

Mixed performance; growth story intact; Maintain Buy

Q2FY24 Result Update | Sector: Paints | October 27, 2023

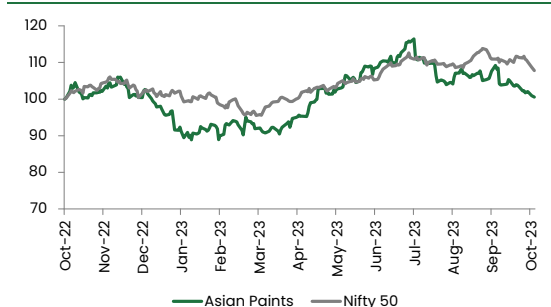
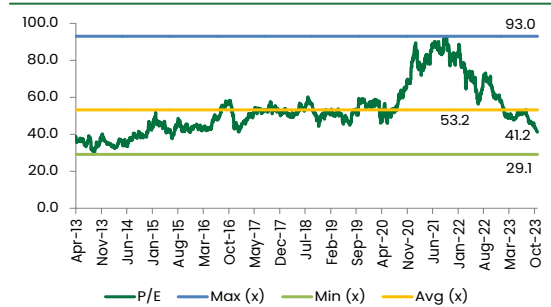
BUY

CMP (Rs)	2,960
Target Price (Rs)	3,939
Potential Upside	33.1%
Sensex	63,148
Nifty	18,857

Key Stock data	
BSE Code	500820
NSE Code	ASIANPAINT
Bloomberg	APNT:IN
Shares o/s, Cr (FV 1)	95.9
Market Cap (Rs Cr)	2,86,397
3M Avg Volume	815,504
52 week H/L	3,568/2,686

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	52.6	52.6	52.6
FII	17.0	17.5	17.7
DII	10.0	10.1	10.1
Others	20.3	19.8	19.6

1 Year relative price performance

1 year P/E Forward (x)

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Muted revenue growth with volume in single digit: Asian Paints Q2FY24 revenue was flat YoY but sequentially it saw decline of 7.7% to Rs 8,478.6cr because of the weak consumer sentiments, erratic monsoon as well as festive sales shifting to the next quarter (Q3FY24). Thus, its domestic decorative sales (contributes ~82% of sales) posted flat value growth and single digit volume growth 6% YoY. Also its international business (~9.1% of sales) growth remained muted due to macro-economic challenges. On the flip side, its Automotive & industrial coating segments (~8.8% of sales) witnessed decent growth.

Healthy margin improvement continues as compared to YoY: Asian paints profits and margin as compared sequentially remained muted however strong performance was seen as compared to last year. Its gross profit increased by 21.7% YoY to Rs 3,677.1cr with margin improvement of 764bps at 43.4%. Additionally, its EBITDA grew healthy by 39.8% YoY to Rs 1,716.2cr with margins at 20.2% an improvement of 573bps YoY. Furthermore, its PAT reported was Rs 1,232.4cr, up by 53.3% YoY with increase in margin by 503bps YoY to 14.5%. Overall strong improvement on profit & margin as compared to last year was due to moderation in raw material cost by 11.7% YoY, better sourcing capabilities as well as operating efficiency managed by the company.

Mixed performance of Home Décor: The company's Home décor segment performance was mixed with White Teak and Weatherseal gaining strength and good traction however muted performance from bath & kitchen segment. White Teak saw healthy growth of 8.5% YoY to Rs 26.1cr and Weatherseal sales doubled to Rs 12.6cr because of high demand, increase in store network and synergies with the company. Further, these acquisitions are gaining synergies with the company. Besides, its Bath and kitchen segment de-grew by 20%/17.8% YoY to Rs 81.4cr/96.8cr due to weak consumer sentiments.

Decent performance of Industrial segment: The company's PPGAP/APPPG business grew by 5.6% YoY/11.4% YoY to Rs 495.3cr/250.6cr led by improving demand from Auto OEM as well as strong growth in Protective & Powder coating segments. Further, both the segment PBT margin improved by 347bps/524bps YoY to 15.6%/11.3% in Q2FY24 led by easing of raw material prices, customer and sales mix.

Growth in International market remains impacted: Asian Paints international business witnessed a decline of 3.9% YoY in INR terms to Rs 775cr and in constant currency it grew by 1.9%. The decline can be attributed to subdued performance of Asian markets with Bangladesh (macro uncertainties), Egypt (currency devaluation) and Nepal (Liquidity crunch) continuing to remain impacted. The Middle East witnessed double digit growth of 12% YoY while Sri-lanka business is seeing recovery.

