

July 26, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	3,363		3,018	
Sales (Rs. m)	3,69,936	4,14,244	3,56,205	3,98,884
% Chng.	3.9	3.9		
EBITDA (Rs. m)	67,529	81,073	51,808	64,083
% Chng.	30.3	26.5		
EPS (Rs.)	47.6	57.7	35.5	44.6
% Chng.	34.3	29.3		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	2,17,123	2,91,013	3,69,936	4,14,244
EBITDA (Rs. m)	48,552	48,036	67,529	81,073
Margin (%)	22.4	16.5	18.3	19.6
PAT (Rs. m)	31,388	32,005	45,703	55,393
EPS (Rs.)	32.7	33.4	47.6	57.7
Gr. (%)	16.2	2.0	42.8	21.2
DPS (Rs.)	4.9	18.2	22.0	26.0
Yield (%)	0.2	0.6	0.7	0.8
RoE (%)	27.4	24.0	30.0	30.5
RoCE (%)	34.4	28.7	36.8	38.1
EV/Sales (x)	13.6	10.2	7.9	7.0
EV/EBITDA (x)	60.7	61.6	43.5	35.9
PE (x)	95.0	93.2	65.2	53.8
P/BV (x)	23.3	21.6	17.9	15.2

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.3,590 / Rs.2,560
Sensex / Nifty	55,268 / 16,484
Market Cap	Rs.2,982bn / \$ 37,380m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.4353.49m

Shareholding Pattern (%)

Promoter's	52.67
Foreign	18.51
Domestic Institution	8.42
Public & Others	20.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.6	(1.2)	1.5
Relative	7.4	3.4	(2.9)

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Strong growth outlook; BUY

Quick Pointers:

- Decorative volumes up 37% as Tier1/2 cities and B2B catch up in sales.
- Demand outlook strong, 6% inflation QoQ, only calibrated price increases to ensure Gross margins to remain in a band of 38.5-40%

We increase our FY23/FY24 EPS by 34.3%/29.3% given 1) bottomed out margins on sharp decline in input costs in past few weeks 2) Benefits of calibrated price increases (25% YoY) 3) strong demand for both B2C and B2B segments in paints 4) Improved mix in paints and sustained traction in home décor, waterproofing and project business. APNT reported marginal QoQ decline in margins despite calibrated pricing action and superior mix as 6% QoQ inflation impacted profitability despite strong broad based volume growth. APNT expects commodity prices to remain volatile in near-term although strong demand is likely to sustain.

We believe long term structural levers remain intact led by 1) market share gains in decorative paints in an industry growing at double digits 2) increased distribution (addition of 5k retail touch points in 1Q23) 3) innovations & focus on high growth waterproofing/wood finishes segment 4) scalability plans in home décor from 4% to 10% by FY26 by both organic and inorganic means. We expect APNT to sustain premium valuations given strong growth visibility. We maintain our BUY rating with a TP of Rs 3363 (Rs 3018 earlier). However, valuations at 53.8x FY24/51.7x June24 EPS will remain a little overhang given Grasim's aggressive entry plans in Decorative paints in FY24.

Decorative volumes up 37%; Margins at 18.1%: Consol Revenues grew by 54.1% YoY to Rs86.1bn (PLe: Rs69.0bn). Gross margins contracted by 73bps YoY to 37.7%. EBITDA grew by 70.3% YoY to Rs15.6bn (PLe: Rs11.4bn) Margins expanded by 172bps YoY to 18.1% (PLe:16.5%). Adj. PAT grew by 84.6% YoY to Rs10.6bn (PLe: Rs7.5bn). Standalone Revenues grew by 58.5% YoY to Rs75.9bn; Gross margins contracted by 144bps YoY to 38.1%; EBITDA margins expanded by 85bps YoY to 19.3%; Adj. PAT grew by 70.7% YoY to Rs10.2bn. Sub sales grew by 27.7% YoY; EBITDA grew by 195.4% YoY.

