

October 20, 2022

Q2FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	3,326		3,446	
Sales (Rs. m)	4,08,648	4,65,608	4,14,244	4,71,995
% Chng.	(1.4)	(1.4)		
EBITDA (Rs. m)	79,434	92,057	81,073	93,903
% Chng.	(2.0)	(2.0)		
EPS (Rs.)	56.8	66.4	57.7	67.4
% Chng.	(1.7)	(1.5)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	2,91,013	3,64,933	4,08,648	4,65,608
EBITDA (Rs. m)	48,036	63,010	79,434	92,057
Margin (%)	16.5	17.3	19.4	19.8
PAT (Rs. m)	32,005	42,434	54,443	63,703
EPS (Rs.)	33.4	44.2	56.8	66.4
Gr. (%)	2.0	32.6	28.3	17.0
DPS (Rs.)	18.2	22.0	26.0	32.0
Yield (%)	0.6	0.7	0.8	1.0
RoE (%)	24.0	28.2	30.6	30.5
RoCE (%)	28.7	34.4	38.2	38.2
EV/Sales (x)	10.3	8.2	7.3	6.3
EV/EBITDA (x)	62.2	47.3	37.3	32.1
PE (x)	94.1	71.0	55.3	47.3
P/BV (x)	21.8	18.5	15.6	13.4

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.3,590 / Rs.2,560
Sensex / Nifty	59,203 / 17,564
Market Cap	Rs.3,013bn / \$ 36,406m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.3941.18m

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	(7.4)	1.9	(0.9)
Relative	(6.6)	(1.8)	2.5

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Asian Paints (APNT IN)

Rating: ACCUMULATE | CMP: Rs3,141 | TP: Rs3,326

Investing for growth battles

Quick Pointers:

- Decorative volumes up 10%, Tier3/4 grew faster than T1/2.
- Demand outlook remains strong led by festive season, pick up in construction & B2B businesses and favorable monsoons

We cut our rating on APNT from Buy to Accumulate as we change FY23/FY24/FY25 EPS by -7.1%/-1.7%/-1.5% given 1) expected margin recovery from 3Q23 as commodity prices have peaked out 2) narrowing gap between inflation and price 3) strong demand for both B2C and B2B segments in paints 4) improved mix in paints and sustained traction in home décor, waterproofing and projects business. 3Q reported a sharp 200bps QoQ decline in margins despite calibrated pricing action as higher cost raw material inventory and inferior sales mix impacted profitability.

We believe long term growth levers are intact led by 1) market share gains in decorative paints 2) increased distribution (addition of 8k retail touch points in 1H23) 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 believe APNT's plans of Rs34bn capacity expansion and backward integration into VAE & VAM, white cement JV in UAE and nanotech emulsion paints shows larger plans of the company to grow in futuristic coating segments and adhesives. We believe benefits of Rs67bn capex will start getting reflected from FY26 only. We see little scope of further re-rating given likely aggression from Grasim & JSW in Paints and impending capex plans. We value stock on DCF and assign target price of Rs3326 (Rs 3446 earlier). Accumulate for long term gains only.

Decorative volumes up 10%; Margins at 14.5%: Consol Revenues grew by 19.2% YoY to Rs84.6bn (PL: Rs95.8bn). Gross margins expanded by 98bps YoY to 35.7%. EBITDA grew by 35.7% YoY to Rs12.3bn (PL: Rs16.9bn) Margins expanded by 177bps YoY to 14.5% (PL:18.3%). Adj. PAT grew by 32.8% YoY to Rs8bn (PL: Rs11.6bn). Standalone Revenues grew by 19.4% YoY to Rs73.4bn; Gross margins expanded by 22bps YoY to 35.9%; EBITDA margins expanded by 22bps YoY to 35.9%; Adj. PAT grew by 23.4% YoY to Rs7.6bn. **Imputed Sub:** Sales grew by 17.9% YoY; EBITDA grew by 279.8% YoY.