Outlook & Valuation: We believe industry tailwinds such as festive demand, marriage season and government spending towards infrastructure & housing and demand from real-estate will aid growth for the paints sector and Asian paints being a leader will benefit from it. Additionally, the company's plan of innovating products along with focusing on expanding in the decorative segment by growing its home décor bodes well. Along with it, focus is on growing industrial, Automotive and coating businesses. Further, easing raw material prices as well as efficiency measures taken by the company aids in margin improvement. On a financial front, we estimate its revenue/EBITDA to grow at 18%/27.8% CAGR over FY23-25E and maintain a **Buy** rating with a target price of **Rs 3,939**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	29,101	34,489	40,697	48,022
EBITDA	4,804	6,260	8,017	10,231
EBITDAM (%)	16.5	18.2	19.7	21.3
APAT	3,085	4,195	5,530	7,181
APATM (%)	10.6	12.2	13.6	15.0
EPS (Rs)	31.8	42.8	57.2	74.3
PE (x)	93.0	69.2	51.8	39.8
RoE (%)	22.3	26.2	28.3	29.0

Source : RBL Research

Concall highlights: 1) Sales in Q2FY24 were largely impacted because of the festive season postponed in Q3FY24, but expect 2HFY24 to be better driven by festive and marriage demand and boost in government spending. 2) Going ahead focus remains on growing the decorative and home décor segment as well as strong traction from the auto & industrial segment bodes well. 3) Management remains cautious on evolving geopolitical issues as it may impact crude & other input costs and also will keep a watch on macro-economic concerns in international markets. 4) New products contributed ~11% of the overall revenues. 5) High single digit growth was seen across urban markets while rural is still seeing pickup. 6) It continued with expansion of distribution footprint and added ~2,500 touchpoints in Q2FY24. 7) Economy range contributed to the mix while luxury products are seeing reasonable traction. 8) Innovation continues in Q2FY24, have introduced Royale designer palette-Shvet (Indian whites & Ivories), Ador wall coverings, New painted forest wall collection, Nilaya naturals eco system, etc. 9) Home décor contributes ~4% of decorative revenue. 10) The company announced an interim dividend of Rs 5.15/share.

Revenue growth was impacted because of erratic monsoon

Margins improved led by moderating raw material prices as well as operationally & sourcing efficiencies

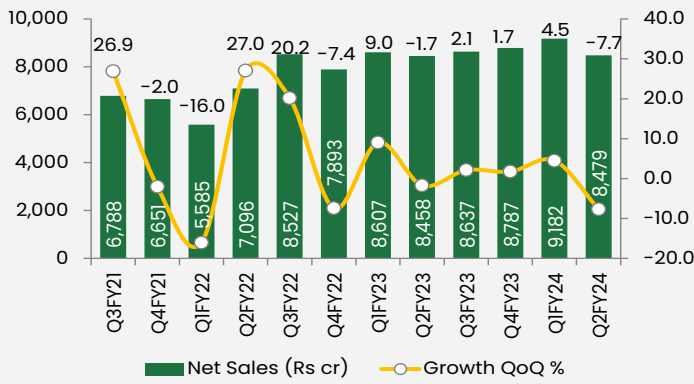
P&L Account Quarterly - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net Sales	8,478.6	8,457.6	0.2	9,182.3	(7.7)
Cost of Raw Materials	3,918.3	4,925.0	(20.4)	4,071.0	(3.8)
Purchase of Finished Goods	1,036.0	1,155.9	(10.4)	856.8	20.9
(Increase) / Decrease In Stocks	(152.8)	(645.3)	-	312.6	(148.9)
Total Raw material cost	4,801.5	5,435.6	(11.7)	5,240.4	(8.4)
Gross Profit	3,677.1	3,021.9	21.7	3,941.9	(6.7)
Gross Margins (%)	43.4	35.7	764bps	42.9	44bps
Employee Cost	596.1	512.6	16.3	545.7	9.2
Other Expense	1,364.8	1,281.6	6.5	1,275.0	7.0
Total Expenditure	6,762.3	7,229.9	(6.5)	7,061.0	(4.2)
EBITDA	1,716.2	1,227.7	39.8	2,121.3	(19.1)
EBITDA Margins (%)	20.2	14.5	573bps	23.1	-286bps
Depreciation	208.7	215.7	(3.2)	198.3	5.2
EBIT	1,507.5	1,012.0	49.0	1,923.0	(21.6)
Other Income	165.2	95.5	73.0	197.1	(16.2)
Interest	50.9	35.4	43.8	45.8	11.3
PBT	1,621.8	1,072.1	51.3	2,074.3	(21.8)
Shares of profits	29.1	22.1	31.9	30.7	(5.0)
PBT	1,650.9	1,094.2	50.9	2,105.0	(21.6)
Tax	418.6	290.3	44.2	530.1	(21.0)
PAT	1,232.4	803.8	53.3	1,574.8	(21.7)
PAT Margin (%)	14.5	9.5	503bps	17.2	-262bps
EPS (Rs)	12.8	8.4	53.3	16.4	(21.7)

