

October 21, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	3,675		3,507	
Sales (Rs. m)	3,34,371	3,84,973	3,08,156	3,43,770
% Chng.	8.5	12.0		
EBITDA (Rs. m)	63,174	79,647	66,918	76,663
% Chng.	(5.6)	3.9		
EPS (Rs.)	45.1	57.8	48.6	56.6
% Chng.	(7.3)	2.0		

Key Financials - Consolidated

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	2,17,123	2,84,311	3,34,371	3,84,973
EBITDA (Rs. m)	48,552	42,054	63,174	79,647
Margin (%)	22.4	14.8	18.9	20.7
PAT (Rs. m)	31,388	28,100	43,217	55,398
EPS (Rs.)	32.7	29.3	45.1	57.8
Gr. (%)	16.2	(10.5)	53.8	28.2
DPS (Rs.)	4.9	19.0	22.5	26.0
Yield (%)	0.2	0.6	0.7	0.9
RoE (%)	27.4	21.0	28.7	31.4
RoCE (%)	34.4	24.4	35.0	38.8
EV/Sales (x)	13.1	10.0	8.5	7.3
EV/EBITDA (x)	58.6	67.6	44.9	35.4
PE (x)	91.7	102.5	66.6	52.0
P/BV (x)	22.5	20.6	17.8	15.0

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.3,505 / Rs.2,070
Sensex / Nifty	60,924 / 18,178
Market Cap	Rs.2,880bn/ \$ 38,463m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.7737.99m

Shareholding Pattern (%)

Promoter's	52.79
Foreign	20.72
Domestic Institution	7.26
Public & Others	19.23
Promoter Pledge (Rs bn)	11.44

Stock Performance (%)

	1M	6M	12M
Absolute	(9.3)	17.6	42.0
Relative	(12.1)	(7.9)	(5.1)

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Temporary margin blip provides entry opportunity

Quick Pointers:

- 34% volume growth driven by T1/2 cities and improved mix. Expect double digit volume growth to continue.
- Plans to offset inflation impact by price increases in next 3 months and return to 18-20% Consol EBIDTA margin levels

We are changing FY22/FY23/FY24 EPS by -23.9%/-7.3%/2% on account of unprecedented input cost pressures, heightened volume focus in decorative paints & a move from "share of surface" to "share of Space" in Homes. We continue to remain positive on long term growth drivers led by 1) Market share gains in decorative paints from both organized & unorganized players due to strong focus on economy segment 2) Increased distribution with addition of 40k+ retail points. 3) Innovations & focus on high growth waterproofing/ construction aids segment 4) Ramp up in Kitchen & Bath business (PBT breakeven in 2Q) and 5) foray into designer tiles & home décor business enabling APNT to emerge as a complete home solution company.

APNT 2Q gross margins were 140bps lower than those achieved during Lehman crisis and we expect gradual margin recovery to set in from 3Q itself with significant pickup in margins in FY23. APNT continues to remain a strong structural play given 1) double digit decorative paints Industry growth 2) innovation and marketing to ensure sustained leadership position and 3) scale up in emerging segments. We would recommend using this opportunity to accumulate stock for long term gains. We maintain BUY with a TP of Rs 3675 (Rs 3511 earlier), however expect back ended returns given near term cost pressures and rich valuations of 66.6x/52x FY23/24 EPS.

Consol sales up 32.6%, Volumes grew 34%: Consol sales grew 32.6% YoY to Rs 70.96bn (Est Rs 64.20bn). Gross margins contracted by 970 bps YoY to 34.7% (Est 39%) due to steep inflation in raw material prices. EBITDA declined 28.5% YoY to Rs 9.05bn (Est Rs 11.56bn), EBITDA margins contracted 10.9 percentage points YoY to 12.7% (Est 18%) due to GRM contraction. Adj. PAT declined 27.5% YoY to Rs 6.05bn (Est Rs 7.7bn). Standalone sales increased 35.9% YoY to Rs 61.52bn, Gross margins contracted 980bps YoY to 35.7% and EBITDA margins contracted 11.2% percentage points YoY to 14.2%. Adj. PAT declined 22% to Rs 6.19bn.

