

May 10, 2022

RESULT REPORT Q4 FY22 | Sector: Paints

Asian Paints Ltd

Strong demand momentum despite price hikes, margins getting back on track; reiterate BUY

Result Synopsis

Asian Paints (APNT) once again delivered a strong performance in a challenging environment with 8% volume growth on base of 48% volume growth despite a soft performance in January. Value growth stood at 21%; higher value growth was on account of price increases partially offset by deterioration in product mix. Growth was uniform for the company with strongest growth in West and East markets. The company is witnessing strong double-digit growth in Tier 1 and 2 cities led by luxury and premium range, while tier 3 and 4 markets delivering growth in economy range. APNT has been aggressive in launching new products which now contribute 14% to the revenue. It is also aggressively expanding its home décor foray with extended offering across the product categories like kitchen, bath, sanitary ware, lighting, tiles, flooring, furniture, furnishings, doors and windows. APNT is targeting to nearly double its Beautiful Home stores to 70 in FY23. On international front, company saw growth from Asia followed by Middle east while Africa, Ethiopia and Srilanka are seeing impact of currency devaluation. Company is also aggressively expanding its distribution touch points and has added 15,000 retail points in FY22.

Considering strong demand momentum despite sharp price hikes, under penetration of paints and opportunities in new segments and services, we feel demand for paints is expected to remain robust in medium term and APNT is in a sweet spot to capture a major chunk of incremental demand. Also, its foray into home décor to broaden its product and service offerings to a large consumer base is expected to make Asian a go to brand in the broader home improvement space. Its pricing power, distribution prowess and balance sheet strength should enable it to ward off any competition that comes in its way. Considering the above, we continue to remain upbeat on the stock and feel premium valuations are justified. We expect FY22-24E Revenue/EBITDA/PAT CAGR of 18%/34%/39% respectively and maintain our BUY rating with TP of Rs3,708 valuing it at 60x FY24 EPS.

Result Highlights

- Quarter summary** – Paints business saw 8% volume growth despite high base of 48% and value growth of 21% on back of price increase and change in business mix. Its home improvement business grew at 25% yoy.
- Margin** – Gross margin at 38.7% contracted 450bps yoy; however, it showed improvement of 190bps on sequential basis. Price increases of about 24-25% on account of higher commodity prices have resulted in sequential improvement in gross margins.
- Distribution expansion** – Company is aggressively expanding its distribution in suburbs of big cities and tier 3 and 4 markets and have added 15,000 retail points to expand reach to 145,000 retail touch points. It is also targeting to double its Beautiful Home stores to 70 in FY23.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	78,927	NA	NA	NA	NA	Company has registered volume growth of 8% in Q4 on back of 48% volume growth in previous year.
EBITDA	14,433	NA	NA	NA	NA	
EBITDA Margin (%)	21.4	NA	NA	NA	NA	
Adjusted PAT	9,898	NA	NA	NA	NA	

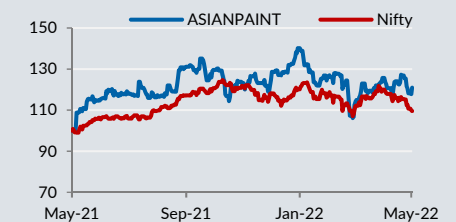
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,084
Target Price	: Rs 3,708
Potential Return	: +20.2%

Stock data (as on May 10, 2022)

Nifty	16,240
52 Week h/l (Rs)	3590 / 2521
Market cap (Rs/USD mn)	2960420 / 38288
Outstanding Shares (mn)	959
6m Avg t/o (Rs mn):	3,916
Div yield (%)	1.0
Bloomberg code:	APNT IN
NSE code:	ASIANPAINT

Stock performance



	1M	3M	1Y
Absolute return	-3.7%	-4.7%	21.4%

Shareholding pattern (As of Mar'22 end)

Promoter	52.6%
FII+DII	27.0%
Others	20.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,708	3,715

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	49.8	61.8
EPS (Old)	46.8	61.9
% change	6.4%	-0.2%