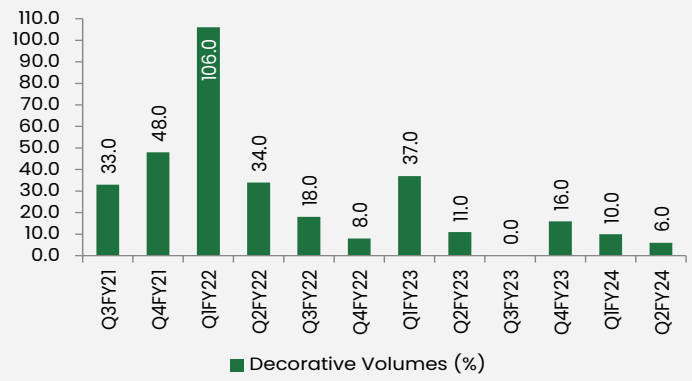
Source : RBL Research

Story in charts

Net Sales growth was flat YoY while de-grew by 7.7% QoQ

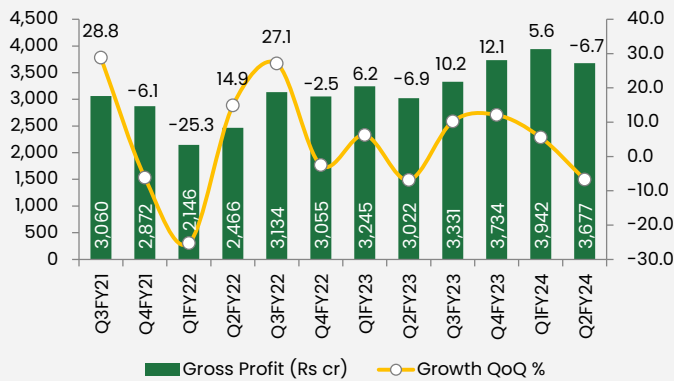


Decorative Business volume came in at ~6% in Q2FY24

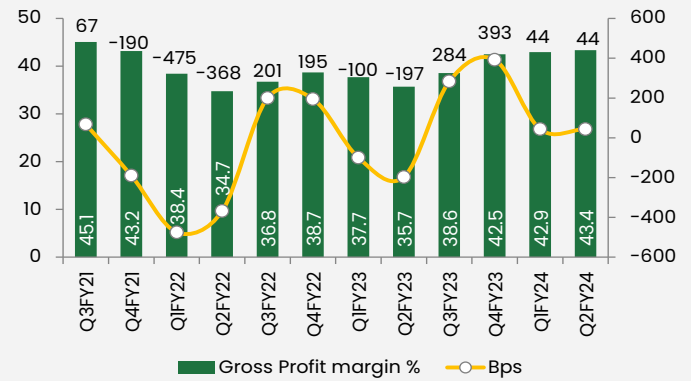


Source : RBL Research

Gross Profit grew by 21.7% YoY but declined by 6.7% QoQ

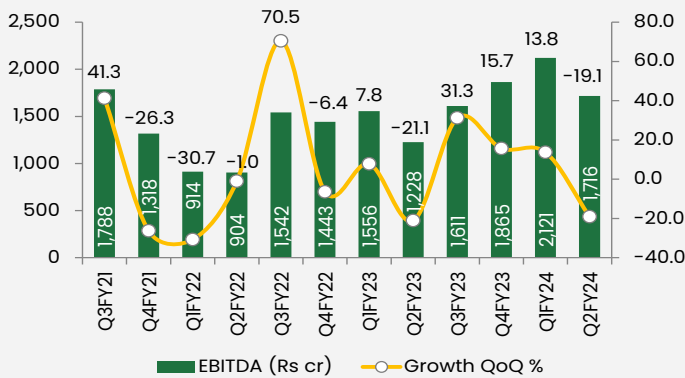


Gross Margins improved by 764bps YoY and 44bps QoQ

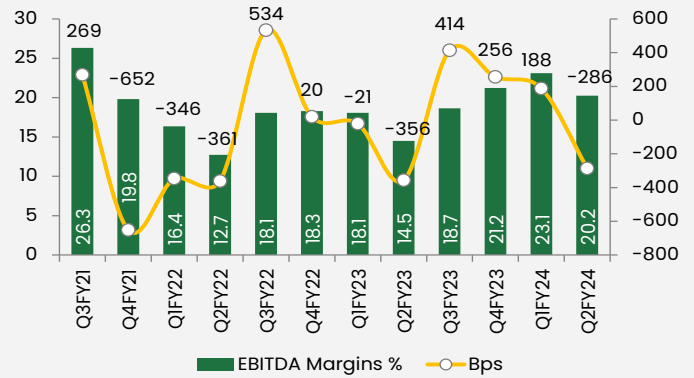


Source : RBL Research

EBITDA grew by 39.8% YoY but declined by 19.1% QoQ

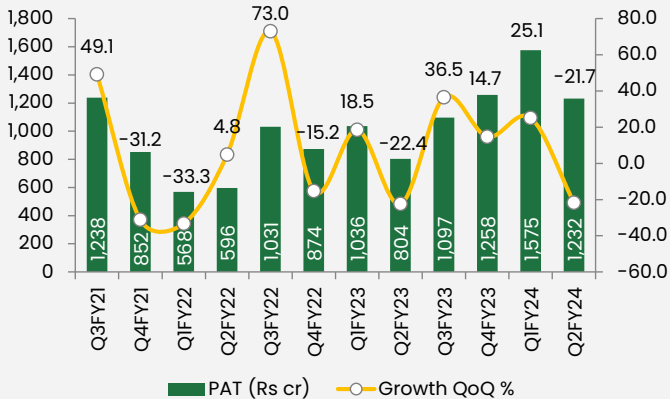


EBITDA Margins improved by 573bps YoY but decreased by 286bps

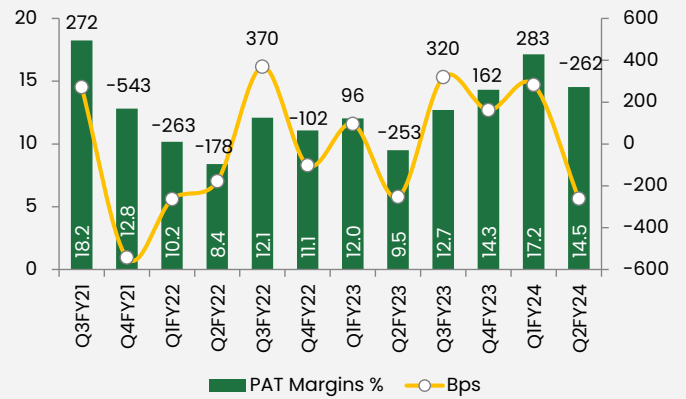


Source : RBL Research

PAT grew by 53.3% YoY but was down by 21.7% QoQ



PAT Margins improved by 503bps YoY but decreased by 262bps QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	29,101	34,489	40,697	48,022
Expenditure				
