

October 26, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,387		3,571	
Sales (Rs.m)	3,67,672	4,01,084	3,79,879	4,16,352
% Chng.	(3.2)	(3.7)		
EBITDA (Rs.m)	79,239	84,029	81,859	87,418
% Chng.	(3.2)	(3.9)		
EPS (Rs.)	57.5	60.6	59.3	63.2
% Chng.	(3.1)	(4.0)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	3,44,886	3,67,672	4,01,084	4,44,118
EBITDA (Rs. m)	62,598	79,239	84,029	90,220
Margin (%)	18.2	21.6	21.0	20.3
PAT (Rs. m)	41,553	55,128	58,168	60,029
EPS (Rs.)	43.3	57.5	60.6	62.6
Gr. (%)	32.1	32.7	5.5	3.2
DPS (Rs.)	19.9	27.3	33.0	38.0
Yield (%)	0.7	0.9	1.1	1.3
RoE (%)	27.9	31.6	28.8	26.4
RoCE (%)	34.2	38.7	36.0	33.3
EV/Sales (x)	8.2	7.6	7.0	6.3
EV/EBITDA (x)	45.0	35.3	33.2	30.9
PE (x)	68.3	51.5	48.8	47.3
P/BV (x)	17.8	15.0	13.2	11.9

Key Data

ASPN.BO | APNT IN

52-W High / Low	Rs.3,568 / Rs.2,686
Sensex / Nifty	63,148 / 18,857
Market Cap	Rs.2,840bn/ \$ 34,116m
Shares Outstanding	959m
3M Avg. Daily Value	Rs.2895.89m

Shareholding Pattern (%)

Promoter's	52.63
Foreign	17.65
Domestic Institution	10.05
Public & Others	19.63
Promoter Pledge (Rs bn)	6.49

Stock Performance (%)

	1M	6M	12M
Absolute	(10.1)	1.7	(4.0)
Relative	(6.1)	(2.9)	(9.5)

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3Q positive, but a trading bet in near term

Quick Pointers:

- Decorative volumes up 6%; Urban grew ahead of rural, 3Q outlook positive
- Industrial paints on strong wicket, IBD outlook mixed due to currency issues

We cut FY24/25 EPS estimates by 3.1/4% following lower than expected volume growth and profitability in 2Q24. APNT has given optimistic outlook for 2H24 given rebound in demand in sept and expected pick up in festival season. Overall volume growth of 6% has been below our estimates given tepid rural demand and delayed festival season. We expect double digit volume growth in 2H while most gains from RM deflation have been mostly realized. IBD margins remain under pressure with uncertain currency outlook. Home décor is showing mixed growth due to high base in kitchen and bath segments while "Beautiful Homes" continues to scale up.

APNT's growth levers are intact given 1) market share gains in decorative paints 2) sustained increase in distribution (addition of 2.5k retail touch points in 2Q24 to 160k) 3) high growth in waterproofing/wood finishes/projects business and 4) scalability plans in home décor from 4-5% to 8-10% of sales by FY26 (both organic and inorganic). We believe Grasim's entry and diversification/ backward integration in White Cement and VAM can drag profit growth post FY24. We cut DCF based target price to Rs3387 (Rs3571 earlier). Retain Accumulate with moderate return expectations in near term.

Decorative volume growth of 10%; Consol Revenues grew 0.2% YoY to Rs84.8bn (PLe: Rs91.3bn). Decorative volume grew 6%; while Industrial Coatings business registered 1.1% growth Gross margins expanded by 764bps YoY to 43.4% (up 40bps QoQ) EBITDA grew by 39.8% YoY to Rs17.2bn (PLe:Rs19.2bn) Margins expanded by 573bps YoY to 20.2% (PLe:21.0%), (23.1% in 1Q). Adj. PAT grew by 53.3% YoY to Rs12.3bn (PLe:Rs13.2bn). Standalone Revenues flat YoY to Rs73.4bn; Gross margins expanded by 823bps YoY to 44.1%; EBITDA margins expanded by 639bps YoY to 21.6%; Adj. PAT grew by 52% YoY to Rs11.6bn. Imputed Sub Sales grew by 2.1% YoY; EBITDA grew by 17.2% YoY;