Concall Takeaways: 1) Volumes were impacted in 2Q in West & South due to monsoons 2) Double digit growth in T3/4 cities was ahead of T1/2 while rural demand has seen an uptick 3) Downtrading witnessed from luxury to premium and economy due to price hikes in 1H23 4) B2B business grew faster than B2C 5) Added 8000 dealers in 1H23 which led to improved growth in rural markets 6) Launched 4 new products in Q2FY23 7) Gap of 5% between price increase and inflation In 1H. 8) Acquired 51% stake in specialty paints company – Harind for Rs127.5mn to leverage futuristic nano technology. 9) Backward integration of VAE/VAM with an investment of Rs21bn over 3-4 years with 150k ton capacity p.a. for VAE & 110k ton p.a. for VAM. 10) JV with 60% stake in a white cement plant with 265k MT capacity p.a. for Rs5.5bn 11) To increase paints capacity by 30% to 22.7 KLPA over 3 years for Rs34bn.

Exhibit 1: 2QFY23 Results - Consolidated (Rs mn): Revenues grew 19.2% EBITDA margins at 14.5%, Adj PAT grew 32.8%

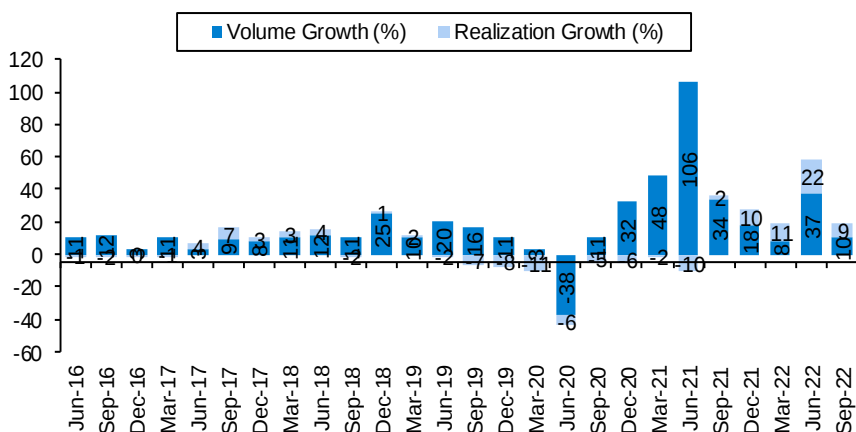
Consolidated	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Net Sales	84,576	70,960	19.2	86,069	1,70,645	1,26,814	34.6
Gross Profit	30,219	24,656	22.6	32,450	62,670	46,120	35.9
% of NS	35.7	34.7	1.0	37.7	36.7	36.4	0.4
Other Expenses	17,942	15,611	14.9	16,891	34,833	27,940	24.7
% of NS	21.2	22.0		19.6	20.4	22.0	
EBITDA	12,277	9,045	35.7	15,560	27,837	18,180	53.1
Margins %	14.5	12.7	1.8	18.1	16.3	14.3	2.0
Depreciation	2,157	2,028	6.4	2,081	4,238	4,033	5.1
Interest	354	239	48.4	288	642	453	41.5
Other Income	955	1,382	-30.9	990	1,944	2,278	-14.6
PBT	10,721	8,160	31.4	14,181	24,901	15,971	55.9
Tax	2,903	2,211	31.3	3,706	6,609	4,254	55.4
Tax rate %	27.1	27.1		26.1	26.5	26.6	
Adj. PAT	8,038	6,052	32.8	10,602	18,641	11,795	58.0

Source: Company Data, PL Research

Exhibit 2: 2QFY23 Results - Standalone (Rs mn): Revenues up 19.4%, EBITDA margins at 15.2%, Adj PAT grew 23.4%