Cost of materials	16,255	17,331	20,348	23,771
Purchase of stock in trade	3,371	4,136	4,477	4,802
(Increase) / Decrease In Stocks	(1,325)	(310)	(203)	(194)
Total raw materials	18,301	21,157	24,621	28,379
Gross Profit	10,801	13,332	16,075	19,643
Gross Margins %	37.1	38.7	39.5	40.9
Employee cost	1,787	2,028	2,279	2,689
Other expenses	4,210	5,044	5,779	6,723
Total expenditure	24,298	28,229	32,679	37,791
EBITDA	4,804	6,260	8,017	10,231
EBITDAM (%)	16.5	18.2	19.7	21.3
Depreciation	816	858	895	960
PBIT	3,987	5,402	7,122	9,271
Other income	380	386	456	538
Interest expenses	95	144	165	176
PBT	4,272	5,644	7,413	9,633
Tax	1,103	1,494	1,927	2,505
Reported PAT	3,169	4,150	5,486	7,129
Exceptional Income / Expenses	(116)	(49)	-	-
PAT (after Exceptional)	3,053	4,101	5,486	7,129
PAT Margin %	10.5	11.9	13.5	14.8
Share of associates	32	94	44	52
Reported Net Profit	3,085	4,195	5,530	7,181
PAT Margin %	10.6	12.2	13.6	15.0
EPS	31.8	42.8	57.2	74.3

