

## RM Inflation Headwinds Remain; Long Term Story Intact

Asian Paints delivered topline for Q2FY22 ahead of our and street estimates. However, on profitability front it grossly missed our and street estimates on the back of an unprecedented 18-20% inflation level seen in its RM basket. Consol Revenue growth of 32.6% at Rs. 7,096 Cr beat our estimate which was led by strong volume and value growth. In Q2FY22, volumes grew at a strong 34% in the domestic decorative paints segment driven by healthy demand momentum post May '21 impacted by second wave. Further, robust revenue growth in Q2FY22 was driven by demand recovery in Urban, Tier1/2 cities even as demand in rural areas sustained. Pick-up in projects business, and healthy performance across home improvement businesses too supported growth. However, steep inflation in RMs impacted the Core EBITDA/PAT growth which declined by 28.5%/29% respectively at Rs. 904Cr/Rs. 605 Cr respectively for Q2FY22. Gross Margins (GMs), contracted sharply by 966bps YoY to 34.7% (39.7% our estimate). This dragged the EBITDA Margins which contracted sharply by over 1000bps at 12.7% (19.2% our estimate) lowest in the last 5 years.

Management remains upbeat on sustenance of demand on the back of recovery in Tier 1/2 , urban centres, expanding distribution footprint (added 40k retail points in the last 18 months), good monsoon, upgradation to emulsion at the bottom of pyramid and healthy festive season led demand being notes. Market share gains from both organized as well unorganized players continued to be reported by ANPT. Beautiful Home Services, gained improved traction with Kitchen/Bath business achieving break-even at EBITDA level. The International business reported healthy performance and is expected to continue. However, to bake in the high inflationary environment, our FY22E see a sharp downgrade while FY23E/24E estimates for EBITDA/PAT are lower by 8.9%/9.6 and 6.7%/7.1%, respectively. **The long term structural story remains intact with** drivers such as 1) Clear focus on driving volumes and profitability, 2) Improved traction in other adjacent business segments, 3) Market share gains, and 4) Huge growth opportunities in the rural and small towns. **Even as we continue to value the stock at 57x FY24E EPS our TP undergoes a downward revision to Rs. 3,300/share (Rs 3,510/share earlier). Maintain BUY.**

### Key Concall Takeaways

- Q2FY22 performance review:** For Q2FY22, Consol Revenue from operations has increased by 32.6% to Rs. 7,096 Cr from Rs. 5,350 Cr. EBITDA for the group decreased by 28.5% to Rs. 905 Cr from Rs. 1,265Cr. Profit Before Tax (PBT) decreased by 27.9% to Rs. 826 Cr from Rs. 1,145 Cr. PAT decreased by 29% to Rs. 595Cr as compared to Rs. 830Cr in the base quarter. Domestic volumes grew 34% YoY (22% 2-year CAGR) while price/mix inflation turned positive after many quarters to 2% (6-7% price hike, 4-5% mix deflation in our view). Overall, during H1FY22 (on 2-yr CAGR basis), APNT posted ~12% revenue growth (17% volume CAGR) and 7% EBITDA decline.
- Strong Volume & Value Growth** - Strong top line momentum continued as APNT reported a 34%/35% volume/value growth (20.3% volume growth in Domestic decorative business on a 3 yr CAGR basis). Even though Q1 had posted significant challenges on account of second Covid wave, the overall recovery from June month has been steadily improving.
- GM pressures to remain:** Steep inflationary trend persists and unprecedented key RM price hikes be it crude derivatives or other industrial chemicals have burnt a hole in the Operating Margins of APNT. A 6% inflation in RM prices in Q2 was seen over Q1 average input prices. This forced APNT to undertake an additional 4% price hike during the quarter.
- Aggressive price hikes in the next 3 months:** RM inflation index for ANPT inched up to 20% (15% in Q1FY22) and is expected to continue in H2FY22 as well. To offset this unprecedented RM inflationary pressures, management will likely take aggressive price increases in the next 3 months (didn't take such price increases to de-stabilize the market and support consumer spending). ANPT remains confident of returning to 18-20% EBITDA Margin band by Q4FY22. Besides, pricing actions, the company will look to optimize costs, bring in formulation/sourcing efficiency

### Key Financials (Consolidated)

| (Rs Cr)       | FY21   | FY22E  | FY23E  | FY24E  |
|---------------|--------|--------|--------|--------|
| Net Sales     | 21,713 | 25,638 | 30,597 | 36,739 |
| EBITDA        | 4,856  | 4,357  | 6,240  | 7,845  |
| Net Profit    | 3,207  | 2,849  | 4,265  | 5,487  |
| EPS (Rs)      | 33.4   | 29.7   | 44.5   | 57.2   |
| PER (x)       | 89.9   | 112.3  | 72.8   | 55.9   |
| EV/EBITDA (x) | 55.8   | 64.9   | 45.0   | 35.5   |
| P/BV (x)      | 13.3   | 11.1   | 9.3    | 7.7    |
| ROE (%)       | 25.2   | 18.8   | 26.8   | 31.6   |