Standalone	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Net Sales	73,443	61,519	19.4	75,862	1,49,306	1,09,378	36.5
Gross Profit	26,352	21,935	20.1	28,917	55,269	40,868	35.2
% of NS	35.9	35.7	0.2	38.1	37.0	37.4	-0.3
Other Expenses	15,196	13,186	15.3	14,291	29,488	23,300	26.6
% of NS	20.7	21.4		18.8	19.7	21.3	
EBITDA	11,156	8,749	27.5	14,626	25,781	17,569	46.7
Margins %	15.2	14.2	1.0	19.3	17.3	16.1	1.2
Depreciation	1,890	1,799	5.1	1,841	3,731	3,562	4.7
Interest	235	181	30.0	199	434	345	25.9
Other Income	1,171	1,525	-23.2	1,138	2,310	2,580	-10.5
PBT	10,202	8,295	23.0	13,724	23,926	16,242	47.3
Tax	2,569	2,109	21.8	3,551	6,120	4,097	49.4
Tax rate %	25.2	25.4		25.9	25.6	25.2	
Adj. PAT	7,633	6,186	23.4	10,173	17,806	12,145	46.6

Source: Company Data, PL Research

Exhibit 3: Volumes grew 10% in 2Q23


Source: Company, PL

Exhibit 4: IBD – All geographies continue to post growth and improve profitability

(Rs mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Revenue	6660	7110	7390	6170	7070	7760	8290	7100	8160
Africa	1630	1520	1550	1400	1380	1250	1580	1510	1750
Middle East	1680	1850	1810	1850	1720	2050	1970	2030	2210
Asia	3030	3420	3740	2660	3660	4050	4420	3300	3800
South Pacific	320	320	290	260	310	410	320	260	400
YoY Growth				54.3%	6.2%	9.1%	12.2%	15.1%	15.4%
Africa				13.8%	-16.0%	-19.0%	1.0%	7.9%	26.8%
Middle East				40.2%	1.0%	10.0%	8.0%	9.7%	28.5%
Asia				119.8%	20.8%	18.0%	18.0%	24.1%	3.8%
South Pacific				8.3%	-4.0%	32.0%	10.0%	0.0%	29.0%
PBT	760	830	420	-20	-100	190	230	420	500
Africa	200	140	90	-90	-160	-160	-30	80	30
Middle East	140	170	90	-10	-110	20	-170	10	-20
Asia	340	430	160	20	100	220	370	300	420
South Pacific	80	90	80	60	70	110	60	30	70
PBT Margins	11%	12%	6%	0%	-1%	2%	3%	6%	6%
Africa	12%	9%	6%	-6%	-12%	-13%	-2%	5%	2%
Middle East	8%	9%	5%	-1%	-6%	1%	-9%	0%	-1%
Asia	11%	13%	4%	1%	3%	5%	8%	9%	11%
South Pacific	25%	28%	28%	23%	23%	27%	19%	12%	18%