Concall Takeaways: 1) APNT confident of double digit volume growth in 2H on the back of festive demand, rising consumer confidence, rural demand backed by good monsoon and distribution expansion 2) Focus on profitable growth with 18-20% margins through aggressive pricing action, business mix, formulation efficiency and other cost measures. 3) APNT taking a cautious approach to increase prices to maintain market stability and high price elasticity 5) RM inflation expected to persist upto 3Q22. 6) 1H22 inventory higher than normal to combat volatile RM prices and supply side disruptions in key RM's. 7) Broke even at PBT level in both Kitchen and Bath business 8) Inflation in Bath and Kitchen verticals lower than coatings/paints. 8) Against 18-20% RM inflation in 1H, have taken price hikes of 7-7.5%. 9) Added 40k+ retail points in last 18 months in a bid to expand Rurban footprint.

Exhibit 1: Q2FY22 Results- Consolidated (Rs mn): Revenues grew 32.6% EBITDA margins at 12.7%, Adj PAT de-grew 28%

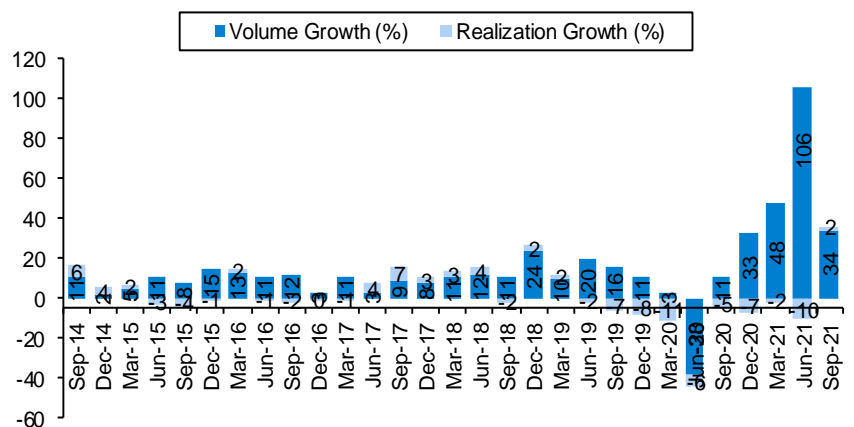
Consolidated	2QFY22	2QFY21	YoY gr. (%)	1QFY22	1HFY22	1HFY21	YoY gr. (%)
Net Sales	70,960	53,502	32.6	55,854	1,26,814	82,729	53.3
Gross Profit	24,656	23,758	3.8	21,464	46,120	36,834	25.2
<i>% of NS</i>	<i>34.7</i>	<i>44.4</i>	<i>-9.7</i>	<i>38.4</i>	<i>36.4</i>	<i>44.5</i>	<i>-8.2</i>
Other Expenses	15,611	11,106	40.6	12,329	27,940	19,340	44.5
<i>% of NS</i>	<i>22.0</i>	<i>20.8</i>		<i>22.1</i>	<i>22.0</i>	<i>23.4</i>	
EBITDA	9,045	12,652	-28.5	9,136	18,180	17,494	3.9
<i>Margins %</i>	<i>12.7</i>	<i>23.6</i>	<i>-10.9</i>	<i>16.4</i>	<i>14.3</i>	<i>21.1</i>	<i>-6.8</i>
Depreciation	2,028	1,936	4.7	2,006	4,033	3,848	4.8
Interest	239	205	16.3	215	453	406	11.6
Other Income	1,382	826	67.3	896	2,278	1,297	75.6
PBT	8,160	11,337	-28.0	7,811	15,971	14,538	9.9
Tax	2,211	2,936	-24.7	2,043	4,254	3,798	12.0
<i>Tax rate %</i>	<i>27.1</i>	<i>25.9</i>		<i>26.2</i>	<i>26.6</i>	<i>26.1</i>	
Adjusted PAT	6,052	8,349	-27.5	5,743	11,795	10,549	11.8

Source: Company Data, PL Research

Exhibit 2: Q2FY22 Results - Standalone (Rs mn): Revenues up 35.9%, EBITDA margins at 14.2%, PAT de-grew 22.0%