Financial Summary

(Rs mn)	FY22E	FY23E	FY24E
Revenues	291,013	346,458	404,900
Yoy growth (%)	33.5%	19.1%	16.9%
OPM (%)	16.5	20.7	21.3
EPS (Rs)	32.2	49.8	61.8
EPS growth	2.7%	55.0%	24.0%
P/E (x)	98.2	63.3	51.1
EV/EBITDA (x)	63.0	41.7	34.5
Debt/Equity (x)	0.1	0.0	0.0
RoE (%)	24.0	32.3	35.0
RoCE (%)	30.6	41.1	44.8

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- **International business** – International business has remained mixed during the quarter with growth coming from Asia and Middle east; while Africa continues to remain subdued. Sri-Lanka, Ethiopia and Egypt market saw impact of currency devaluation resulting in PBT decline for international business.

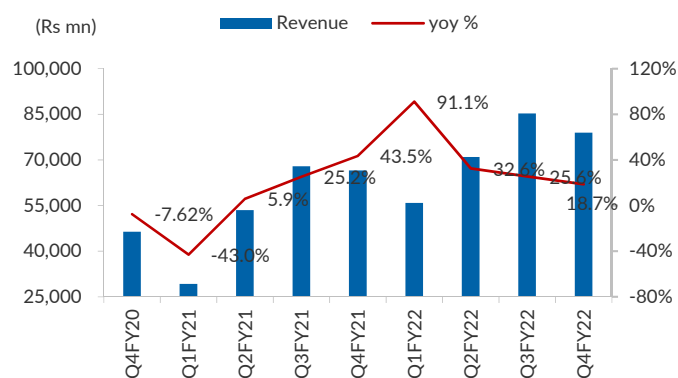
Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	y/y %	q/q %	FY22	FY21	y/y %
Sales	66,514	55,854	70,960	85,272	78,927	18.7	(7.4)	291,013	217,128	34.0
EBITDA	13183	9136	9045	15423	14433	9.5	(6.4)	48,036	48,556	(1.1)
EBITDA Margin %	19.8	16.4	12.7	18.1	18.3					
Depreciation	2134	2005.9	2027.5	2074.1	2051.1	(3.9)	(1.1)	8,159	7,913	3.1
EBIT	11049	7130	7017	13349	12382	12.1	(7.2)	39,878	40,643	(1.9)
EBIT Margin %	16.6	12.8	9.9	15.7	15.7			13.7	18.7	
Interest charges	299	215	239	275	226	(24.2)	(17.6)	954	916	4.1
Other Income	754	896.1	1382.0	718.1	803.9	6.6	11.9	3,800	3,031	25.4
PBT	11563	7786	8262	13942	13049	12.8	(6.4)	43,039	43,044	(0.0)
Tax	2864	2042.8	2210.7	3624.3	3151.3	10.0	(13.1)	11,029	10,976	0.5
Effective Tax Rate (%)	24.8	26.2	26.8	26.0	24.2					
PAT	8,699	5743	6052	10318	9898	13.8	(4.1)	32010	32068	(0.2)
PAT Margin %	13.1	10.3	8.5	12.1	12.5					
EPS (Rs)	9.1	6.0	6.3	10.8	10.3	13.8	(4.1)	33.4	33.4	(0.2)