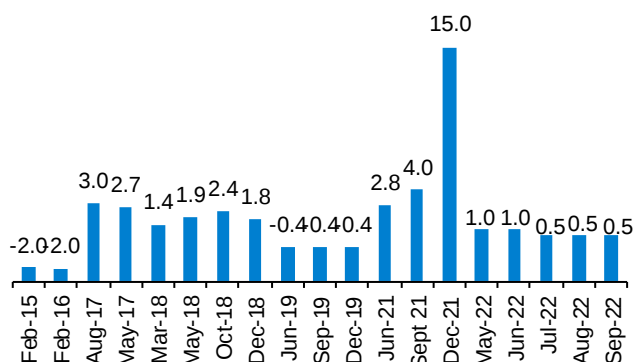
Source: Company Data, PL Research

Exhibit 5: Domestic – All businesses continue to grow in double digits

(Rs mn)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Revenue	5156	7064	7140	5320	7550	8400	8800	8880	9140
PPG-AP	2835	3945	3330	2550	3770	4150	3960	4160	4690
AP-PPG	1161	1579	1930	1550	1800	2110	2470	2420	2250
Kitchen Business	610	810	950	660	1050	1110	1280	1110	1180
Bath Business	550	730	930	560	930	1030	1090	1190	1020
YoY Growth				177.1%	46.4%	18.9%	23.2%	66.9%	21.1%
PPG-AP				207.2%	33.0%	5.0%	19.0%	63.1%	24.4%
AP-PPG				162.7%	55.0%	33.0%	28.0%	56.1%	25.0%
Kitchen Business				164.0%	70.0%	37.0%	34.0%	68.2%	12.4%
Bath Business				124.0%	69.1%	42.0%	17.0%	112.5%	9.7%
PBT	353	816	260	-120	350	530	450	420	670
PPG-AP	310	667	160	-60	270	400	250	320	570
AP-PPG	86	156	110	40	50	120	210	120	140
Kitchen Business	-44	-17	-10	-80	0	0	-20	-70	-40
Bath Business	0	10	0	-20	30	10	10	50	0
PBT Margins	7%	12%	4%	-2%	5%	6%	5%	5%	7%
PPG-AP	11%	17%	5%	-2%	7%	10%	6%	8%	12%
AP-PPG	7%	10%	6%	3%	3%	6%	9%	5%	6%
Kitchen Business	-7%	-2%	-1%	-12%	0%	0%	-2%	-6%	-3%
Bath Business	0%	1%	0%	-4%	3%	1%	1%	4%	0%