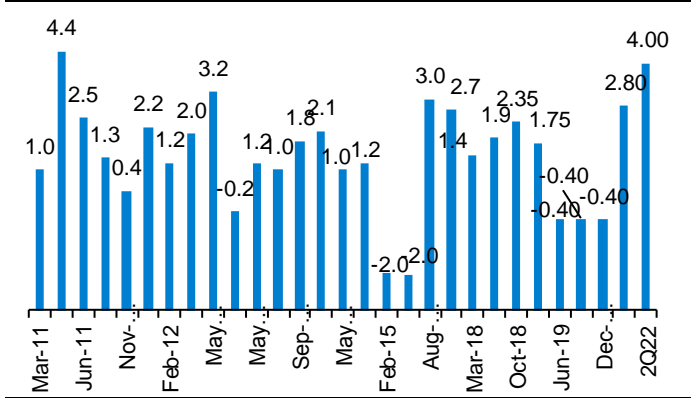
Standalone	2QFY22	2QFY21	YoY gr. (%)	1QFY22	1HFY22	1HFY21	YoY gr. (%)
Net Sales	61,519	45,267	35.9	47,859	1,09,378	69,733	56.9
Gross Profit	21,935	20,554	6.7	18,934	40,868	31,892	28.1
<i>% of NS</i>	<i>35.7</i>	<i>45.4</i>	<i>-9.8</i>	<i>39.6</i>	<i>37.4</i>	<i>45.7</i>	<i>-8.4</i>
Other Expenses	13,186	9,058	45.6	10,113	23,299	15,726	48.2
<i>% of NS</i>	<i>21.4</i>	<i>20.0</i>		<i>21.1</i>	<i>21.3</i>	<i>22.6</i>	
EBITDA	8,749	11,496	-23.9	8,820	17,570	16,166	8.7
<i>Margins %</i>	<i>14.2</i>	<i>25.4</i>	<i>-11.2</i>	<i>18.4</i>	<i>16.1</i>	<i>23.2</i>	<i>-7.1</i>
Depreciation	1,799	1,687	6.6	1,764	3,562	3,356	6.2
Interest	181	153	17.9	164	345	303	13.9
Other Income	1,525	945	61.4	1,056	2,581	1,463	76.4
PBT	8,295	10,601	-21.8	7,949	16,244	13,971	16.3
Tax	2,109	2,670	-21.0	1,988	4,097	3,521	16.4
<i>Tax rate %</i>	<i>25.4</i>	<i>25.2</i>		<i>25.0</i>	<i>25.2</i>	<i>25.2</i>	
Adjusted PAT	6,186	7,931	-22.0	5,961	12,147	10,450	16.2

