

Retail Equity Research
Asian Paints Ltd
Paint & Varnishes

BUY

BSE CODE : 500820 NSE CODE: ASIANPAINT
BLOOMBERG CODE: APNT:IN SENSEX : 60,747

12Months Investment Period Rating as per Large Cap
CMP Rs.3,107 TARGET Rs.3,416 RETURN 10% ↑
(Closing: 31-10-22)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Short term challenge persist; long term story intact...

Asian Paints (APNT), is engaged in the business of manufacturing, selling and distribution of paints and related product for home décor. APNT is the market leader in the Indian paint manufacturing industry.

- APNT reported a below expected result as inferior product mix and an extended monsoon impacted the top-line growth, which grew by 19% YoY in Q2FY23.
- Volume in the decorative business grew by 10% YoY while value growth was 20% YoY.
- EBITDA margin improved by 177bps YoY to 14.5%, which is below the expectation as the recent steep price hike has impacted the product mix. The demand was dominated by economy emulsion & undercoats during the quarter.
- The company announced a capex plan of Rs. 6,750cr over the next three years for capacity expansion and backward integration.
- The company's foray into the white cement business and in-house capacity expansion by 30% to 22.7 lakh KL per annum to support profitability in the long term. We therefore, reiterate Buy rating on the stock with a TP to Rs. 3,416, based on a P/E of 60x on FY24E EPS.

Extended monsoon impacted the decorative business...

APNT reported revenue growth of 19% YoY to Rs 8,458cr, which is below our expectation as the extended monsoon and the recent steep price hikes impacted the product mix. In Q2FY23, decorative volume grew by 10% YoY while value growth was 20% YoY. The kitchen and bath fitting business reported Rs100cr plus revenue for the last four to five quarters, bottom line was impacted due to inflationary pressure. In H1FY23, the company launched 14 new products and added more than 8,000 new retail networks. APNT is entering into the white cement segment as part of their backward integration by setting up its own manufacturing facility in the UAE. We expect volume to continue to grow at double digits due to festival demand and expansion in the dealer network.

Inferior product mix impacted margins...

The inflationary pressure and recent steep price hikes have impacted the demand for premium products. The EBITDA margin expanded by 177bps YoY to 14.5 % during the quarter, which is below our estimate due to inferior product mix. During the quarter, the demand was dominated by economy emulsion & undercoats. The company has taken a price hike of 1% to mitigate the pressure on inflation in Q2FY23. APNT expects gross margin to be in the range of 38% to 40% till RM prices moderate and the macro situation improves.

Key con-call highlights

- The Kitchen and Bath businesses delivered Rs100cr for the last 3 to 4 quarters, supported by strong network expansion.
- Current capacity utilization stands at 75%. APNT is to increase in-house capacity by 30% to 22.7 lakh Kilo Ltr per annum.
- APNT announces Rs.6,750cr capex, with 50% to be spent on brownfield capacity expansion and 38% on backward integration.

Valuations

The foray into white cement as well as VAM (Vinyl Acetate Monomer) and VAE (Vinyl Acetate Ethylene Emulsion) segments is expected to improve gross margin by 400bps to 500bps. Also, raw material inflation is likely to moderate in H2FY23. We value APNT at a P/E of 60x on FY24E EPS and reiterate our Buy rating with a TP of Rs. 3,416.

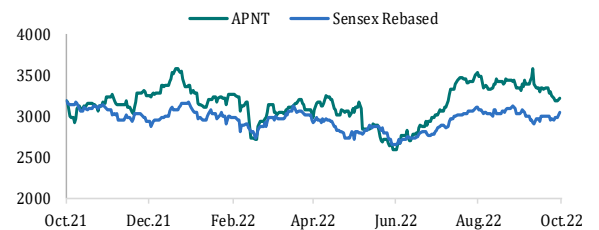
Company Data

Market Cap (cr)	₹ 2,98,004
Enterprise Value (cr)	₹ 2,97,416
Outstanding Shares (cr)	96
Free Float	47.20%
Dividend Yield	0.6%
52 week high	₹ 3,590
52 week low	₹ 2,560
6m average volume (cr)	0.16
Beta	1.2
Face value	₹ 1

Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	52.63	52.63	52.63
FII's	19.45	18.51	18.51
MFs/Insti	7.16	7.58	8.35
Public	20.76	21.28	20.51
Total	100	100	100
Promoter Pledge	5.83	5.78	5.78