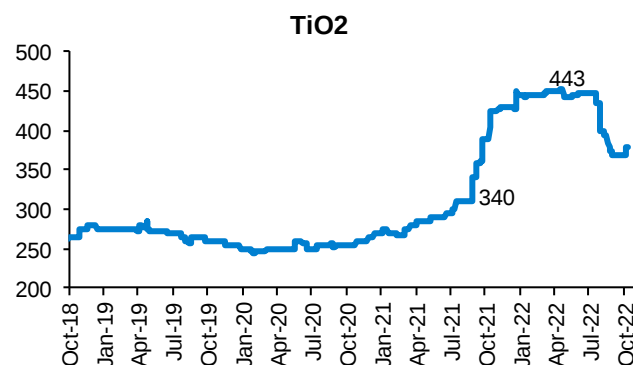
Source: Company Data, PL Research

Exhibit 6: Multiple price hikes taken in 2Q



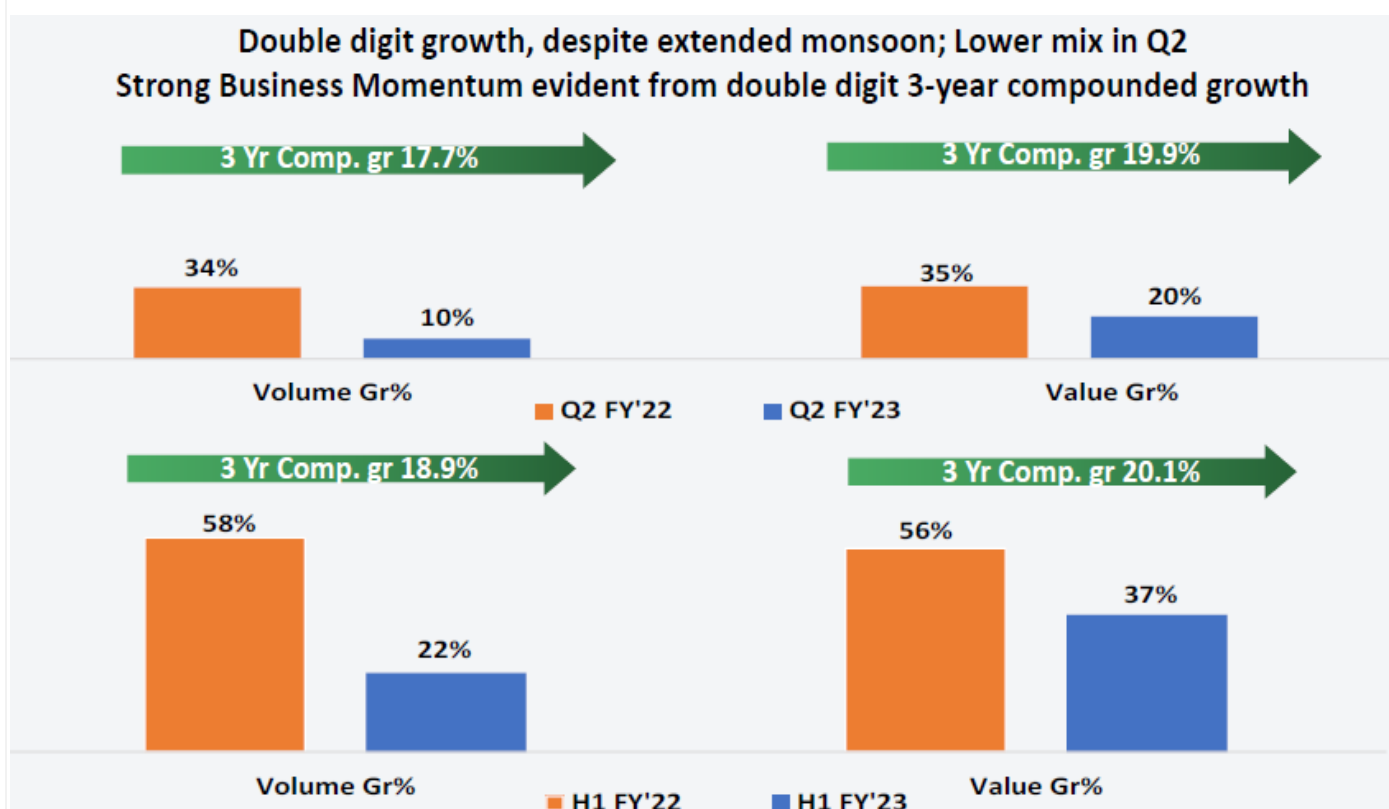
Source: Company, PL

Exhibit 7: Tio2 prices up 21.6% YoY and -10.4% QoQ



Source: Company, PL

Exhibit 8: Strong double digit volume growth on a 3yr CAGR



Source: Company, PL

Exhibit 9: New set of innovations in 2Q23



Glitz Ultra Matt
After the mega success of Royale Glitz ultra shine



SmartCare Tile Coat
A pioneering premium product opening the proposition of Waterproofing to Tile substrates



Ace Power+
A unique chemistry Which elevates the Economy user to premium economy emulsion



Tractor Sparc Enamel
A differentiated upgradation product based on tech innovation

45 clear differentiated products from Asian Paints with no comparable product offerings from competition