Source: Company Data, PL Research

Exhibit 3: Volumes grew 34% in 2Q22


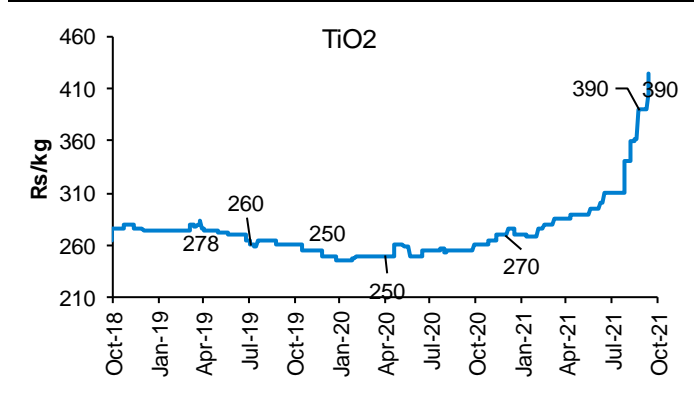
Source: Company, PL

Exhibit 4: Price increase of 4% taken in 2Q22



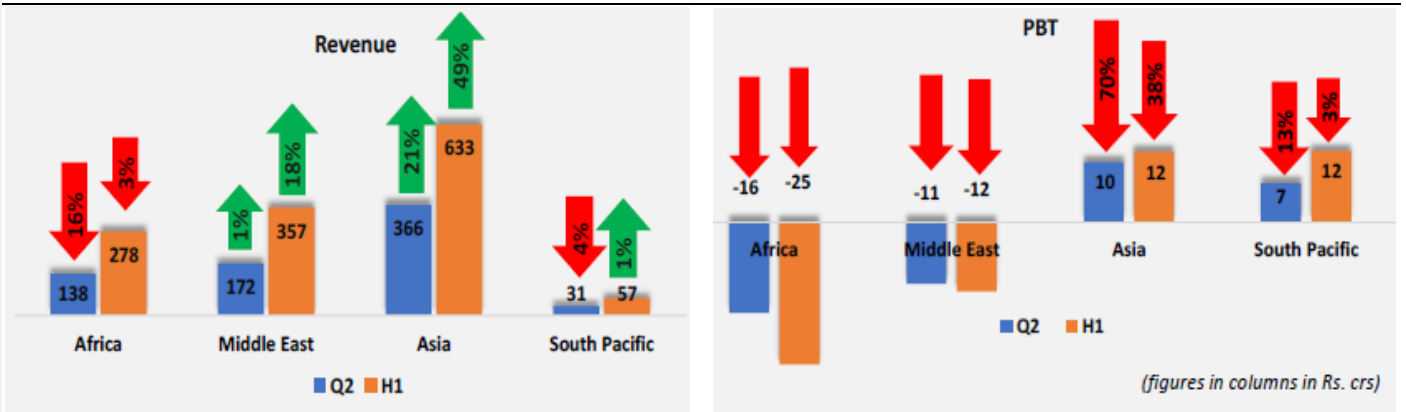
Source: Company, PL

Exhibit 5: Tio2 prices up 14.2% QoQ and 29.5% YoY



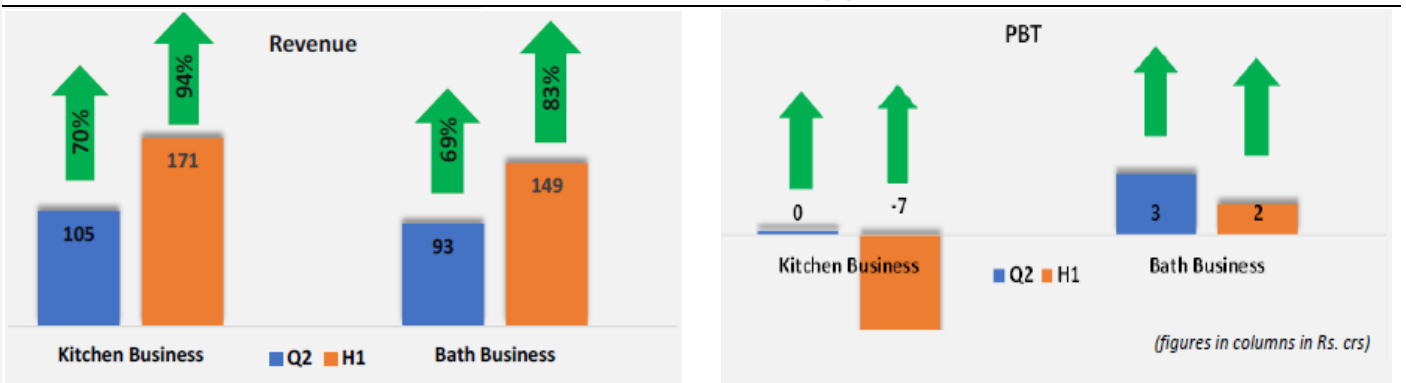
Source: Company, PL

Exhibit 6: IBD reported loss of Rs170mn in 2Q and Rs280mn on Input Cost Inflation and market specific issues



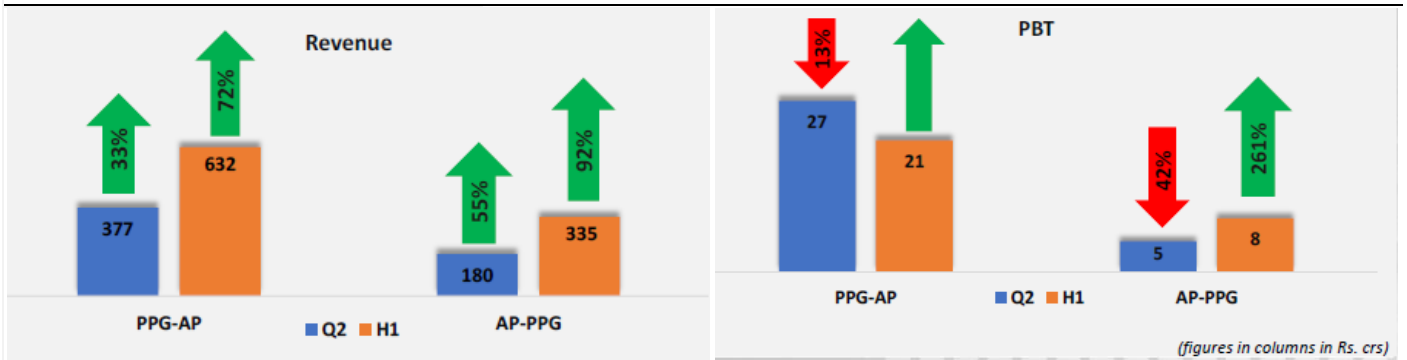
Source: Company, PL

Exhibit 7: Kitchen and Bath business achieved PBT breakeven on strong growth



Source: Company, PL

Exhibit 8: Industrial Paints JV report strong growth on low base



Source: Company, PL

Exhibit 9: Innovation Pipeline remains strong in paints, waterproofing and Construction aids