Concall Takeaways: 1) Tier 1/2 growth was driven by luxury & premium products mainly emulsion, waterproofing & adhesives while Tier 3/4 cities witnessed strong growth in economy range **2)** 6% inflation witnessed across RM basket in 1Q23 against 0.5% price increase in Jul'22 and Aug'22. **3)** Innovations continue to drive growth with the launch of 10 new products like anti-insect enamel, PU enamel, high quality high end glitz matte, luxe collection leading to 40 unique APNT products in the market. **4)** Management remains focused on double digit volume growth with gross margins at 38-40.5% for FY23 **5)** Demand sentiments in T3/4 cities likely to improve with good monsoon & increase in dealer penetration. **6)** B2B sales will likely remain strong driven by strong real estate sector, uptick in housing and increase in govt spending on infra. **7)** FY23 capex is estimated at Rs 8bn **8)** Kitchen & Bath business momentum will continue with the opening up of new plant in Pune in 2Q23. **9)** Dealer inventory remains at normal levels.

Exhibit 1: 1QFY23 Results - Consolidated (Rs mn): Revenues grew 54.1% EBITDA margins at 18.1%, Adj PAT grew 84.6%

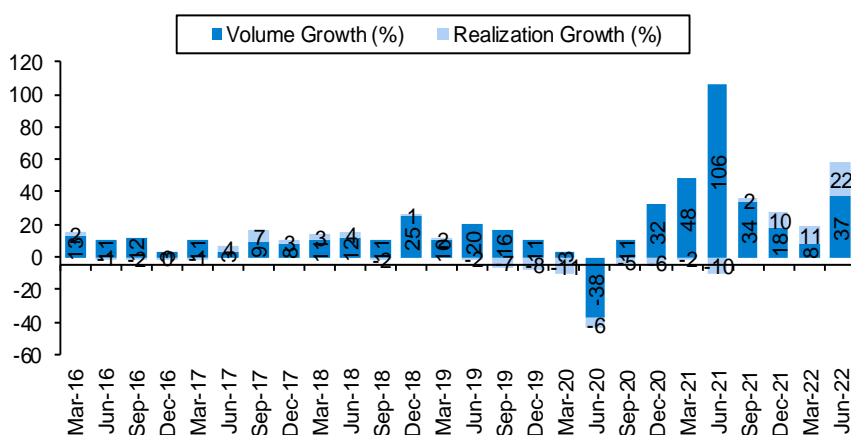
Consolidated	1QFY23	1QFY22	YoY gr. (%)	4QFY22	FY22	FY21	YoY gr. (%)
Net Sales	86,069	55,854	54.1	78,927	2,91,013	2,17,128	34.0
Gross Profit	32,450	21,464	51.2	30,546	1,08,005	96,156	12.3
<i>% of NS</i>	<i>37.7</i>	<i>38.4</i>	<i>-0.7</i>	<i>38.7</i>	<i>37.1</i>	<i>44.3</i>	<i>-7.2</i>
Other Expenses	16,891	12,329	37.0	16,113	59,969	47,600	26.0
<i>% of NS</i>	<i>19.6</i>	<i>22.1</i>		<i>20.4</i>	<i>20.6</i>	<i>21.9</i>	
EBITDA	15,560	9,136	70.3	14,433	48,036	48,556	-1.1
<i>Margins %</i>	<i>18.1</i>	<i>16.4</i>	<i>1.7</i>	<i>18.3</i>	<i>16.5</i>	<i>22.4</i>	<i>-5.9</i>
Depreciation	2,081	2,006	3.7	2,051	8,164	7,913	3.2
Interest	288	215	33.8	226	954	916	4.1
Other Income	990	896	10.4	804	3,800	3,031	25.4
PBT	14,181	7,811	81.5	12,960	42,719	42,758	-0.1
Tax	3,706	2,043	81.4	3,151	11,029	10,976	0.5
<i>Tax rate %</i>	<i>26.1</i>	<i>26.2</i>		<i>24.3</i>	<i>25.8</i>	<i>25.7</i>	
Adj. PAT	10,602	5,743	84.6	9,898	32,005	31,901	0.3