Source: Company, PL

Exhibit 10: Aggressive capex cycle ahead over the medium term

Plan Capital expenditure over next 3 years	Rs crs
Capacity Enhancement	3400
Backward Integration	2550
Acquisitions already announced – expected outflow	800*
TOTAL	6750
*Includes outflow already made towards acquisitions	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,91,013	3,64,933	4,08,648	4,65,608
YoY gr. (%)	34.0	25.4	12.0	13.9
Cost of Goods Sold	1,83,008	2,27,845	2,44,365	2,76,941
Gross Profit	1,08,005	1,37,088	1,64,283	1,88,667
Margin (%)	37.1	37.6	40.2	40.5
Employee Cost	17,867	21,837	24,114	27,427
Other Expenses	42,103	52,241	60,736	69,183
EBITDA	48,036	63,010	79,434	92,057
YoY gr. (%)	(1.1)	31.2	26.1	15.9
Margin (%)	16.5	17.3	19.4	19.8
Depreciation and Amortization	8,164	8,927	9,641	10,352
EBIT	39,873	54,083	69,793	81,705
Margin (%)	13.7	14.8	17.1	17.5
Net Interest	954	1,237	1,296	1,384
Other Income	3,800	4,352	5,024	5,923
Profit Before Tax	42,719	57,198	73,521	86,244
Margin (%)	14.7	15.7	18.0	18.5
Total Tax	11,029	14,986	19,263	22,596
Effective tax rate (%)	25.8	26.2	26.2	26.2
Profit after tax	31,689	42,212	54,259	63,648
Minority interest	-	688	856	1,130
Share Profit from Associate	316	910	1,040	1,185
Adjusted PAT	32,005	42,434	54,443	63,703
YoY gr. (%)	2.0	32.6	28.3	17.0
Margin (%)	11.0	11.6	13.3	13.7
Extra Ord. Income / (Exp)	(1,157)	-	-	-
Reported PAT	30,848	42,434	54,443	63,703
YoY gr. (%)	(1.7)	37.6	28.3	17.0
Margin (%)	10.6	11.6	13.3	13.7
Other Comprehensive Income	(2,257)	-	-	-
Total Comprehensive Income	28,592	42,434	54,443	63,703
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	33.4	44.2	56.8	66.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	87,569	90,769	95,969	1,01,169
Tangibles	83,642	86,642	91,642	96,642
Intangibles	3,927	4,127	4,327	4,527
Acc: Dep / Amortization	43,864	49,936	56,293	63,005
Tangibles	41,797	47,587	53,648	60,050
Intangibles	2,067	2,349	2,645	2,955
Net fixed assets	43,705	40,833	39,675	38,164
Tangibles	41,845	39,055	37,993	36,592
Intangibles	1,860	1,778	1,682	1,572
Capital Work In Progress	4,264	11,000	27,000	45,000
Goodwill	2,429	2,565	2,565	2,565
Non-Current Investments	15,529	18,125	19,510	21,175
Net Deferred tax assets	(3,228)	(3,202)	(3,174)	(3,142)
Other Non-Current Assets	12,135	12,257	12,816	13,372
Current Assets				
Investments	21,807	26,117	31,289	37,496
Inventories	61,530	69,987	72,773	76,538
Trade receivables	38,714	44,992	44,783	47,836
Cash & Bank Balance	8,643	14,178	19,986	29,834
Other Current Assets	5,413	7,299	8,173	9,312
Total Assets	2,29,845	2,64,534	2,97,568	3,42,427
Equity				
Equity Share Capital	959	959	959	959
Other Equity	1,37,156	1,62,083	1,91,586	2,24,594
Total Network	1,38,116	1,63,042	1,92,545	2,25,554
Non-Current Liabilities				
Long Term borrowings	445	120	100	100
Provisions	2,183	2,642	2,918	3,319
Other non current liabilities	21	21	21	21
Current Liabilities				
ST Debt / Current of LT Debt	7,311	5,226	4,776	5,054
Trade payables	41,643	49,939	50,212	56,906
Other current liabilities	26,756	29,823	33,047	37,244
Total Equity & Liabilities	2,29,845	2,64,534	2,97,568	3,42,427

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	42,719	57,198	73,521	86,244
Add. Depreciation	8,164	8,927	9,641	10,352
Add. Interest	954	1,237	1,296	1,384
Less Financial Other Income	3,800	4,352	5,024	5,923
Add. Other	220	-	-	-
Op. profit before WC changes	52,056	67,362	84,458	97,980
Net Changes-WC	(19,115)	(14,422)	(10,755)	(9,970)
Direct tax	(11,029)	(14,986)	(19,263)	(22,596)
Net cash from Op. activities	21,912	37,954	54,440	65,414
Capital expenditures	(7,203)	(12,732)	(24,259)	(26,718)
Interest / Dividend Income	-	-	-	-
Others	4,344	(1,117)	296	368
Net Cash from Invt. activities	(2,859)	(13,849)	(23,963)	(26,350)
Issue of share cap. / premium	(3,161)	2,907	(856)	(1,130)
Debt changes	7,180	620	2,155	3,698
Dividend paid	(17,409)	(21,102)	(24,939)	(30,694)
Interest paid	(954)	(1,237)	(1,296)	(1,384)
Others	(1,956)	-	-	-
Net cash from Fin. activities	(16,300)	(18,814)	(24,935)	(29,510)
Net change in cash	2,753	5,292	5,541	9,554
Free Cash Flow	14,709	25,222	30,181	38,696

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	33.4	44.2	56.8	66.4
CEPS	41.9	53.5	66.8	77.2
BVPS	144.0	170.0	200.7	235.1
FCF	15.3	26.3	31.5	40.3
DPS	18.2	22.0	26.0	32.0
Return Ratio(%)				
RoCE	28.7	34.4	38.2	38.2
ROIC	27.3	34.2	39.1	41.1
RoE	24.0	28.2	30.6	30.5
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	73	65	60	53
Valuation(x)				
PER	94.1	71.0	55.3	47.3
P/B	21.8	18.5	15.6	13.4
P/CEPS	75.0	58.7	47.0	40.7
EV/EBITDA	62.2	47.3	37.3	32.1
EV/Sales	10.3	8.2	7.3	6.3
Dividend Yield (%)	0.6	0.7	0.8	1.0

