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MARKET COMMENTARY

Making Young India Financially Literate

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At FinBits, we aspire to be the pioneers of a learning ecosystem, focused in finance, that augments the way our readers consume content online. We aim to provide relevant snippets of information that cater to most interests. Our articles go one step beyond the mundane affairs of the world; we hope to take our readers on an elaborate journey, where we serve golden nuggets of information to help you increase your financial literacy.

We work to ensure that we build ourselves as an important pit-stop in our readers' need for staying updated and insightful. FinBits provides a weekly dose of easily-digestible content on the latest in current affairs, as well as a deep dive into strategies of the hottest game-changers.

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Going one step further in ensuring the youth of today top the world in terms of financial literacy, we present "FinBits India Market Commentary. We hammer into the chosen company's data (as available in public domain, of course) and simplify technicalities into simple, understandable info-nuggets. Each month, we curate an all-in-one investors handbook to help make some decisions easier for the upcoming vultures in venture-capital, aka teen-vestors.

Happy Investing!

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COMPANY OVERVIEW

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Asian Paints: An Introduction

Market Data

NSE	ASIAN PAINT
BSE	500820
Mkt Cap (Cr ₹)	2,29,330
Face value	1

Corporate Actions

Dividend History

Ex-Date	Dividend Amount	Dividend %	Dividend Type
28 Oct, 2021	3.35	335	INTERIM
27 Jul, 2020	1.5	150	FINAL
3 Mar, 2019	7.15	715	INTERIM
30 Oct, 2019	3.35	335	INTERIM
13 June, 2019	7.65	765	FINAL
29 Oct, 2018	2.85	285	INTERIM

Bonus History

Ex-Date	Bonus Ratio
2 June, 2018	1:1
17 June, 2009	1:1
31 July, 2006	1:1

With a market capitalization of ₹2,29,330 Cr, Asian paints ltd is leading the market for paints in India. Along with its subsidiaries, it is operating in 22 countries, while manufacturing in 65+ countries. Their products include paints and coatings, with various finishes sold under their various brand names. Over the years, they have come up with various concepts like 'Home Solutions' and 'Color Ideas' to revolutionize the paint industry and shift itself from merely a paint manufacturer to a service provider for home décor as well.

It has reported a 26.75% rise in consolidated total income against the previous quarter, as well as over a 25% rise as compared to the third quarter of the previous financial year.

Dividend and bonus history

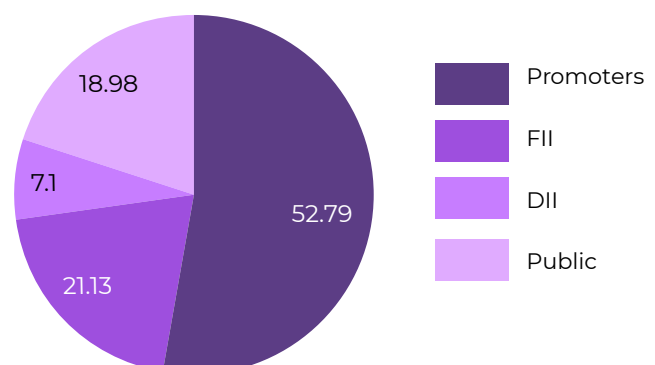
Asian paints has consistently declared dividends. In 2020, it declared an equity dividend amounting to ₹12 per share. Since the year 2000, it has declared 2 bonuses;

one in the year 2000 (bonus ratio- 3:5) and another in 2003 (bonus ratio- 1:2).

Shareholding

Although public holding and DII has decreased over the year, FII has increased while the promoters' holding remains constant.

SHAREHOLDING



Competitors

The Competition has been increasing over the past few years. Although, Asian paints has a deep market penetration, Berger paints and Kansai Nerolac are performing well with consistent profit margins. Indigo paints was recently added to the list and displayed a huge potential since inception.

	MKT cap	PE (TTM)	Net Sales	Net Profits
Asian paints	230408.9	83.81	20211	2728
Berger paints	711055.1	115.57	6365	664
Kansai Nerolac	31551.06	66.76	5279	515
Indigo paints	12454.99	-	624	47

Strength v/s Weaknesses

STRENGTH

- Displayed a consistent growth in annual net profits since last 2 years..
- Low debt.
- Good quarterly growth and increase in profit margin along with increase in revenue.

WEAKNESS

- Unable to generate liquidity.
- Increasing competition.