Source: Company Data, PL Research

Exhibit 2: 1QFY23 Results - Standalone (Rs mn): Revenues up 58.5%, EBITDA margins at 19.3%, Adj PAT grew 70.7%

Standalone	1QFY23	1QFY22	YoY gr. (%)	4QFY22	FY22	FY21	YoY gr. (%)
Net Sales	75,862	47,859	58.5	67,596	2,51,885	1,85,169	36.0
Gross Profit	28,917	18,934	52.7	26,840	95,796	84,343	13.6
<i>% of NS</i>	<i>38.1</i>	<i>39.6</i>	<i>-1.4</i>	<i>39.7</i>	<i>38.0</i>	<i>45.5</i>	<i>-7.5</i>
Other Expenses	14,291	10,114	41.3	13,213	49,917	39,413	26.6
<i>% of NS</i>	<i>18.8</i>	<i>21.1</i>		<i>19.5</i>	<i>19.8</i>	<i>21.3</i>	
EBITDA	14,626	8,820	65.8	13,627	45,879	44,930	2.1
<i>Margins %</i>	<i>19.3</i>	<i>18.4</i>	<i>0.9</i>	<i>20.2</i>	<i>18.2</i>	<i>24.3</i>	<i>-6.1</i>
Depreciation	1,841	1,764	4.4	1,813	7,216	6,975	3.5
Interest	199	164	21.3	143	703	717	-2.0
Other Income	1,138	1,055	7.9	891	4,520	3,662	23.4
PBT	13,724	7,947	72.7	12,563	42,481	40,900	3.9
Tax	3,551	1,988	78.6	3,026	10,594	10,379	2.1
<i>Tax rate %</i>	<i>25.9</i>	<i>25.0</i>		<i>24.1</i>	<i>24.9</i>	<i>25.4</i>	
Adj. PAT	10,173	5,959	70.7	9,537	31,886	30,522	4.5

Source: Company Data, PL Research

Exhibit 3: Volumes grew 37% in 1Q23


Source: Company, PL

Exhibit 4: IBD – Asia business key contributor to sales & profits

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Revenue	4000	6660	7110	7390	6170	7070	7760	8290	7100
Africa	1230	1630	1520	1550	1400	1380	1250	1580	1510
Middle East	1320	1680	1850	1810	1850	1720	2050	1970	2030
Asia	1210	3030	3420	3740	2660	3660	4050	4420	3300
South Pacific	240	320	320	290	260	310	410	320	260
YoY Growth					54.3%	6.2%	9.1%	12.2%	15.1%
Africa					13.8%	-16.0%	-19.0%	1.0%	7.9%
Middle East					40.2%	1.0%	10.0%	8.0%	9.7%
Asia					119.8%	20.8%	18.0%	18.0%	24.1%
South Pacific					8.3%	-4.0%	32.0%	10.0%	0.0%
PBT	100	760	830	420	-20	-100	190	230	420
Africa	110	200	140	90	-90	-160	-160	-30	80
Middle East	80	140	170	90	-10	-110	20	-170	10
Asia	-140	340	430	160	20	100	220	370	300
South Pacific	50	80	90	80	60	70	110	60	30
PBT Margins	3%	11%	12%	6%	0%	-1%	2%	3%	6%
Africa	9%	12%	9%	6%	-6%	-12%	-13%	-2%	5%
Middle East	6%	8%	9%	5%	-1%	-6%	1%	-9%	0%
Asia	-12%	11%	13%	4%	1%	3%	5%	8%	9%
South Pacific	21%	25%	28%	28%	23%	23%	27%	19%	12%