Concall Takeaways: 1) 2Q24 had 6% volume growth led by extreme weather condition and weak consumer sentiment, though September saw robust demand 2) Urban market has grown ahead of rural market 3) Demand outlook remain positive in 3Q/4Q led by festive and wedding season 4) RM basket saw 4% QoQ deflation and near term outlook remains uncertain 5) Economy & Premium Range Products are growing faster in comparison to Luxury Market. 6) Projects business doing well on account of construction activity & govt spending 7) New innovations contribute to 11% of overall revenue 8) Capacity expansion and capex target remain intact. 9) Industrial Business witnessed double digit growth led by strong demand from automobile & Infra spends by Govt 10) IBD performed lower than expectations due to currency devaluation & macro-economic challenges in key Asian markets (mainly Nepal & Bangladesh), Growth was supported by Middle East, however Egypt continue to underperform.

Exhibit 1: 2QFY24 Results - Consolidated (Rs mn): Revenues grew 0.2% EBITDA margins at 20.1%, Adj. PAT grew 53.3%

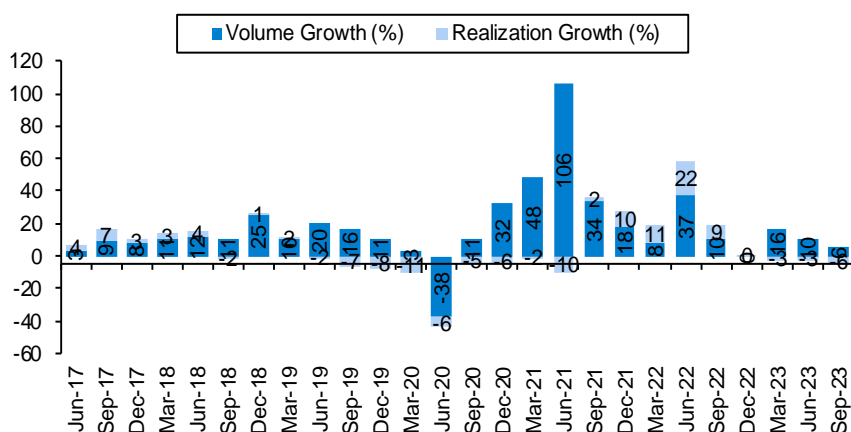
Consolidated	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	H1FY24	H1FY23	YoY gr. (%)
Net Sales	84,786	84,576	0.2	91,823	1,76,609	1,70,645	3.5
Gross Profit	36,771	30,219	21.7	39,419	76,190	62,670	21.6
% of NS	43.4	35.7	7.6	42.9	43.1	36.7	6.4
Other Expenses	19,609	17,942	9.3	18,206	37,815	34,833	8.6
% of NS	23.1	21.2		19.8	21.4	20.4	
EBITDA	17,162	12,277	39.8	21,213	38,375	27,837	37.9
Margins %	20.2	14.5	5.7	23.1	21.7	16.3	5.4
Depreciation	2,087	2,157	-3.2	1,983	4,070	4,238	-4.0
Interest	509	354	43.8	458	967	642	50.7
Other Income	1,652	955	73.0	1,971	3,623	1,944	86.3
PBT	16,218	10,721	51.3	20,743	36,961	24,901	48.4
Tax	4,186	2,903	44.2	5,301	9,487	6,609	43.5
Tax rate %	25.8	27.1		25.6	25.7	26.5	
Adj. PAT	12,324	8,038	53.3	15,748	28,072	18,641	50.6

Source: Company Data, PL Research

Exhibit 2: 2QFY24 Results - Standalone (Rs mn): Revenues flat YoY, EBITDA margins at 21.6%, Adj. PAT grew 52.0%