Source: Company, YES Sec

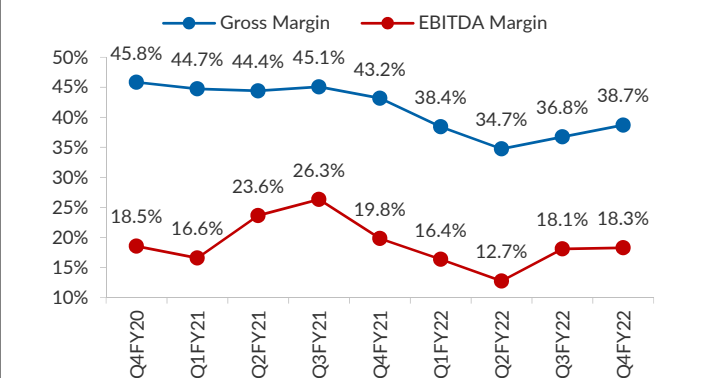
CHARTS

Exhibit 3: Volume growth of 8% in paints has led to revenue growth



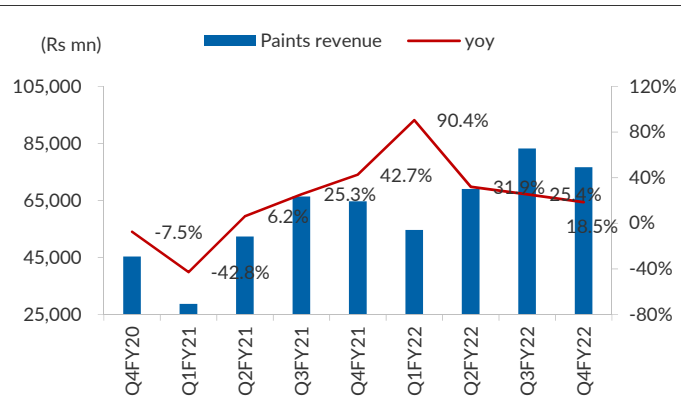
Source: Company, YES Sec

Exhibit 4: Margin has seen improvement on sequential basis



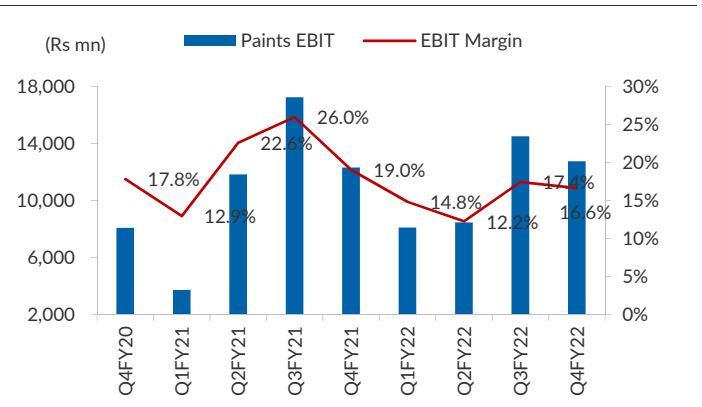
Source: Company, YES Sec

Exhibit 5: Paints revenue growth has been backed by volume growth



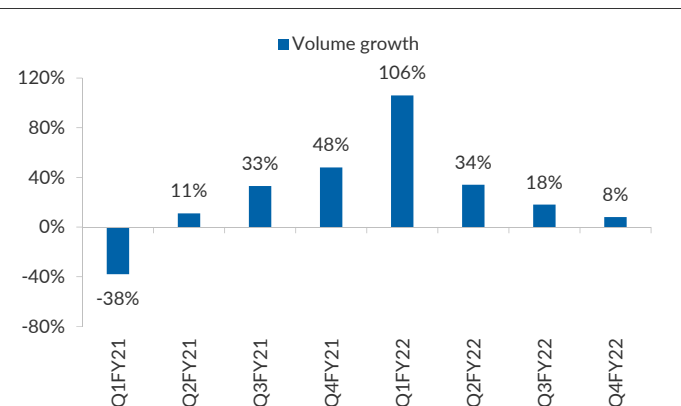
Source: Company, YES Sec

Exhibit 6: High raw material prices have resulted in soft EBIT margins for paints