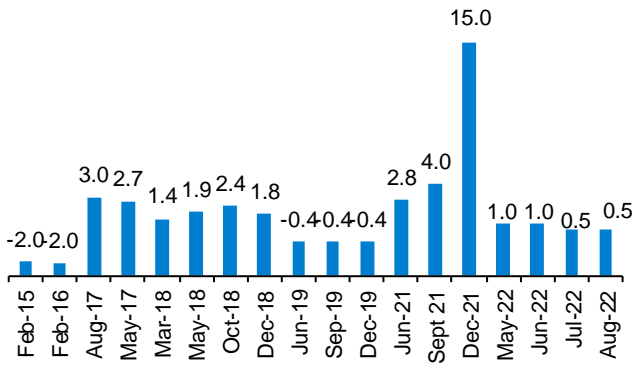
Source: Company, PL

Exhibit 5: Domestic – PPG-AP key contributor to sales & profits, Bath business sustains profitable growth

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Revenue	1920	5156	7064	7140	5320	7550	8400	8800	8880
PPG-AP	830	2835	3945	3330	2550	3770	4150	3960	4160
AP-PPG	590	1161	1579	1930	1550	1800	2110	2470	2420
Kitchen Business	250	610	810	950	660	1050	1110	1280	1110
Bath Business	250	550	730	930	560	930	1030	1090	1190
YoY Growth					177.1%	46.4%	18.9%	23.2%	66.9%
PPG-AP					207.2%	33.0%	5.0%	19.0%	63.1%
AP-PPG					162.7%	55.0%	33.0%	28.0%	56.1%
Kitchen Business					164.0%	70.0%	37.0%	34.0%	68.2%
Bath Business					124.0%	69.1%	42.0%	17.0%	112.5%
PBT	-649	353	816	260	-120	350	530	450	420
PPG-AP	-380	310	667	160	-60	270	400	250	320
AP-PPG	-60	86	156	110	40	50	120	210	120
Kitchen Business	-135	-44	-17	-10	-80	0	0	-20	-70
Bath Business	-74	0	10	0	-20	30	10	10	50
PBT Margins	-34%	7%	12%	4%	-2%	5%	6%	5%	5%
PPG-AP	-46%	11%	17%	5%	-2%	7%	10%	6%	8%
AP-PPG	-10%	7%	10%	6%	3%	3%	6%	9%	5%
Kitchen Business	-54%	-7%	-2%	-1%	-12%	0%	0%	-2%	-6%
Bath Business	-30%	0%	1%	0%	-4%	3%	1%	1%	4%