Standalone	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	H1FY24	H1FY23	YoY gr. (%)
Net Sales	73,422	73,443	0.0	81,140	1,54,562	1,49,306	3.5
Gross Profit	32,386	26,352	22.9	35,357	67,743	55,269	22.6
% of NS	44.1	35.9	8.2	43.6	43.8	37.0	6.8
Other Expenses	16,539	15,196	8.8	15,359	31,898	29,488	8.2
% of NS	22.5	20.7		18.9	20.6	19.7	
EBITDA	15,847	11,156	42.1	19,998	35,845	25,781	39.0
Margins %	21.6	15.2	6.39	24.6	23.2	17.3	5.9
Depreciation	1,789	1,890	-5.3	1,721	3,510	3,731	-5.9
Interest	275	235	17.1	263	538	434	24.0
Other Income	1,723	1,171	47.1	2,168	3,891	2,310	68.5
PBT	15,506	10,202	52.0	20,182	35,688	23,926	49.2
Tax	3,904	2,569	52.0	5,098	9,002	6,120	47.1
Tax rate %	25.2	25.2		25.3	25.2	25.6	
Adj. PAT	11,602	7,633	52.0	15,084	26,686	17,806	49.9

Source: Company Data, PL Research

Exhibit 3: Volumes grow 6% in 2Q24


Source: Company, PL

Exhibit 4: IBD – Africa & Middle East lead growth & profitability, Asia suffers due to Nepal, Sri-Lanka

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue	7070	7760	8290	7100	8160	7860	8030	7170	7900
Africa	1380	1250	1580	1510	1750	1830	1750	1590	1820
Middle East	1720	2050	1970	2030	2210	2400	2460	2490	2460
Asia	3660	4050	4420	3300	3800	3230	3490	2750	3180
South Pacific	310	410	320	260	400	400	330	340	440
YoY Growth	6.2%	9.1%	12.2%	15.1%	15.4%	1.3%	-3.1%	1.0%	-3.2%
Africa	-16.0%	-19.0%	1.0%	7.9%	26.8%	46.4%	10.8%	5.3%	4.0%
Middle East	1.0%	10.0%	8.0%	9.7%	28.5%	17.1%	24.9%	22.7%	11.3%
Asia	20.8%	18.0%	18.0%	24.1%	3.8%	-20.2%	-21.0%	-16.7%	-16.3%
South Pacific	-4.0%	32.0%	10.0%	0.0%	29.0%	-2.4%	3.1%	30.8%	10.0%
PBT	-100	190	230	420	500	500	540	420	540
Africa	-160	-160	-30	80	30	100	90	160	240
Middle East	-110	20	-170	10	-20	110	170	140	70
Asia	100	220	370	300	420	220	240	60	130
South Pacific	70	110	60	30	70	70	40	60	100
PBT Margins	-1%	2%	3%	6%	6%	6%	7%	6%	7%
Africa	-12%	-13%	-2%	5%	2%	5%	5%	10%	13%
Middle East	-6%	1%	-9%	0%	-1%	5%	7%	6%	3%
Asia	3%	5%	8%	9%	11%	7%	7%	2%	4%
South Pacific	23%	27%	19%	12%	18%	18%	12%	18%	23%

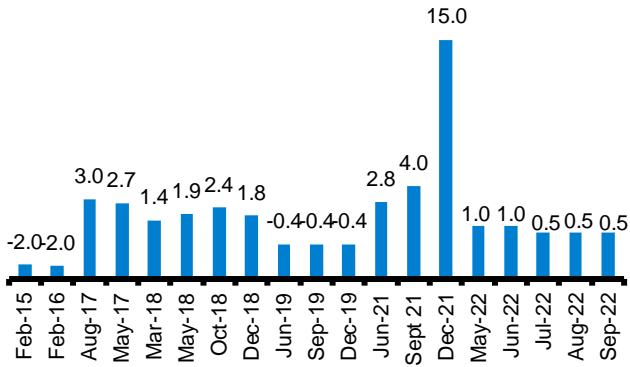
Source: Company Data, PL Research

Exhibit 5: Domestic – Auto and Gen Industrial Paints report robust performance, Bath and Kitchen business suffers

