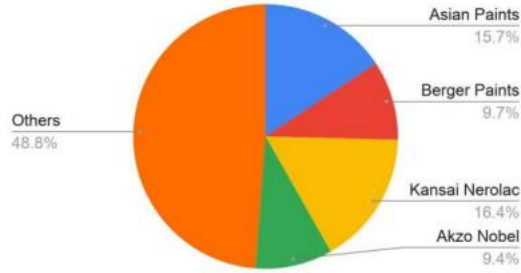


## Market Segmentation

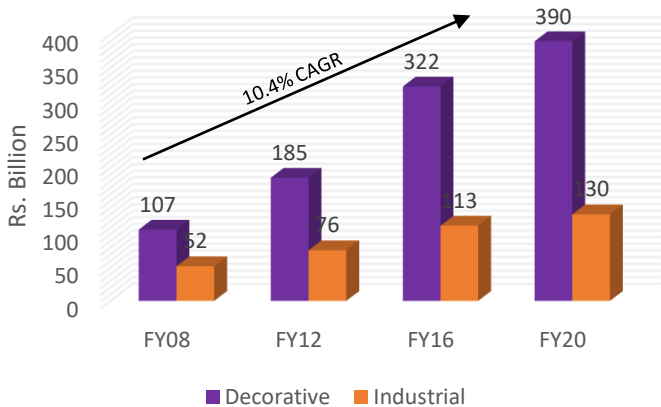
Decorative paints market share



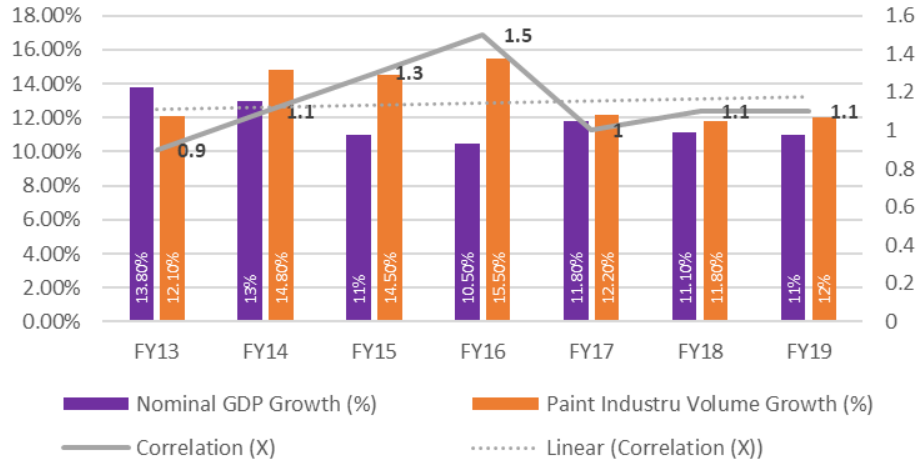
Industrial paints market share



## Indian Paint Industry Growth

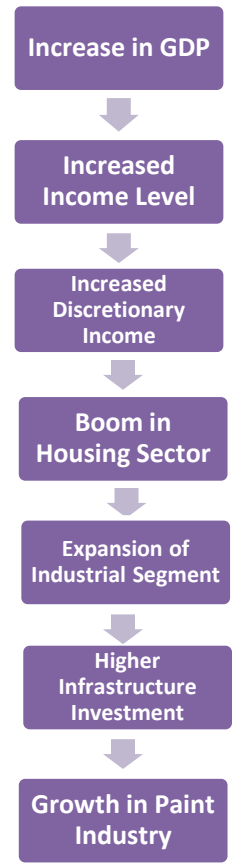
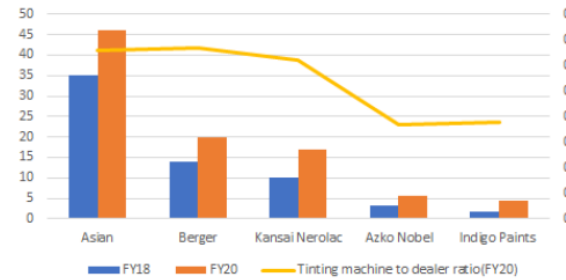