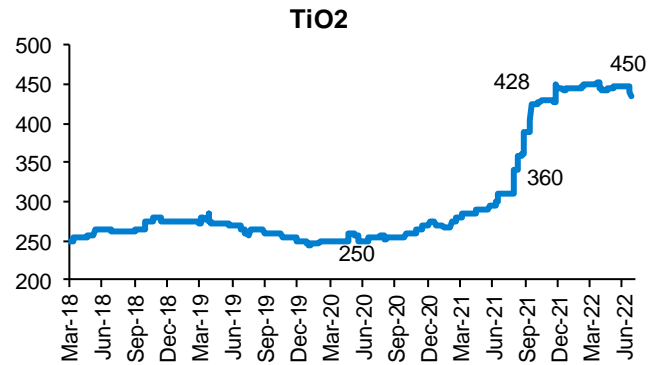
Source: Company, PL

Exhibit 6: Multiple price hikes taken in 1Q



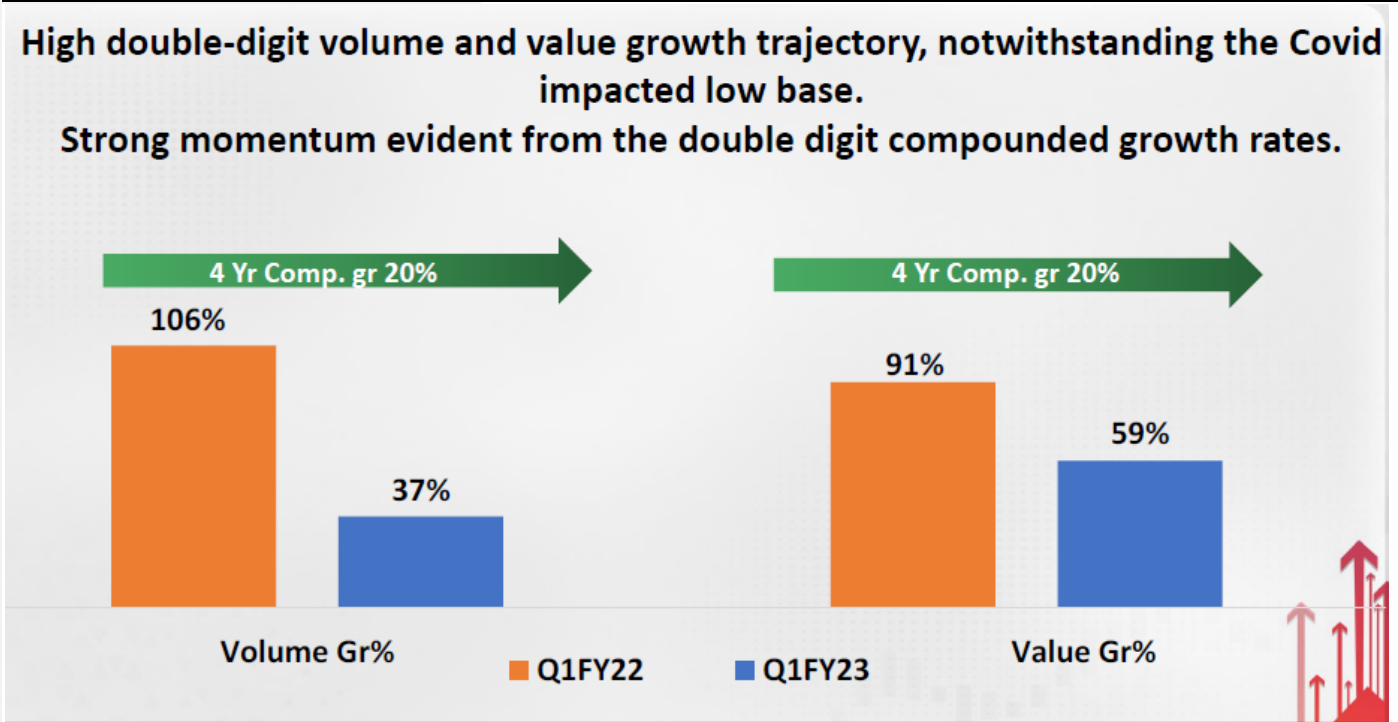
Source: Company, PL

Exhibit 7: Tio2 prices up 0.3% QoQ and 54.6% YoY



Source: Company, PL

Exhibit 8: Strong double digit volume growth on a 4yr CAGR



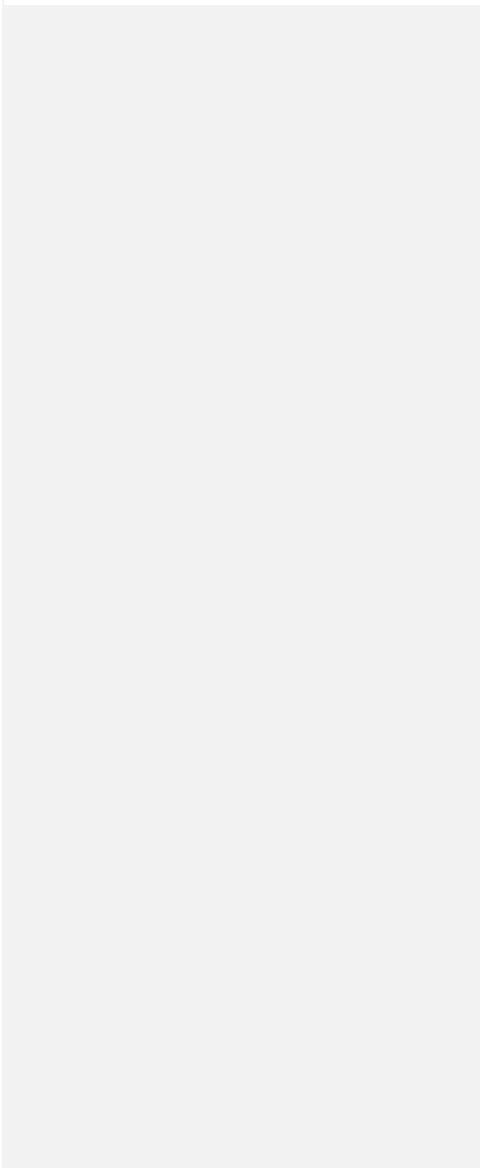
Source: Company, PL

Exhibit 9: New set of innovations in 1Q23

New Product Introductions

The image displays six new product introductions from Asian Paints in 1Q23. On the left, a vertical orange banner reads "New Product Introductions". The products are arranged in two rows. The top row features: 1) **GLITZ MATT**: A bucket of "royale LUXURY EMULSION GLITZ ULTRA MATT" paint. 2) **SmartCare Tile Coat**: A bucket of "SMARTCARE TILE COAT" with a "2 IN 1" label. 3) **Sparc ST Primer**: A bucket of "SPARC INTERIOR WALL PRIMER". The bottom row features: 4) **INSECT SHIELD**: A can of "apcolite INSECT SHIELD" paint. 5) **ADVANCED PU ENAMEL**: A can of "apcolite ADVANCED PU ENAMEL" with "1K GLOSS" and "NON TOXIC" labels. 6) **Royale Play Mineral**: A bucket of "royale PLAY Mineral FINISHES". To the right of these products is a separate box for "THE Luxe COLLECTION FOR UNFINISHED SPACES".

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	2,17,123	2,91,013	3,69,936	4,14,244
YoY gr. (%)	7.4	34.0	27.1	12.0
Cost of Goods Sold	1,20,972	1,83,008	2,28,012	2,47,219
Gross Profit	96,151	1,08,005	1,41,924	1,67,025
Margin (%)	44.3	37.1	38.4	40.3
Employee Cost	15,408	17,867	22,092	24,394
Other Expenses	32,192	42,103	52,302	61,558
EBITDA	48,552	48,036	67,529	81,073
YoY gr. (%)	16.7	(1.1)	40.6	20.1
Margin (%)	22.4	16.5	18.3	19.6
Depreciation and Amortization	7,913	8,164	9,046	9,930
EBIT	40,639	39,873	58,483	71,144
Margin (%)	18.7	13.7	15.8	17.2
Net Interest	916	954	1,246	1,305
Other Income	3,031	3,800	4,352	5,024
Profit Before Tax	42,753	42,719	61,589	74,862
Margin (%)	19.7	14.7	16.6	18.1
Total Tax	10,976	11,029	16,136	19,614
Effective tax rate (%)	25.7	25.8	26.2	26.2