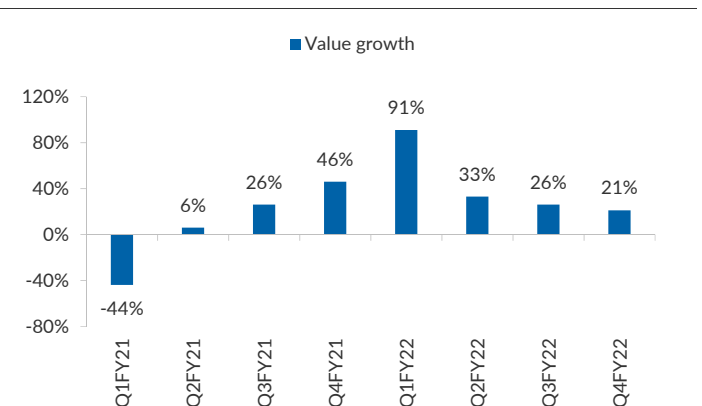
Source: Company, YES Sec

Exhibit 7: APNT continues to see volume growth despite challenging environment



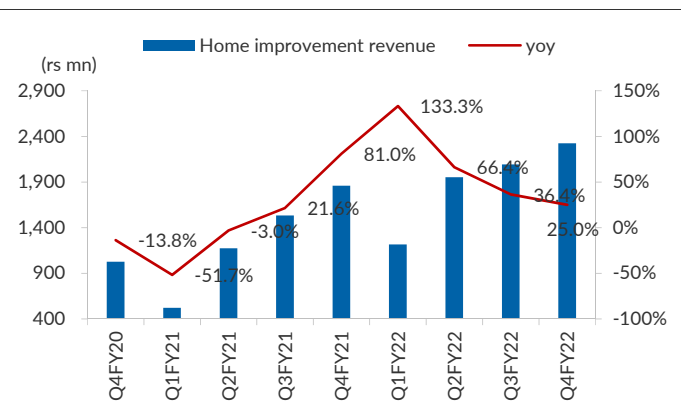
Source: Company, YES Sec

Exhibit 8: Value growth continues to remain higher than volume growth



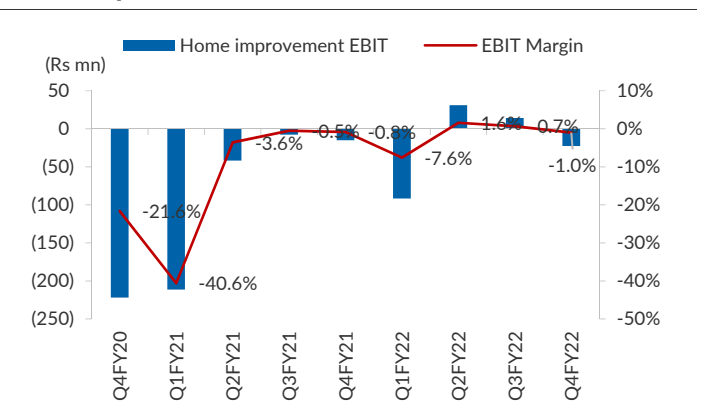
Source: Company, YES Sec

Exhibit 9: Home improvement business is gaining traction



Source: Company, YES Sec

Exhibit 10: Losses are on account of investments into home improvement business



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Growth highlights** - 8% volume growth and 21% revenue growth despite high base of 48% volume and 44% value growth; 3yr CAGRs quite strong at 16% volume and 17% value growth; stronger growth came in February and March; 31% volume and 36% value growth overall for FY22 vs FY21 volume and value growth of 13% and 8%.
- **Quarter highlights** - Good double-digit growth in T1/T2 markets led by luxury and premium range with T3/T4 markets delivering double digit growth in economy range; growth weak in January but rebounded strongly from February, highest growth in West and East markets, new products now contributing 14% to revenue with solid innovation momentum, waterproofing and wood finishes growing at exponential rates, big surge in projects/institutional business from builders, government and factories segments.
- **Distribution expansion** - Aggressive expansion in distribution in big city suburbs and T3/T4 markets adding 15000 retail points to 145,000 points, coexistence of unique distributors and direct dealer model; gaining traction across categories like emulsions, wood finishes, waterproofing, undercoats, adhesives, DIY paints; enlarging overall paint market and increasing per capita consumption.
- **Services differentiator** - Unique painting service model now present in 240 towns and 150,000 painters.
- **Home Décor foray** - Transitioning from share of surface to share of space, 29 Beautiful Home stores opened till March (target 70 stores in FY23) offering kitchen, bath, sanitary ware, lighting, tiles, flooring, furniture, furnishings, doors and windows under one roof, Beautiful Home services now offered in 9 cities, recent acquisitions to help in developing own manufacturing capabilities in most segments with greenfield factories being set up in all segments.
- **Recent acquisitions** - The White Teak company is a foray into premium lighting, Weather seal makes UPVC doors and windows - both are key focus areas for the company; target to take home décor to 8-10% of total business in next 3-4 years.
- **Kitchen and bath business** - 100cr plus revenue for 3rd consecutive quarter in kitchen business, 55% growth for FY22 with loss of only 9cr vs 21cr last year, bath business saw 2nd consecutive quarter of 100cr plus revenue with growth 46% in FY22 with loss of 4cr.
- **International business** - Highest growth came from Asia followed by Middle East, Africa did not do too well, revenue up 12% in 4Q and 16% in FY22, Sri Lanka, Ethiopia and Egypt currency devaluation impact, PBT down to 15 crs in 4Q vs 34 crs yoy.
- **Industrial business** - PPG-AP auto OE business grew 32% and 19% growth in FY22 and 4Q, AP-PPG general industrial business did very well with 51% and 28% for FY22 and 4Q
- **Exceptional items** - Delay in subsidy realisation from state governments provisioned for - 54crs for previous years and 31crs for FY22; Sri Lanka 49crs towards currency exchange loss and subsidiary impairment of 14crs.
- **Margins** - Sequential improvement in gross margins continues after bottoming out in 2QFY22 helped by price increases implemented in 3Q and only 1% material inflation; but have again seen 5-7% inflation in ongoing quarter which led to company taking up prices twice.