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	96	96	96	96
Reserves & Surplus	13,716	15,896	19,460	24,674
Total Shareholder's Fund	13,812	15,992	19,556	24,770
Minority Interest	388	454	454	454
Long term borrowings	45	76	90	106
Short term borrowing	731	896	1,017	1,105
Total Debt	775	972	1,107	1,211
Deferred tax liabilities	479	499	588	694
Long term provision	218	231	272	321
Other long term liabilities	603	814	961	1,134
Total liabilities	1,300	1,544	1,822	2,149
Total	16,275	18,962	22,938	28,584
Current Liabilities				
Trade payables	4,164	3,635	4,290	5,062
Short term provisions	70	74	88	104
Other current liabilities	2,476	3,127	3,689	4,178
Total	6,710	6,836	8,067	9,344
Total liabilities	22,984	25,798	31,005	37,928
Application of Assets				
Net Block	5,519	5,770	6,174	6,792
Current work in process	426	1,020	1,020	1,020
Non current investment	1,067	1,566	1,848	2,401
Tax assets	198	208	246	290
Long term loans and advances	486	363	429	506
Other non-current assets	133	335	395	466
Total	7,830	9,262	10,111	11,474
Current Assets				
Current investments	2,181	2,697	3,182	4,082
Inventories	6,153	6,211	7,247	8,552
Trade receivables	3,874	4,638	5,473	6,458
Cash balance	622	523	1,257	2,558
Bank balance	243	321	638	1,151
Short term loans and advances	1,534	1,592	2,442	2,881
Other current assets	549	554	654	771
Total	15,155	16,536	20,894	26,454
Total assets	22,984	25,798	31,005	37,928

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	4,188	5,689	7,458	9,685
Add: Depreciation	816	858	895	960
Add: Interest cost	95	144	165	176
Less: Other Income /Interest Rec	(93)	(121)	-	-
Less: Dividend Income	(15)	(13)	-	-
Others	(34)	(97)	-	-
Operating profit before working capital changes	4,957	6,460	8,517	10,821
Changes in working capital	(2,795)	(772)	(1,476)	(1,434)
Cash from Operations	2,162	5,688	7,042	9,387
Less: Taxes	(1,176)	(1,494)	(1,927)	(2,505)
Cash flow from Operations	986	4,193	5,114	6,882
Net cash used in Investing				
Purchase of fixed assets	(551)	(1,446)	(1,299)	(1,578)
Purchase of investments	(110)	2	(767)	(1,452)
Sales of fixed assets	40	26	-	-
Sales of investments	207	-	-	-
Dividend Income/Interest Rec.	92	143	-	-
Cash flow from investing	(322)	(1,275)	(2,067)	(3,030)
Cash flow from Financing				
Proceeds from Equity shares	(75)	-	-	-
Proceeds of borrowings	333	254	135	103
Sales of borrowings	(8)	(271)	-	-
Dividend (Incl dividend tax)	(1,763)	(1,936)	(1,966)	(1,966)
Interest cost	(94)	(142)	(165)	(176)
Others	(201)	(45)	-	-
Cash flow from Financing	(1,808)	(2,140)	(1,996)	(2,039)
Net cash Inflow/Outflow	(1,143)	779	1,052	1,814
Opening Cash	3,421	2,283	3,054	4,106
Exchange gain/loss	5	(8)	-	-
Cash in hand	2,283	3,054	4,106	5,920
Other Investments	(1,805)	(2,647)	2,849	3,362
Overdraft	143	116	-	-
Cash Transferred to B/S	622	523	1,257	2,558

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	31.8	42.8	57.2	74.3
Book value per share (Rs)	144.0	166.7	203.9	258.2
Dividend per share (Rs)	18.4	20.2	20.5	20.5
Dividend Yield (%)	0.6	0.7	0.7	0.7
Dividend Payout %	57.1	46.1	35.6	27.4
Profitability Ratios				
EBITDAM(%)	16.5	18.2	19.7	21.3
PBTM (%)	14.7	16.4	18.2	20.1
NPM (%)	10.5	11.9	13.5	14.8
RoE (%)	22.3	26.2	28.3	29.0
RoCE (%)	27.3	31.8	34.5	35.7
Efficiency Data				
Debt-Equity Ratio	0.1	0.1	0.1	0.0
Interest Cover Ratio	41.8	37.4	43.3	52.8
Fixed Asset Ratio	0.2	0.2	0.2	0.1
Debtors (Days)	48.6	49.1	49.1	49.1
Inventory (Days)	77.2	65.7	65.0	65.0
Payable (Days)	52.2	38.5	38.5	38.5
WC (Days)	73.5	76.3	75.6	75.6
Valuation				
P/E (x)	93.0	69.2	51.8	39.8
P/BV	20.6	17.8	14.5	11.5
EV/EBITDA	59.1	45.4	35.4	27.6
EV/Sales	9.8	8.2	7.0	5.9

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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