Profit after tax	31,777	31,689	45,453	55,248
Minority interest	675	-	660	895
Share Profit from Associate	286	316	910	1,040
Adjusted PAT	31,388	32,005	45,703	55,393
YoY gr. (%)	16.2	2.0	42.8	21.2
Margin (%)	14.5	11.0	12.4	13.4
Extra Ord. Income / (Exp)	-	(1,157)	-	-
Reported PAT	31,388	30,848	45,703	55,393
YoY gr. (%)	16.4	(1.7)	48.2	21.2
Margin (%)	14.5	10.6	12.4	13.4
Other Comprehensive Income	(57)	(2,257)	-	-
Total Comprehensive Income	31,332	28,592	45,703	55,393
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	32.7	33.4	47.6	57.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	85,583	87,569	94,269	1,00,969
Tangibles	81,397	83,642	90,142	96,642
Intangibles	4,187	3,927	4,127	4,327
Acc: Dep / Amortization	38,480	43,864	50,055	56,701
Tangibles	36,633	41,797	47,706	54,056
Intangibles	1,847	2,067	2,349	2,645
Net fixed assets	47,103	43,705	44,214	44,267
Tangibles	44,764	41,845	42,436	42,585
Intangibles	2,340	1,860	1,778	1,682
Capital Work In Progress	1,830	4,264	3,000	3,000
Goodwill	3,026	2,429	2,565	2,565
Non-Current Investments	20,637	15,529	16,723	17,969
Net Deferred tax assets	(4,013)	(3,228)	(3,202)	(3,174)
Other Non-Current Assets	10,691	12,135	12,420	12,857
Current Assets				
Investments	32,671	21,807	26,117	31,289
Inventories	37,986	61,530	70,947	73,770
Trade receivables	26,022	38,714	45,609	45,397
Cash & Bank Balance	6,108	8,643	21,947	44,292
Other Current Assets	5,372	5,413	7,399	8,285
Total Assets	2,03,696	2,29,845	2,68,200	3,02,777
Equity				
Equity Share Capital	959	959	959	959
Other Equity	1,27,104	1,37,156	1,65,351	1,95,805
Total Network	1,28,063	1,38,116	1,66,311	1,96,764
Non-Current Liabilities				
Long Term borrowings	145	445	120	100
Provisions	2,152	2,183	2,673	2,952
Other non current liabilities	45	21	21	21
Current Liabilities				
ST Debt / Current of LT Debt	3,341	7,311	5,226	4,776
Trade payables	33,787	41,643	49,975	50,798
Other current liabilities	22,131	26,756	30,179	33,445
Total Equity & Liabilities	2,03,697	2,29,845	2,68,227	3,02,806