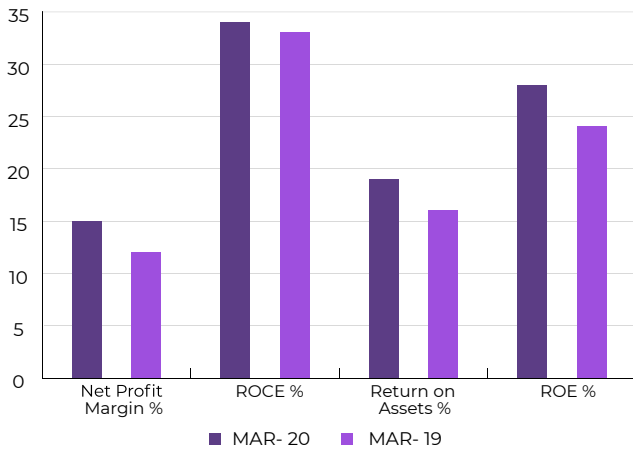
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**RATIO
ANALYSIS**

The Ratio Scoreboard

	Mar-20	Mar-19	%YoY	What does the ratio imply in layman terms?
Financial ratios				
EPS	27.67	22.23	24%	Profits earned by the company per outstanding share of the stock
Profitability ratios				
Net profit margin %	15.43	13	19%	Net profit as a percentage of revenue
Return on capital employed (%)	33.91	33.01	3%	How much profit is generated to the capital employed
Return on Assets (%)	19.53	15.58	25%	Percentage of how profitable a company's assets are in generating revenue
ROE(%)	28.07	24.11	16%	Return on assets minus the liabilities equals return on equity
Efficiency ratios				
inventory turnover days	49.62	46.29	7%	Average number of days in which the inventory is sold off
Receivable days	21.58	23.16	-7%	Average number of days in which the company receives its payment
Payable days	51	54.2	-6%	Average number of days the company takes to pay its bills, vendors, financiers, etc.
Liquidity ratios				
Current Ratio (X)	1.82	1.58	15%	Checks whether the firm has enough resources to meet its short-term obligations (current liabilities)
Quick Ratio (X)	0.94	0.9	4%	
Valuation ratios				
PE ratio	60.24	67.12	-10%	Values the present share price against the EPS
Mkt cap/sales	9.3	8.73	7%	Amount an investor is willing to pay for every rupee of sale the company makes

PROBABILITY RATIOS



Let us consider four types of ratios – Liquidity ratios, profitability ratios, efficiency ratios, and valuation ratios. Liquidity ratios (current ratio and quick ratio) tell us whether a company can pay off its current (short-term) liabilities with ease. Asian paints has a current ratio (current assets/current liabilities) of 1.82, which is close to the ideal number of 2:1 which implies that the company has twice the number of current assets to pay

off its current liabilities. It has also displayed a good improvement in these terms as compared to the previous year. In the case of quick ratio, which is a more stringent test for liquidity, the number is close to the ideal value of 1:1. This implies Asian paints has no issue paying off its short-term debts.

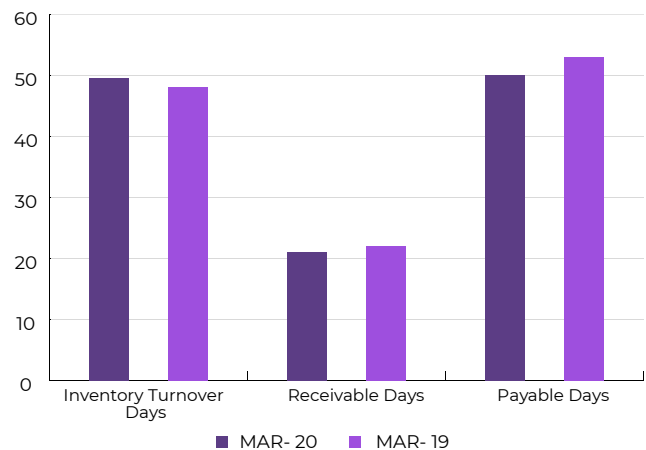
When it comes to profitability, Asian paints has displayed consistent growth in profit before taxes in the last five years. Along with that, it has increased the net profit margin by 19%.

From the graph, we can observe a positive transition in all the ratios from Mar-19 to Mar-20. Their increase in revenue compensates for the increase in expenses, thus displaying an increased net profit margin. Having total assets worth ₹13,587 Cr, Asian paints can generate a good amount of revenue from its assets. They have non-current

assets worth 7 times the non-current liabilities which allows it to display a high return on equity as well the capital employed.