Price Performance	3 month	6 Month	1 Year
Absolute Return	4.7%	1.6%	0.9%
Absolute Sensex	6.2%	3.3%	-4.2%
Relative Return*	-1.4%	-1.8%	5.2%

*over- or underperformance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	29,101	35,713	39,492
Growth (%)	34.0	22.7	10.6
EBITDA	4,804	6,750	7,740
EBITDA Margin(%)	16.5	18.90	19.60
PAT Adj.	3,201	4,681	5,461
Growth (%)	-0.2	46.3	16.7
Adj.EPS	33.4	48.8	56.9
Growth (%)	-0.2	46.3	16.7
P/E	93.1	62.4	54.6
P/B	21.6	17.3	14.5
EV/EBITDA	62.2	43.4	38.6
ROE (%)	24.0	30.5	29.2
D/E	0.1	0.0	0.0

Antu Eapan Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q2FY23	Q2FY22	YoY Growth (%)	Q1FY23	QoQ Growth (%)	H1FY23	H1FY22	YoY Growth (%)
Sales	8,458	7,096	19.2	8,607	-1.7	17,065	12,681	34.6
EBITDA	1,228	904	35.7	1,556	-21.1	2,784	1,818	53.1
EBITDA margins (%)	14.5	12.7	177bps	18.1	-356bps	16.3	14.3	198bps
Depreciation	216	203	6.4	208	3.7	424	403	5.1
EBIT	1,012	702	44.2	1,348	-24.9	2,360	1,415	66.8
Interest	35	24	48.4	29	23.1	64	45	41.5
Other Income	95	138	-30.9	99	-3.5	194	228	-14.6
Exceptional Items	-	-	-	-	-	24	-	0.0
PBT	1,072	816	31.4	1,394	-23.1	2,466	1,597	54.4
Tax	290	221	31.3	371	-21.7	661	425	55.4
Reported PAT	804	605	32.8	1,036	-22.4	1,840	1,179	56.0
Adjustments	-	-	-	-	-	-	-	-
Adj PAT	804	605	32.8	1,036	-22.4	1,840	1,179	56.0
No. of Shares	96	96	-	96	-	96	96	-
EPS (Rs)	8	6	32.8	11	-22.4	19	12	56.0

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	35,713	38,799	35,713	39,492	0.0	1.8
EBITDA	6,750	7,682	6,750	7,740	0.0	0.8
Margins (%)	18.9	19.8	18.9	19.6	0bps	-20bps
Adj. PAT	4,681	5,418	4,681	5,461	0.0	0.8
EPS	48.8	56.5	48.8	56.9	0.0	0.8

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	20,211	21,713	29,101	35,713	39,492
% change	5.0	7.4	34.0	22.7	10.6
EBITDA	4,162	4,856	4,804	6,750	7,740
% change	10.5	16.7	-1.1	40.5	14.7
Depreciation	781	791	816	824	847
EBIT	3381	4,064	3987	5925	6894
Interest	102	92	95	146	130
Other Income	304.3	303.1	380.0	450.0	500.0
PBT	3,583	4,276	4,156	6,230	7,264
% change	9.5	19.3	-2.8	49.9	16.6
Tax	855	1,098	1,103	1,589	1,852
Tax Rate (%)	23.9	25.7	25.8	25.5	25.5
Reported PAT	2,779	3,208	3,085	4,681	5,461
Adj*	0.0	0.0	115.7	0.0	0.0
Adj PAT	2,779	3,208	3,201	4,681	5,461
% change	25.5	15.4	-0.2	46.3	16.7
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs.)	29.0	33.4	33.4	48.8	56.9
% change	25.5	15.4	-0.2	46.3	16.7
DPS (Rs.)	10.9	12.0	13.1	14.2	15.3

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	4,416	5,097	5,004	7,094	8,160
Non-cash adj.	-973	-1108	-1163	-1484	-1739
Changes in W.C	-737	-206	-2,659	-758	-1,673
C.F. Operation	2632	3684	1183	4852	4748
Capital exp.	-367	-254	-456	-97	-847
Change in inv.	-154	-294	1566	-904	-794
Other invest.CF	0	0	0	0	0
C.F - Investment	-521	-548	1110	-1001	-1641
Issue of equity	0	0	0	0	0
Issue/repay debt	-362	-64	340	-326	-240
Dividends paid	-2,121	-499	-1,499	-1,625	-1,751
Other finance.CF	-179	-203	-35	20	20
C.F - Finance	-2465	-3461	-2039	-1997	-1971
Chg. in cash	-355	-325	254	1854	1136
Closing cash	929	611	864	2,718	3,854