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue	7550	8400	8800	8880	9140	9660	9120	9470	9240
PPG-AP	3770	4150	3960	4160	4690	5130	4280	4720	4950
AP-PPG	1800	2110	2470	2420	2250	2620	2900	2940	2510
Kitchen Business	1050	1110	1280	1090	1180	1010	980	960	970
Bath Business	930	1030	1090	1180	1020	900	960	850	810
YoY Growth	46.4%	18.9%	23.2%	66.9%	21.1%	15.0%	3.6%	7.0%	1.1%
PPG-AP	33.0%	5.0%	19.0%	63.1%	24.4%	23.6%	8.1%	13.5%	5.5%
AP-PPG	55.0%	33.0%	28.0%	56.1%	25.0%	24.2%	17.4%	21.5%	11.6%
Kitchen Business	70.0%	37.0%	34.0%	68.2%	12.4%	-9.0%	-23.4%	-11.9%	-17.8%
Bath Business	69.1%	42.0%	17.0%	112.5%	9.7%	-12.6%	-11.9%	-28.0%	-20.6%
PBT	350	530	450	420	670	1100	780	1190	869
PPG-AP	270	400	250	320	570	910	560	820	770
AP-PPG	50	120	210	120	140	260	330	390	159
Kitchen Business	0	0	-20	-70	-40	-60	-110	-20	-30
Bath Business	30	10	10	50	0	-10	0	0	-30
PBT Margins	5%	6%	5%	5%	7%	11%	9%	13%	9%
PPG-AP	7%	10%	6%	8%	12%	18%	13%	17%	16%
AP-PPG	3%	6%	9%	5%	6%	10%	11%	13%	6%
Kitchen Business	0%	0%	-2%	-6%	-3%	-6%	-11%	-2%	-3%
Bath Business	3%	1%	1%	4%	0%	-1%	0%	0%	-4%