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	42,753	42,719	61,589	74,862
Add. Depreciation	7,913	8,164	9,046	9,930
Add. Interest	916	954	1,246	1,305
Less Financial Other Income	3,031	3,800	4,352	5,024
Add. Other	(145)	220	-	-
Op. profit before WC changes	51,437	52,056	71,880	86,097
Net Changes-WC	(35,498)	(19,115)	(16,325)	(10,141)
Direct tax	(10,976)	(11,029)	(16,136)	(19,614)
Net cash from Op. activities	4,963	21,912	39,419	56,342
Capital expenditures	(4,202)	(7,203)	(8,232)	(9,759)
Interest / Dividend Income	-	-	-	-
Others	653	4,344	368	444
Net Cash from Invt. activities	(3,549)	(2,859)	(7,864)	(9,315)
Issue of share cap. / premium	(414)	(3,161)	2,934	(895)
Debt changes	2,292	7,180	920	2,191
Dividend paid	(4,652)	(17,409)	(21,102)	(24,939)
Interest paid	(916)	(954)	(1,246)	(1,305)
Others	102	(1,956)	-	-
Net cash from Fin. activities	(3,588)	(16,300)	(18,494)	(24,949)
Net change in cash	(2,175)	2,753	13,061	22,079
Free Cash Flow	761	14,709	31,187	46,583