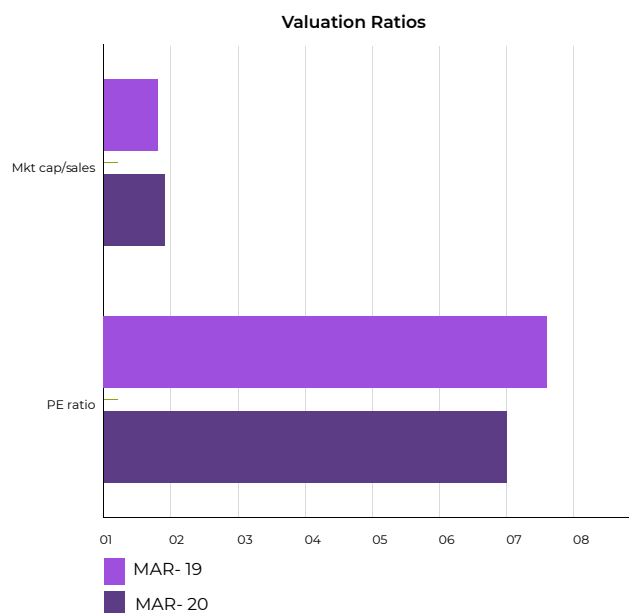
Inventory turnover is one of the most important ratios for companies holding a huge inventory of products. It helps us calculate the inventory turnover days, that is the number of days the company takes to finish its inventory. Asian paints

OPERATING EFFICIENCY RATIOS



need approximately one and a half a month to sell off its inventory while its major competitors, Berger paints and Kansai Nerolac take nearly two months to do so.

In terms of receivable days, Asian paints leads the road as it collects its receivables in 20 to 25 days whereas its competitors take about one and a half months. All three paint giants lay on the same page when it comes to the



average number of days needed in paying its vendors, trade creditors, financiers, etc. Finally, we can value our stock based on valuation ratios. Let us consider the price per earnings ratio and market cap to sales.

Simply speaking, these numbers are quite high. With industry P/E value lying under 40, values over 60 are considered soaring. Market cap to sales is around 10, which means for every rupee of sales, we would be paying about ₹10. Comparing to its competitors (which seem overpriced too), we are paying 1.5 times higher for what we would be paying for Berger paints and about 3 times higher than that of Kansai Nerolac.

But why?

The stock market reflects many factors, including the sentiment of investors. Asian paints has displayed over a 15% rise in earnings which should lower the P/E as “E” is goes up. Hence, we observe a decrease in P/E from Mar-19 to Mar-20. But the market has big expectations from this stock, leading to a high stock price, which in turn has boosted the P/E value.

Asian paints has strong fundamentals, with profitability displayed in all terms as well operational efficiency being the best among its competitors. It also has over ₹2400 Cr cash flow generated from operating activities which could be used in improving the earnings. But on the other hand, the market has huge expectations from this company which makes it overvalued.

03

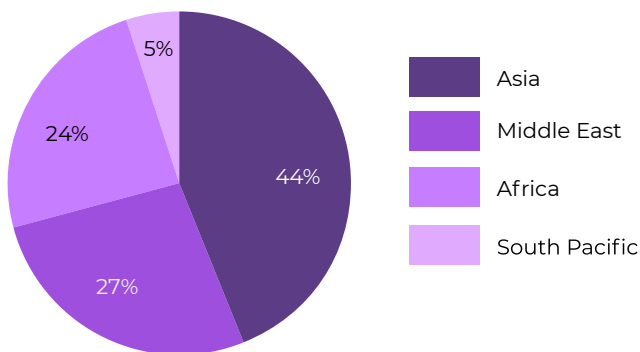
PROFIT AND LOSS ANALYSIS

3.1 Revenue Analysis

3.2 P&L Analysis

Revenue Analysis

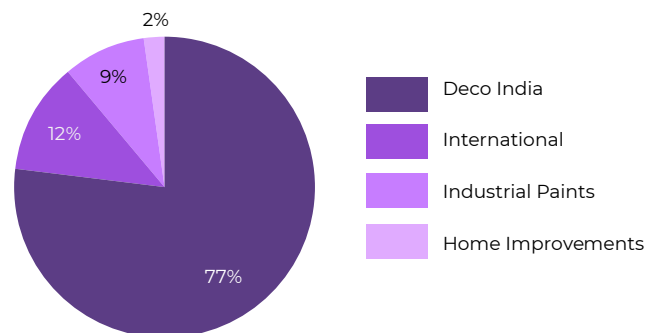
REGION-WISE REVENUE.