Source: Company Data, PL Research

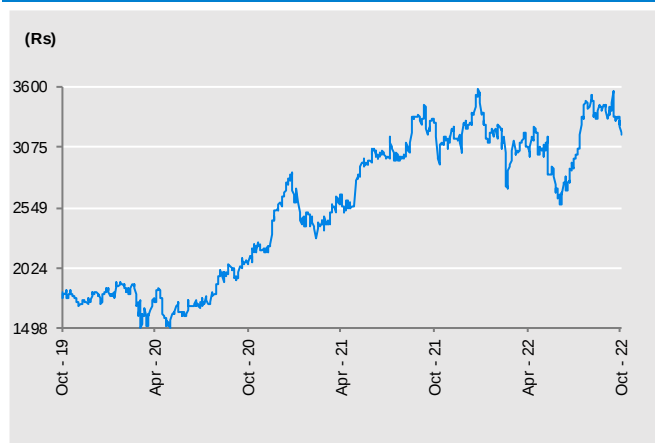
Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	85,272	78,927	86,069	84,576
YoY gr. (%)	25.6	18.7	54.1	19.2
Raw Material Expenses	53,933	48,381	53,619	54,356
Gross Profit	31,339	30,546	32,450	30,219
Margin (%)	36.8	38.7	37.7	35.7
EBITDA	15,423	14,433	15,560	12,277
YoY gr. (%)	(13.7)	9.5	70.3	35.7
Margin (%)	18.1	18.3	18.1	14.5
Depreciation / Depletion	2,079	2,051	2,081	2,157
EBIT	13,344	12,382	13,479	10,120
Margin (%)	15.6	15.7	15.7	12.0
Net Interest	275	226	288	354
Other Income	718	804	990	955
Profit before Tax	13,788	12,960	14,181	10,721
Margin (%)	16.2	16.4	16.5	12.7
Total Tax	3,624	3,151	3,706	2,903
Effective tax rate (%)	26.3	24.3	26.1	27.1
Profit after Tax	10,163	9,808	10,475	7,817
Minority interest	-	-	-	-
Share Profit from Associates	150	89	128	221
Adjusted PAT	10,313	9,898	10,602	8,038
YoY gr. (%)	(18.5)	13.8	84.6	32.8
Margin (%)	12.1	12.5	12.3	9.5
Extra Ord. Income / (Exp)	-	(1,157)	(242)	-
Reported PAT	10,313	8,741	10,360	8,038
YoY gr. (%)	(18.5)	0.5	80.4	32.8
Margin (%)	12.1	11.1	12.0	9.5
Other Comprehensive Income	(598)	(1,596)	(535)	784
Total Comprehensive Income	9,714	7,144	9,825	8,822
Avg. Shares O/s (m)	959	959	959	959
EPS (Rs)	10.8	10.3	11.1	8.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	BUY	3,446	3,303
2	26-Jul-22	BUY	3,363	3,109
3	07-Jul-22	BUY	3,018	2,891
4	10-May-22	BUY	3,511	3,086
5	08-Apr-22	BUY	3,542	3,206
6	21-Jan-22	BUY	3,762	3,306
7	06-Jan-22	BUY	3,675	3,527
8	21-Oct-21	BUY	3,675	3,002

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,446	3,303
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,026	3,769
4	Colgate Palmolive	Accumulate	1,702	1,579
5	Dabur India	Accumulate	604	557
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,827	2,623
8	ITC	Accumulate	340	324
9	Jubilant FoodWorks	BUY	688	615
10	Kansai Nerolac Paints	Accumulate	558	495
11	Marico	Hold	523	527
12	Mold-tek Packaging	Accumulate	898	858
13	Nestle India	Accumulate	20,178	18,966
14	Pidilite Industries	Hold	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	847	719

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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