- **Outlook** - Demand conditions remain tough but remain confident of retaining growth momentum, spread and severity of new COVID variants need to be closely tracked, monetary policy tightening could hurt consumer sentiment, inflation remains a key risk,

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already taken 2 price increases in 1Q, further calibrated price increases are imminent, global market challenges to remain.

- **Further price hikes requirement** – Have taken 1.8-2% price hike in 2 rounds on 1 April and 1 May; further evaluating calibrated increases dependent on extent of cost savings going forward and market scenario.
- **Near-term demand outlook** – Price inflation has impacted demand to some extent in T3/T4 markets while some downtrading seen in T1/T2 markets, but inherent demand trends remains strong as seen since February if current situations persist and there are no further setbacks or further increase in material costs or pandemic impact.
- **Waterproofing business** – Looking at attaining leadership in the retail waterproofing space by launching unique and first to India products, focus on solutioning compared to the product focus on MNC players in the space.
- **Home décor business and bath/kitchen business profitability** – Sleek should become profitable in FY23, bath business is already profitable, acquired businesses in lighting is highly profitable, expect the entire home décor segment to become profitable in the next 3-4 years.
- **Market-wise growth outlook** – T1/T2 markets have grown faster in FY22, T3/T4 markets contribute about 40% and T1/T2 markets contribute 60%, distribution expansion in T3/T4 markets has helped, normal monsoon this year should help demand, further price hikes can start deferring demand in those markets.
- **International business currency issue** – 13.5% contribution to revenues from international geographies; SL, Egypt and Ethiopia where currency is an issue contribute 5-6% of total consolidated revenues.
- **Distribution saturation-** Do not see a saturation in dealer touchpoints for the next 5-10 years with new dealers and markets coming up with increase in population and consumption, will continue expanding distribution.
- **Backward integration** - Keep exploring backward integration opportunities across product segments both organically and inorganically.
- **RM inflation impact on gross margins** – Have seen 32-34% material inflation yoy and have taken 24-25% price hike, have lost about 400-450bps gross margins, remaining deficit of 4% which gets covered by product mix and cost efficiencies, mix impact dilution seems to have increased to 9-10% vs 4-6% normally in 4Q.
- **Management bandwidth for home improvement business** – Progressively adding relevant mid to senior level people on sales/marketing/design along with entry into new categories.
- **Margin outlook in light of increasing competition** – Do not expect a significant change in mix in coming quarters, currently at 40% GM vs historical highs of 44-45% which looks unrealistic, will cautiously take up prices further to target around 42% GMs and 18-20% EBITDA margins going forward as do not want to disrupt demand.
- **Risk to FY23 volume growth given high base of FY22 and 25% price increase** – Growth has been strong not only for FY22 but for the last 2 and 3 years as well, 4Q volume growth was quite strong at 8% which gives confidence on future outlook; new categories, increase in distribution, premiumization should all help drive double-digit volume growth going forward as well despite 30% base in FY22.