Asian Paints, unironically, has its largest market in Asia accounting for 44% of its total revenue followed by Middle East & Africa. While the pandemic did bring its own challenges, the company had been facing adversities since 2019 owing to political factors such as the US-China tariff wars and Brexit. This was the onset of a slowdown period for Asian Paints across

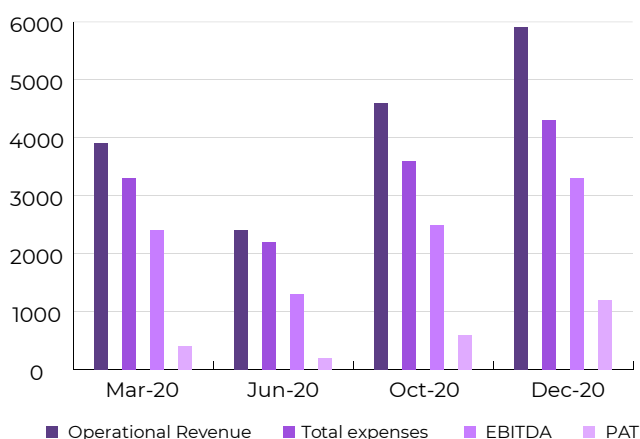
all its markets. The company managed to stay afloat despite these challenges with a staggered revenue growth of 5 % from INR 16,391 Cr to INR 17,194 Cr entering the new fiscal year. The company has also seen an increase in profit (PAT – Profit after deducting tax) by 24.4 % with INR 2654 Cr as against INR 2132 Cr. The company’s business portfolio indicates that the Decorative segment contributes to 77% of its market followed by International at 12% and Industrial Paints at 9%. Although the Home Improvement segment contributes to only 2%, the company expects positive growth in the future. In Q3, the company was able to reach an EBITDA breakeven for the kitchen sub-segment as it expanded its network of stores in India, i.e. the company was able to recover the investment basis the earnings it received before accounting for interest rates, tax or effects of depreciation and amortization. Although companies indicate EBITDA breakeven as a positive indicator, it doesn’t necessarily imply that the company will generate enough cash to replace the basic capital assets used in the business. Thus, treating EBITDA as a substitute for cash flow can be dangerous because it gives investors incomplete information about cash expenses.

BUSINESS PORTFOLIO.



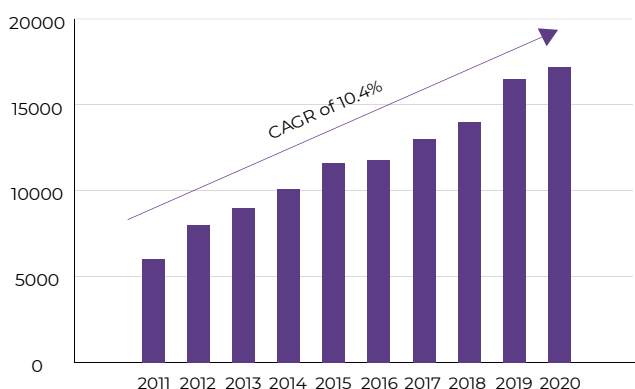
P&L Analysis

QUARTERLY STATS



	Mar-2020	Jun-2020	Oct-2020	Dec-2020
Operational Revenue	3879.01	2446.56	4526.71	5872.81
Total expenses	3294.67	2161.42	3561.09	4404.41
EBITDA	2460.95	1308.56	2502.32	3325.45
PAT	452.09	251.88	793.1	1187.93

REVENUE



According to the quarterly statistics, there was a significant decrease in revenue in the quarter ending Jun-20 which can be traced back to the complete lockdown and business restrictions implemented in India due to the pandemic. However, the company was able to maintain its operational profitability or EBITDA, by efficiently reducing formulation costs and continued cost control measures. These measures were further supported by reduced raw material prices, thus reducing the total expenses.

However, there is a steady growth in the company's revenue since Jun-2020 since the lockdown was lifted and operations resumed. The company has seen a QoQ (Quarter-over-Quarter) growth of 29.7 % in revenue last quarter ending Dec-2020 with INR 5872.81 Cr against the previous quarter with revenue INR 4526.71 Cr. It has also seen an increase in growth by 26.11 % since last year with a total revenue of INR 17,194 Cr. Over the last 10 years, Asian paints sales have steadily grown at a Compounded Annual Growth Rate(CAGR) of 10.4 % and is expected to continue increasing going further as a leader in its industry.

Analysts Disclosure

I, **Chinmay Joshi**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities.

I, **Amrisha Buddhiraju**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities.

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