Source: Company Data, PL Research

Key Financial Metrics

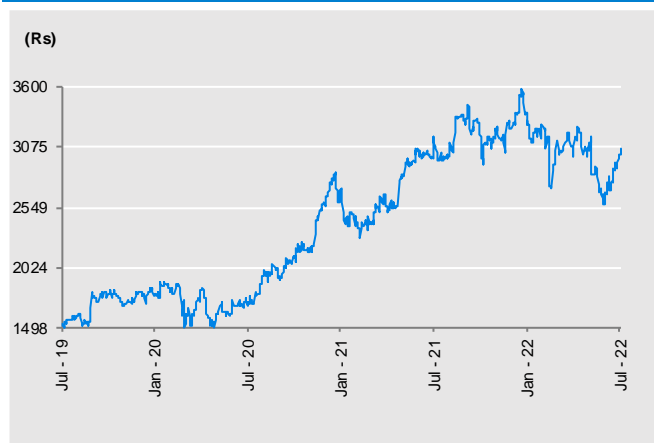
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	32.7	33.4	47.6	57.7
CEPS	41.0	41.9	57.1	68.1
BVPS	133.5	144.0	173.4	205.1
FCF	0.8	15.3	32.5	48.6
DPS	4.9	18.2	22.0	26.0
Return Ratio(%)				
RoCE	34.4	28.7	36.8	38.1
ROIC	38.1	27.3	39.0	47.3
RoE	27.4	24.0	30.0	30.5
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	51	73	66	60
Valuation(x)				
PER	95.0	93.2	65.2	53.8
P/B	23.3	21.6	17.9	15.2
P/CEPS	75.9	74.2	54.5	45.6
EV/EBITDA	60.7	61.6	43.5	35.9
EV/Sales	13.6	10.2	7.9	7.0
Dividend Yield (%)	0.2	0.6	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	70,960	85,272	78,927	86,069
YoY gr. (%)	32.6	25.6	18.7	54.1
Raw Material Expenses	46,304	53,933	48,381	53,619
Gross Profit	24,656	31,339	30,546	32,450
Margin (%)	34.7	36.8	38.7	37.7
EBITDA	9,045	15,423	14,433	15,560
YoY gr. (%)	(28.5)	(13.7)	9.5	70.3
Margin (%)	12.7	18.1	18.3	18.1
Depreciation / Depletion	2,028	2,079	2,051	2,081
EBIT	7,017	13,344	12,382	13,479
Margin (%)	9.9	15.6	15.7	15.7
Net Interest	239	275	226	288
Other Income	1,382	718	804	990
Profit before Tax	8,160	13,788	12,960	14,181
Margin (%)	11.5	16.2	16.4	16.5
Total Tax	2,211	3,624	3,151	3,706
Effective tax rate (%)	27.1	26.3	24.3	26.1
Profit after Tax	5,950	10,163	9,808	10,475
Minority interest	-	-	-	-
Share Profit from Associates	102	150	89	128
Adjusted PAT	6,052	10,313	9,898	10,602
YoY gr. (%)	(27.5)	(18.5)	13.8	84.6
Margin (%)	8.5	12.1	12.5	12.3
Extra Ord. Income / (Exp)	-	-	(1,157)	(242)
Reported PAT	6,052	10,313	8,741	10,360
YoY gr. (%)	(27.5)	(18.5)	0.5	80.4
Margin (%)	8.5	12.1	11.1	12.0
Other Comprehensive Income	(141)	(598)	(1,596)	(535)
Total Comprehensive Income	5,911	9,714	7,144	9,825
Avg. Shares O/s (m)	959	959	959	959
EPS (Rs)	6.3	10.8	10.3	11.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	3,018	2,891
2	10-May-22	BUY	3,511	3,086
3	08-Apr-22	BUY	3,542	3,206
4	21-Jan-22	BUY	3,762	3,306
5	06-Jan-22	BUY	3,675	3,527
6	21-Oct-21	BUY	3,675	3,002
7	06-Oct-21	BUY	3,507	3,212

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,018	2,891
2	Avenue Supermarts	BUY	4,636	3,942
3	Britannia Industries	UR	-	3,810
4	Colgate Palmolive	Accumulate	1,708	1,570
5	Dabur India	Accumulate	603	544
6	Emami	Accumulate	611	470
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	BUY	305	292
9	Jubilant FoodWorks	Accumulate	710	571
10	Kansai Nerolac Paints	BUY	513	396
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	BUY	781	752
13	Nestle India	Accumulate	19,426	18,205
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	BUY	2,520	2,014
17	Titan Company	BUY	2,520	2,128
18	Westlife Development	BUY	653	524

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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