FINANCIALS

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	959	959	959	959	959
Reserves	104,378	127,104	137,156	156,496	180,475
Net worth	105,337	132,291	141,991	161,330	185,309
Debt	3,547	3,402	7,757	7,757	7,757
Deferred tax liab (net)	4,438	4,156	3,489	3,489	3,489
Other non current liabilities	7,783	7,845	8,210	8,567	8,896
Total liabilities	121,105	147,695	161,446	181,142	205,451
Fixed Asset	64,126	60,415	59,455	55,972	51,926
Investments	20,189	47,368	32,475	32,475	32,475
Other Non-current Assets	6,557	8,318	8,198	9,377	10,620
Net Working Capital	22,405	25,486	52,674	46,115	54,479
Inventories	33,898	37,986	61,530	60,369	70,553
Sundry debtors	17,952	26,022	38,714	37,588	43,929
Loans and Advances	187	176	0	0	0
Sundry creditors	21,366	33,787	41,643	45,277	52,914
Other current liabilities	16,652	20,158	24,758	29,069	33,613
Cash & equivalents	7,828	6,108	8,643	37,202	55,950
Total Assets	121,105	147,695	161,446	181,142	205,451

Source: Company, YES Sec

Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	202,113	217,128	291,013	346,458	404,900
Operating profit	41,618	48,556	48,036	71,827	86,265
Depreciation	5,685	7,913	8,164	8,727	9,291
Interest expense	1,023	916	954	954	954
Other income	3,043	3,031	3,800	2,436	4,131
Profit before tax	37,952	42,758	42,719	64,582	80,151
Taxes	8,549	10,976	11,029	17,092	21,192
Minorities and other	507	286	316	316	316
Adj. profit	29911	32068	32005	47805	59274
Exceptional items	-	-	1,157	-	-
Net profit	29,911	32,068	30,848	47,805	59,274

Source: Company, YES Sec

Exhibit 13: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	38,975	43,674	43,673	65,536	81,105
Depreciation	5,685	7,913	8,164	8,727	9,291
Tax paid	(8,549)	(10,976)	(11,029)	(17,092)	(21,192)
Working capital Δ	(1,435)	(30,627)	(16,324)	6,559	(8,364)
Other operating items					
Operating cashflow	34,678	9,983	24,483	63,730	60,839
Capital expenditure	(2,749)	(4,202)	(7,204)	(5,245)	(5,245)
Free cash flow	31,929	5,781	17,279	58,486	55,595
Equity raised	(12,092)	7,777	-	-	-
Investments	(1,123)	367	4,029	-	-
Debt financing/disposal	(2,719)	(145)	4,354	-	-
Interest paid	(1,023)	(916)	(954)	(954)	(954)
Dividends paid	(10,800)	(17,118)	(20,795)	(28,466)	(35,295)
Net Δ in cash	2,365	(6,521)	2,258	27,928	18,116