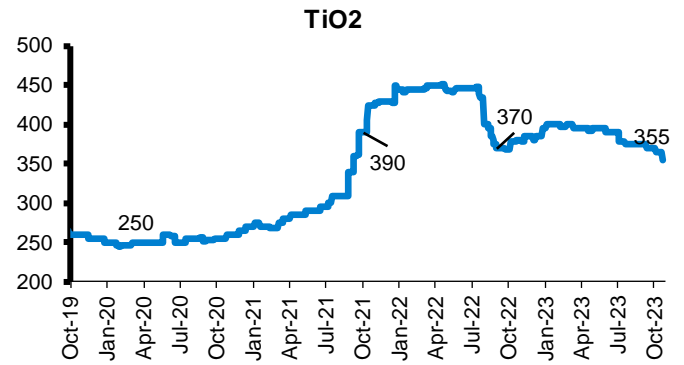
Source: Company Data, PL Research

Exhibit 6: No price hikes taken since Sept'22



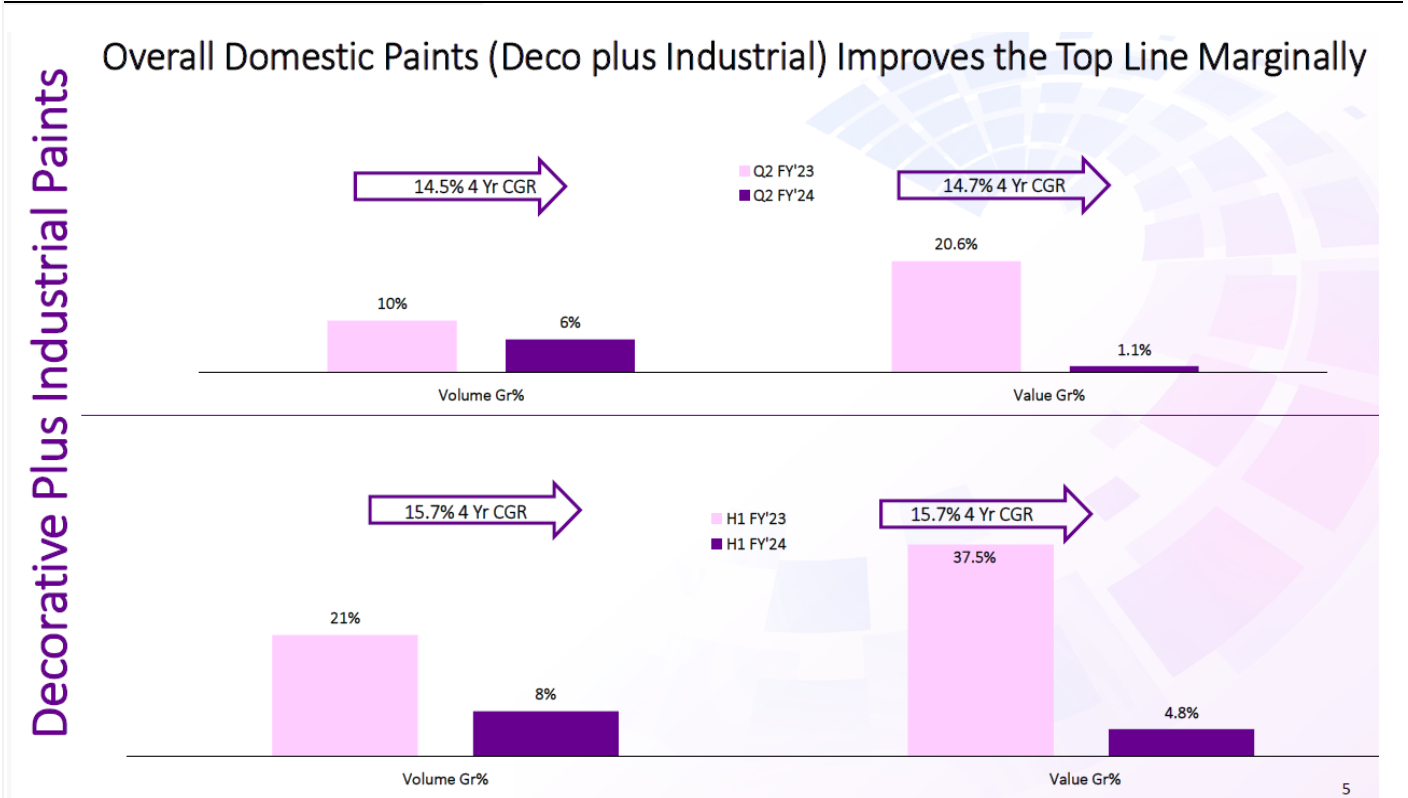
Source: Company, PL

Exhibit 7: Tio2 prices down 6.3% YoY & 4.6% QoQ



Source: Company, PL

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



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	3,44,886	3,67,672	4,01,084	4,44,118
YoY gr. (%)	18.5	6.6	9.1	10.7
Cost of Goods Sold	2,11,565	2,09,638	2,31,968	2,59,508
Gross Profit	1,33,321	1,58,035	1,69,115	1,84,610
Margin (%)	38.7	43.0	42.2	41.6
Employee Cost	20,281	23,399	24,955	27,405
Other Expenses	50,442	55,397	60,131	66,985
EBITDA	62,598	79,239	84,029	90,220
YoY gr. (%)	30.3	26.6	6.0	7.4
Margin (%)	18.2	21.6	21.0	20.3
Depreciation and Amortization	8,580	9,167	9,881	13,226
EBIT	54,018	70,072	74,149	76,994
Margin (%)	15.7	19.1	18.5	17.3
Net Interest	1,445	1,623	1,771	1,915
Other Income	3,865	5,135	5,589	5,691
Profit Before Tax	56,439	73,583	77,967	80,771
Margin (%)	16.4	20.0	19.4	18.2
Total Tax	14,935	19,500	20,661	21,404
Effective tax rate (%)	26.5	26.5	26.5	26.5
Profit after tax	41,504	54,084	57,305	59,366
Minority interest	889	776	923	1,108
Share Profit from Associate	939	1,820	1,786	1,770
Adjusted PAT	41,553	55,128	58,168	60,029
YoY gr. (%)	32.1	32.7	5.5	3.2
Margin (%)	12.0	15.0	14.5	13.5
Extra Ord. Income / (Exp)	489	-	-	-
Reported PAT	42,042	55,128	58,168	60,029
YoY gr. (%)	28.9	31.1	5.5	3.2
Margin (%)	12.2	15.0	14.5	13.5
Other Comprehensive Income	130	-	-	-
Total Comprehensive Income	42,172	55,128	58,168	60,029
Equity Shares O/s (m)	959	959	959	959
EPS (Rs)	43.3	57.5	60.6	62.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	92,366	97,566	1,02,766	1,85,966
Tangibles	88,491	93,491	98,491	1,81,491
Intangibles	3,875	4,075	4,275	4,475
Acc: Dep / Amortization	49,036	55,157	61,614	70,901
Tangibles	47,034	52,858	59,001	67,961
Intangibles	2,001	2,299	2,612	2,941
Net fixed assets	43,331	42,409	41,152	1,15,065
Tangibles	41,457	40,633	39,490	1,13,530
Intangibles	1,874	1,776	1,663	1,535