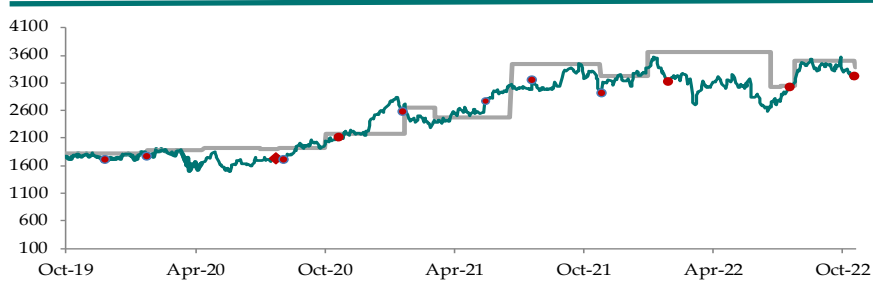
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	929	611	864	2,718	3,854
Accounts Receivable	1,799	2,605	3,874	4,697	5,193
Inventories	3,390	3,799	6,153	6,017	7,515
Other Cur. Assets	1,735	2,563	2,874	4,051	4,479
Investments	1,873	4,737	3,248	4,222	5,066
Gross Fixed Assets	7,488	7,618	7,903	8,103	8,903
Net Fixed Assets	5,685	5,322	5,090	4,486	4,479
CWIP	140	183	426	300	300
Intangible Assets	587	537	429	498	505
Def. Tax (Net)	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	16,138	20,355	22,958	26,989	31,392
Current Liabilities	4,594	6,085	7,373	8,424	9,149
Provisions	243	300	288	342	368
Debt Funds	340	340	776	596	486
Other Liabilities	831	824	710	759	812
Equity Capital	96	96	96	96	96
Reserves & Surplus	10,034	12,710	13,716	16,771	20,481
Shareholder's Fund	10,130	12,806	13,812	16,867	20,577
Total Liabilities	16,138	20,355	22,958	26,989	31,392
BVPS (Rs.)	106	134	144	176	215

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	20.6	22.4	16.5	18.9	19.6
EBIT margin (%)	16.7	18.7	13.7	16.6	17.5
Net profit mgn.(%)	13.8	14.8	11.0	13.1	13.8
ROE (%)	28.4	28.0	24.0	30.5	29.2
ROCE (%)	20.6	20.6	17.1	22.6	21.8
W.C & Liquidity					
Receivables (days)	33.5	37.0	40.6	43.8	45.7
Inventory (days)	59.1	60.4	62.4	62.2	62.5
Payables (days)	6.9	6.9	5.1	4.1	3.9
Current ratio (x)	1.6	1.5	1.8	2.0	2.2
Quick ratio (x)	0.6	0.5	0.6	0.9	1.0
Turnover & Leverage					
Gross asset T.O (x)	2.9	2.9	3.8	4.5	4.6
Total asset T.O (x)		1.2	1.3	1.4	1.4
Int. coverage ratio (x)	33.0	44.4	41.8	40.7	53.1
Adj. debt/equity (x)	0.0	0.0	0.1	0.0	0.0
Valuation					
EV/Sales (x)	14.7	13.7	10.2	8.3	7.5
EV/EBITDA (x)	71.5	61.3	62.0	43.8	38.1
P/E (x)	107.2	92.9	93.1	63.7	54.6
P/BV (x)	29.4	23.3	21.6	17.7	14.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
26-Nov-2019	Hold	1,822
24-Jan-2020	Hold	1,884
13-Apr-2020	Buy	1,927
01-Jul-2020	Buy	1,901
27-Jul-2020	Buy	1,922
23-Oct-2020	Hold	2,186
25-Jan-2021	Hold	2,653
17-May-2021	Reduce	2,470
23-Jul-2021	Buy	3,438
27-Oct-2021	Buy	3,285
31-Jan-2022	Buy	3,663
26-Jun-2022	Buy	3,025
28-Jul-2022	Buy	3,502
1-Nov-2022	Buy	3,416

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

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