Source: Company, YES Sec

Exhibit 14: Du-pont analysis

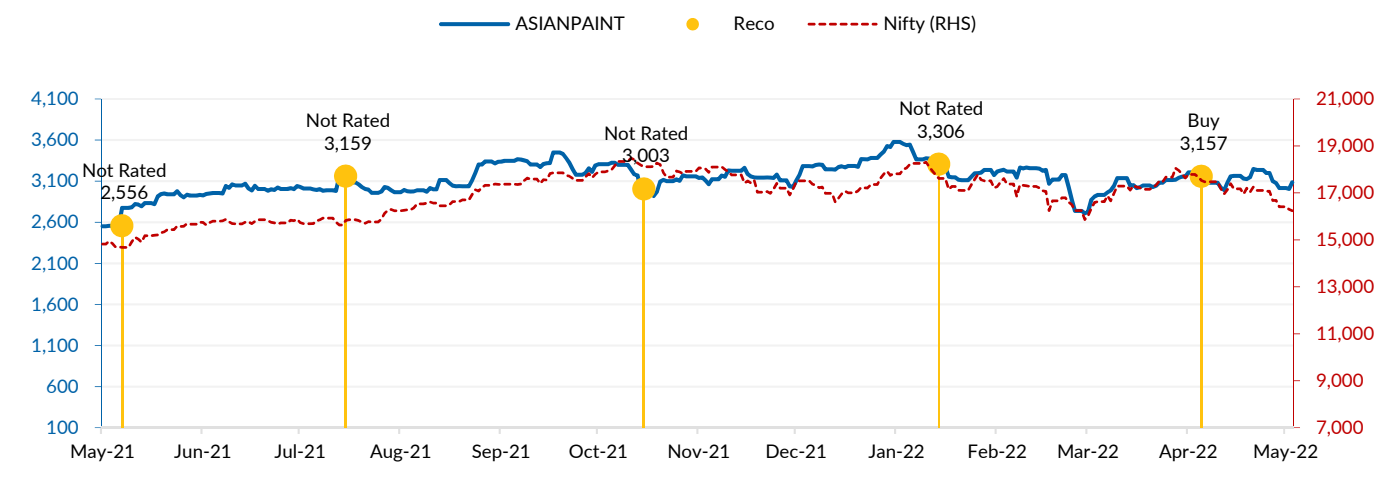
Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Tax burden (x)	0.79	0.75	0.75	0.74	0.74
Interest burden (x)	0.97	0.98	0.98	0.99	0.99
EBIT margin (x)	0.19	0.20	0.15	0.19	0.20
Asset turnover (x)	1.25	1.19	1.34	1.42	1.47
Financial leverage (x)	1.59	1.56	1.63	1.65	1.63
RoE (%)	29.4	27.5	24.0	32.3	35.0

Exhibit 15: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Growth matrix (%)					
Revenue growth	5.0	7.4	34.0	19.1	16.9
Op profit growth	10.5	16.7	(1.1)	49.5	20.1
EBIT growth	9.2	12.1	(0.0)	50.1	23.8
Net profit growth	24.2	7.2	(0.2)	49.4	24.0
Profitability ratios (%)					
OPM	20.6	22.4	16.5	20.7	21.3
EBIT margin	19.3	20.1	15.0	18.9	20.0
Net profit margin	14.8	14.8	11.0	13.8	14.6
RoCE	36.5	35.7	30.6	41.1	44.8
RoNW	29.4	27.5	24.0	32.3	35.0

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
RoA	18.4	17.6	14.8	19.6	21.5
Per share ratios					
EPS	31.2	33.4	33.4	49.8	61.8
Dividend per share	7.6	17.8	19.2	29.7	36.8
Cash EPS	37.1	41.7	41.9	58.9	71.5
Book value per share	109.8	137.9	148.0	168.2	193.2
Valuation ratios					
P/E	98.9	92.2	95.9	61.9	49.9
P/CEPS	83.1	74.0	75.8	52.3	43.1
P/B	28.1	23.1	21.4	18.8	16.3
EV/EBIDTA	71.0	60.9	61.6	40.8	33.7
Payout (%)					
Dividend payout	36.1	53.4	65.0	59.5	59.5
Tax payout	22.5	25.7	25.8	26.5	26.4
Liquidity ratios					
Debtor days	32.4	43.7	48.6	39.6	39.6
Inventory days	61.2	63.9	77.2	63.6	63.6
Creditor days	38.6	56.8	52.2	47.7	47.7

Recommendation Tracker



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