Capital Work In Progress	10,196	32,196	59,196	3,000
Goodwill	2,285	2,285	2,285	2,285
Non-Current Investments	19,279	20,418	21,713	23,210
Net Deferred tax assets	(3,162)	(3,143)	(3,122)	(3,100)
Other Non-Current Assets	17,352	18,592	17,593	17,685
Current Assets				
Investments	26,970	39,523	40,305	43,968
Inventories	62,106	63,607	67,583	72,835
Trade receivables	46,369	40,293	41,207	45,629
Cash & Bank Balance	8,438	9,106	12,239	12,886
Other Current Assets	5,540	5,883	6,417	7,106
Total Assets	2,57,980	2,91,671	3,28,732	3,64,643
Equity				
Equity Share Capital	959	959	959	959
Other Equity	1,58,963	1,87,953	2,14,467	2,38,047
Total Network	1,59,922	1,88,912	2,15,426	2,39,006
Non-Current Liabilities				
Long Term borrowings	762	100	100	100
Provisions	2,307	2,777	3,013	3,255
Other non current liabilities	392	392	392	392
Current Liabilities				
ST Debt / Current of LT Debt	8,961	3,799	4,023	4,274
Trade payables	36,354	43,076	47,665	53,323
Other current liabilities	33,644	34,853	37,969	41,626
Total Equity & Liabilities	2,57,980	2,91,671	3,28,732	3,64,643

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	56,438	73,583	77,967	80,771
Add. Depreciation	8,580	9,167	9,881	13,226
Add. Interest	1,445	1,623	1,771	1,915
Less Financial Other Income	3,865	5,135	5,589	5,691
Add. Other	(701)	-	-	-
Op. profit before WC changes	65,762	84,374	89,618	95,911
Net Changes-WC	(17,929)	(880)	1,277	(6,566)
Direct tax	(14,935)	(19,500)	(20,661)	(21,404)
Net cash from Op. activities	32,898	63,994	70,235	67,941
Capital expenditures	(17,026)	(30,731)	(36,260)	(31,674)
Interest / Dividend Income	-	-	-	-
Others	(4,040)	941	824	717
Net Cash from Inv. activities	(21,066)	(29,790)	(35,437)	(30,956)
Issue of share cap. / premium	61	(776)	(923)	(1,108)
Debt changes	7,900	(5,319)	2,330	2,747
Dividend paid	(19,089)	(26,138)	(31,654)	(36,450)
Interest paid	(1,445)	(1,623)	(1,771)	(1,915)
Others	(245)	-	-	-
Net cash from Fin. activities	(12,818)	(33,857)	(32,018)	(36,726)
Net change in cash	(986)	347	2,780	259
Free Cash Flow	15,872	33,263	33,974	36,267