## Correlation between Nominal GDP Growth and Industry Volume

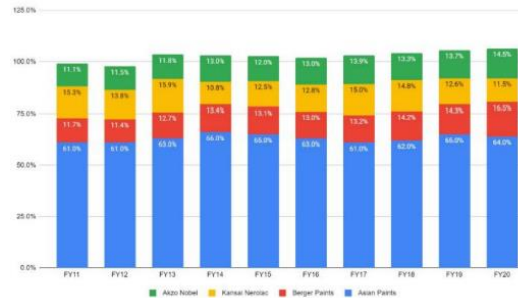


Tinting machines have created hindrances to the delivery network. Many dealers are unable to install a new company's tinting machine mainly due to space constraints. The installation of tinting machines is imperative for the timely distribution of different shades and products.

Company wise growth in tinting machines (in thousands)



Top 4 players profitability share



Top 5 players market share





## 01

### Labour shortage and price of labour increasing compared to product mix:

Post the initial lockdown, there has been a labour shortage across the industry increasing labour costs. Further lockdowns in the future, owing to the current situations with regard to the spread of the pandemic, can affect labour costs and company margins.

## 02

### Automotive Segment Suffering:

Demand in the automotive sector has been lacklustre over the past few years. While the sector seems to be improving, any risks in the industry will in turn affect paint companies too.

## 03

### Growth linked to GDP - FY21 can be a dampener:

Demand in the automotive sector has been lacklustre over the past few years. While the sector seems to be improving, any risks in the industry will in turn affect paint companies too.

## 04

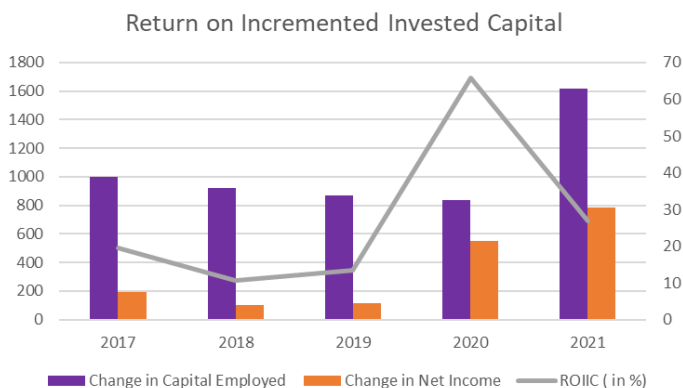
### Home Business Suffering:

Asian paints home business has suffered over the past three quarters with some recovery seen in Q2, FY21 in demand and profitability. This being a new business will require some time before it can be scaled up. ESS and Sleek have not generated profits even after many years of operations, contributing less than 3% of the revenue.

## 05

### High base acting as a headwind for superior financial performance:

PBT growth (adjusted for the one-off corporate tax cut), has significantly slowed to 7.7% in the four years ending FY20. From over 45% at the start of the decade, RoCE has come down to the early-20s in recent years due to falling net fixed asset turnover and worsening cash conversion cycle. The company is also making subpar ROIC of less than 20% which indicates further degradation of ROE and ROCE in future barring 2020 (which was higher on account of tax cuts).



## 06

### Foreign Currency Risk:

Foreign currency risk is the risk that the fair value or future cash flows of the exposure will fluctuate due to changes in foreign exchange rates. Additionally, the material cost (most of which are imported such as crude and titanium dioxide) comprising about 50% of the total revenues poses a significant risk to its margins to the business as a whole. Asian Paint also faces threat from its nearest competitors Berger Paints and Kansai Nerolac, due to which there has been a considerable decline in its return ratios, and increase in its cash conversion cycles.

The carrying amounts of the Company's foreign currency denominated monetary items are as follows:

Currency	Liabilities		Assets	
	As at 31.03.2020	As at 31.03.2019	As at 31.03.2020	As at 31.03.2019
USD	415.21	468.50	122.79	121.00
EUR	85.57	92.90	9.11	9.20
SGD	0.15	0.33	0.29	0.02
GBP	5.64	7.54	0.19	3.44
SEK	0.04	0.08	-	-
JPY	0.63	14.18	-	-
Others	1.16	0.79	1.06	9.39
	508.40	584.32	133.44	143.05