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	2,17,123	2,84,311	3,34,371	3,84,973
YoY gr. (%)	7.4	30.9	17.6	15.1
Cost of Goods Sold	1,20,972	1,80,236	2,00,959	2,25,479
Gross Profit	96,151	1,04,075	1,33,412	1,59,494
Margin (%)	44.3	36.6	39.9	41.4
Employee Cost	15,408	18,456	20,882	23,997
Other Expenses	32,192	43,565	49,356	55,849
EBITDA	48,552	42,054	63,174	79,647
YoY gr. (%)	16.7	(13.4)	50.2	26.1
Margin (%)	22.4	14.8	18.9	20.7
Depreciation and Amortization	7,913	8,532	9,260	10,125
EBIT	40,639	33,523	53,915	69,522
Margin (%)	18.7	11.8	16.1	18.1
Net Interest	916	1,054	1,125	1,196
Other Income	3,031	4,808	5,138	6,068
Profit Before Tax	42,753	37,277	57,928	74,394
Margin (%)	19.7	13.1	17.3	19.3
Total Tax	10,976	9,580	14,887	19,119
Effective tax rate (%)	25.7	25.7	25.7	25.7
Profit after tax	31,777	27,697	43,040	55,275
Minority interest	675	215	586	747
Share Profit from Associate	286	618	763	871
Adjusted PAT	31,388	28,100	43,217	55,398
YoY gr. (%)	16.2	(10.5)	53.8	28.2
Margin (%)	14.5	9.9	12.9	14.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	31,388	28,100	43,217	55,398
YoY gr. (%)	16.4	(10.5)	53.8	28.2
Margin (%)	14.5	9.9	12.9	14.4
Other Comprehensive Income	(57)	(46)	(26)	9
Total Comprehensive Income	31,332	28,054	43,191	55,407
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	32.7	29.3	45.1	57.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	85,583	92,283	98,983	1,05,683
Tangibles	81,397	87,897	94,397	1,00,897
Intangibles	4,187	4,387	4,587	4,787
Acc: Dep / Amortization	38,480	44,557	51,092	58,083
Tangibles	36,633	42,389	48,587	55,227
Intangibles	1,847	2,168	2,505	2,856
Net fixed assets	47,103	47,726	47,891	47,600
Tangibles	44,764	45,508	45,810	45,670
Intangibles	2,340	2,218	2,082	1,930
Capital Work In Progress	1,830	3,000	3,000	3,000
Goodwill	3,026	3,026	3,026	3,026
Non-Current Investments	20,637	23,610	26,007	28,506
Net Deferred tax assets	(4,013)	(3,812)	(3,507)	(3,118)
Other Non-Current Assets	10,691	10,527	11,378	12,082
Current Assets				
Investments	32,671	33,451	35,347	51,637
Inventories	37,986	48,294	54,965	63,283
Trade receivables	26,022	31,157	35,727	40,079
Cash & Bank Balance	6,108	7,916	10,761	10,839
Other Current Assets	5,372	5,686	6,687	7,699
Total Assets	2,03,696	2,29,920	2,52,108	2,87,095
Equity				
Equity Share Capital	959	959	959	959
Other Equity	1,27,104	1,38,999	1,60,422	1,90,611
Total Networkth	1,28,063	1,39,958	1,61,381	1,91,570
Non-Current Liabilities				
Long Term borrowings	145	140	120	100
Provisions	2,152	2,233	2,527	2,904
Other non current liabilities	45	45	45	45
Current Liabilities				
ST Debt / Current of LT Debt	3,257	3,367	3,014	2,365
Trade payables	33,787	44,442	44,046	46,331
Other current liabilities	22,214	26,352	28,323	32,036
Total Equity & Liabilities	2,03,697	2,29,920	2,52,107	2,87,095