Source: Company Data, PL Research

Key Financial Metrics

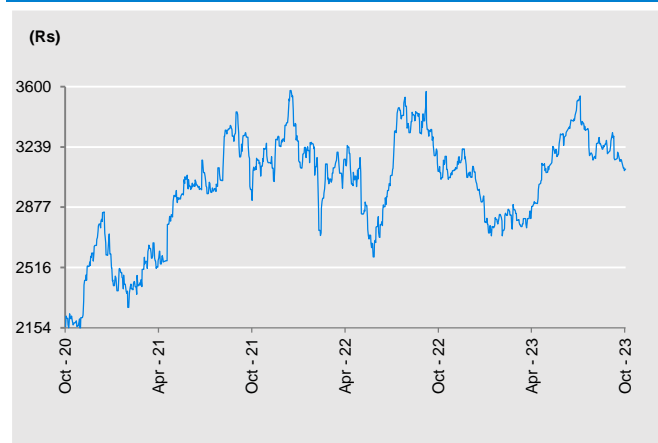
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	43.3	57.5	60.6	62.6
CEPS	52.3	67.0	70.9	76.4
BVPS	166.7	196.9	224.6	249.2
FCF	16.5	34.7	35.4	37.8
DPS	19.9	27.3	33.0	38.0
Return Ratio(%)				
RoCE	34.2	38.7	36.0	33.3
ROIC	32.5	38.8	35.5	32.4
RoE	27.9	31.6	28.8	26.4
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	76	60	56	54
Valuation(x)				
PER	68.3	51.5	48.8	47.3
P/B	17.8	15.0	13.2	11.9
P/CEPS	56.6	44.2	41.7	38.8
EV/EBITDA	45.0	35.3	33.2	30.9
EV/Sales	8.2	7.6	7.0	6.3
Dividend Yield (%)	0.7	0.9	1.1	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	86,367	87,873	91,823	84,786
YoY gr. (%)	1.3	11.3	6.7	0.2
Raw Material Expenses	53,058	50,532	52,404	48,015
Gross Profit	33,310	37,341	39,419	36,771
Margin (%)	38.6	42.5	42.9	43.4
EBITDA	16,114	18,648	21,213	17,162
YoY gr. (%)	4.5	29.2	36.3	39.8
Margin (%)	18.7	21.2	23.1	20.2
Depreciation / Depletion	2,141	2,202	1,983	2,087
EBIT	13,974	16,446	19,230	15,075
Margin (%)	16.2	18.7	20.9	17.8
Net Interest	414	389	458	509
Other Income	866	1,055	1,971	1,652
Profit before Tax	14,426	17,112	20,743	16,218
Margin (%)	16.7	19.5	22.6	19.1
Total Tax	3,811	4,514	5,301	4,186
Effective tax rate (%)	26.4	26.4	25.6	25.8
Profit after Tax	10,614	12,597	15,442	12,032
Minority interest	-	-	-	-
Share Profit from Associates	357	234	307	291
Adjusted PAT	10,971	12,831	15,748	12,324
YoY gr. (%)	6.4	29.6	48.5	53.3
Margin (%)	12.7	14.6	17.2	14.5
Extra Ord. Income / (Exp)	-	(247)	-	-
Reported PAT	10,971	12,584	15,748	12,324
YoY gr. (%)	6.4	44.0	52.0	53.3
Margin (%)	12.7	14.3	17.2	14.5
Other Comprehensive Income	(298)	180	606	(6)
Total Comprehensive Income	10,673	12,764	16,354	12,317
Avg. Shares O/s (m)	959	959	959	959
EPS (Rs)	11.4	13.4	16.4	12.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Accumulate	3,571	3,196
2	26-Jul-23	Hold	3,527	3,400
3	06-Jul-23	Accumulate	3,360	3,399
4	11-May-23	Accumulate	3,360	3,140
5	11-Apr-23	Accumulate	3,150	2,776
6	19-Jan-23	Accumulate	3,150	2,866
7	06-Jan-23	Accumulate	3,326	2,978

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,571	3,196
2	Avenue Supermarts	BUY	4,724	3,920
3	Britannia Industries	Hold	4,612	4,538
4	Colgate Palmolive	Hold	1,869	1,993
5	Dabur India	Accumulate	597	547
6	Emami	Accumulate	524	527
7	Hindustan Unilever	Hold	2,786	2,548
8	ITC	Accumulate	492	450
9	Jubilant FoodWorks	Hold	505	529
10	Kansai Nerolac Paints	Accumulate	351	324
11	Marico	Hold	581	537
12	Metro Brands	Accumulate	1,231	1,208
13	Mold-tek Packaging	Hold	956	892
14	Nestle India	Accumulate	25,471	24,245
15	Pidilite Industries	Hold	2,610	2,454
16	Restaurant Brands Asia	Accumulate	142	125
17	Titan Company	Accumulate	3,312	3,310
18	Westlife Foodworld	Hold	958	955

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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