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	42,753	37,277	57,928	74,394
Add. Depreciation	7,913	8,532	9,260	10,125
Add. Interest	916	1,054	1,125	1,196
Less Financial Other Income	3,031	4,808	5,138	6,068
Add. Other	(145)	(108)	(119)	(131)
Op. profit before WC changes	51,437	46,754	68,194	85,585
Net Changes-WC	(35,498)	(12,439)	(21,176)	(31,380)
Direct tax	(10,976)	(9,580)	(14,887)	(19,119)
Net cash from Op. activities	4,963	24,735	32,131	35,085
Capital expenditures	(4,202)	(10,078)	(9,239)	(9,620)
Interest / Dividend Income	-	-	-	-
Others	653	(231)	(169)	(152)
Net Cash from Inv. activities	(3,549)	(10,309)	(9,408)	(9,772)
Issue of share cap. / premium	(414)	1,974	(586)	(747)
Debt changes	2,292	3,979	1,463	2,624
Dividend paid	(4,652)	(18,225)	(21,582)	(24,939)
Interest paid	(916)	(1,054)	(1,125)	(1,196)
Others	102	(62)	(93)	(139)
Net cash from Fin. activities	(3,588)	(13,387)	(21,923)	(24,397)
Net change in cash	(2,175)	1,040	799	916
Free Cash Flow	761	14,657	22,892	25,465

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	67,885	66,514	55,854	70,960
YoY gr. (%)	25.2	43.5	91.1	32.6
Raw Material Expenses	37,285	37,793	34,389	46,304
Gross Profit	30,600	28,721	21,464	24,656
Margin (%)	45.1	43.2	38.4	34.7
EBITDA	17,879	13,183	9,136	9,045
YoY gr. (%)	50.3	53.4	88.7	(28.5)
Margin (%)	26.3	19.8	16.4	12.7
Depreciation / Depletion	1,932	2,134	2,006	2,028
EBIT	15,947	11,049	7,130	7,017
Margin (%)	23.5	16.6	12.8	9.9
Net Interest	211	299	215	239
Other Income	979	754	896	1,382
Profit before Tax	16,715	11,505	7,811	8,160
Margin (%)	24.6	17.3	14.0	11.5
Total Tax	4,314	2,864	2,043	2,211
Effective tax rate (%)	25.8	24.9	26.2	27.1
Profit after Tax	12,401	8,640	5,768	5,950
Minority interest	-	-	-	-
Share Profit from Associates	253	59	(25)	102
Adjusted PAT	12,654	8,699	5,743	6,052
YoY gr. (%)	62.3	81.1	161.0	(27.5)
Margin (%)	18.6	13.1	10.3	8.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,654	8,699	5,743	6,052
YoY gr. (%)	62.3	81.1	161.0	(27.5)
Margin (%)	18.6	13.1	10.3	8.5
Other Comprehensive Income	607	(552)	79	(141)
Total Comprehensive Income	13,260	8,147	5,822	5,911
Avg. Shares O/s (m)	959	959	959	959
EPS (Rs)	13.2	9.1	6.0	6.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	32.7	29.3	45.1	57.8
CEPS	41.0	38.2	54.7	68.3
BVPS	133.5	145.9	168.2	199.7
FCF	0.8	15.3	23.9	26.5
DPS	4.9	19.0	22.5	26.0
Return Ratio(%)				
RoCE	34.4	24.4	35.0	38.8
ROIC	38.1	25.9	37.1	44.2
RoE	27.4	21.0	28.7	31.4
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	51	45	51	54
Valuation(x)				
PER	91.7	102.5	66.6	52.0
P/B	22.5	20.6	17.8	15.0
P/CEPS	73.3	78.6	54.9	43.9
EV/EBITDA	58.6	67.6	44.9	35.4
EV/Sales	13.1	10.0	8.5	7.3
Dividend Yield (%)	0.2	0.6	0.7	0.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	BUY	3,507	3,212
2	20-Jul-21	BUY	3,511	3,159
3	05-Jul-21	BUY	3,136	3,005
4	12-May-21	BUY	3,136	2,556
5	07-Apr-21	Hold	2,829	2,622
6	21-Jan-21	Hold	2,829	2,740
7	07-Jan-21	UR	-	2,805
8	22-Oct-20	Hold	2,000	2,100

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,507	3,212
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,846	1,680
7	Crompton Greaves Consumer Electricals	BUY	518	486
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,414	1,390
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,501	19,368
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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