Source: Company, Axis Research

| (CMP as of Oct 21, 2021)   |             |
|----------------------------|-------------|
| CMP (Rs)                   | 3,003       |
| Upside /Downside (%)       | 10%         |
| High/Low (Rs)              | 3,504/2,056 |
| Market cap (Cr)            | 2,88,095    |
| Avg. daily vol. (6m) Shrs. | 13,60,411   |
| No. of shares (Cr)         | 95.9        |

### Shareholding (%)

|             | Dec-20 | Mar-21 | Jun-21 |
|-------------|--------|--------|--------|
| Promoter    | 52.79  | 52.79  | 52.79  |
| FIIs        | 21.13  | 20.38  | 20.38  |
| MFs / UTI   | 2.79   | 2.95   | 2.95   |
| Banks / FIs | 0.01   | 0.03   | 0.03   |
| Others      | 23.28  | 23.85  | 23.85  |

### Financial & Valuations

| Y/E Mar (Rs. bn) | 2022E | 2023E | 2024E |
|------------------|-------|-------|-------|
| Net Sales        | 256   | 306   | 367   |
| EBITDA           | 44    | 62    | 78    |
| Net Profit       | 28    | 43    | 55    |
| EPS (Rs.)        | 29.7  | 44.5  | 57.2  |
| PER (x)          | 112.3 | 72.8  | 55.9  |
| EV/EBITDA (x)    | 64.9  | 45.0  | 35.5  |
| P/BV (x)         | 21.1  | 19.5  | 17.7  |
| ROE (%)          | 18.8  | 26.8  | 31.6  |

### Change in Estimates (%)

| Y/E Mar | FY23E | FY24E |
|---------|-------|-------|
| Sales   | 1.1   | 1.4   |
| EBITDA  | -8.9  | -6.7  |
| PAT     | -9.6  | -7.1  |

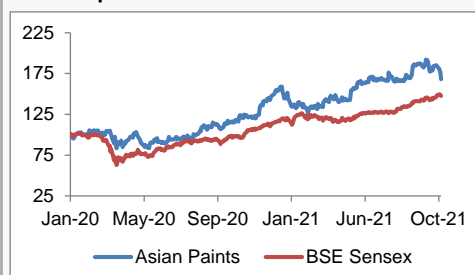
### ESG disclosure Score\*\*

| Particulars                       | Score       |
|-----------------------------------|-------------|
| Environmental                     | 23.3        |
| Social                            | 43.9        |
| Governance                        | 53.6        |
| <b>Total ESG Disclosure Score</b> | <b>35.1</b> |

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

### Relative performance



**Suvarna Joshi** (Sr. Research Analyst)

Email: suvarna.joshi@axissecurities.in  
 Call: 99870 67592

**Dhananjay Choudhury** (Research Associate)

Email: dhananjay.choudhury@axissecurities.in

**Q2FY22 Financial (Consolidated)**

| (Rs Cr)                         | Q2FY22       | Axis Sec Est | Axis Sec Var (%) | Q1FY22       | QoQ growth %    | Q2FY21       | YoY growth %     |
|---------------------------------|--------------|--------------|------------------|--------------|-----------------|--------------|------------------|
| Domestic Deco Volume Growth (%) | 34           | 35           | -100 bps         | 106          | -7200 bps       | 11           | 2300 bps         |
| <b>Sales</b>                    | <b>7,096</b> | <b>6,955</b> | <b>2.0</b>       | <b>5,585</b> | <b>27</b>       | <b>5,350</b> | <b>32.6</b>      |
| Gross Profits                   | 2,466        | 2,761        | (10.7)           | 2,146        | 15              | 2,376        | 3.8              |
| <b>Gross Margin (%)</b>         | <b>34.7</b>  | <b>39.7</b>  | <b>-495 bps</b>  | <b>38.4</b>  | <b>-368 bps</b> | <b>44.4</b>  | <b>-966 bps</b>  |
| Staff costs                     | 442          | 473          | (6.6)            | 432          | 2               | 379          | 16.5             |
| Other operating expenses        | 1,120        | 953          | 17.5             | 801          | 40              | 732          | 53.0             |
| <b>EBITDA</b>                   | <b>904</b>   | <b>1,335</b> | <b>(32.3)</b>    | <b>914</b>   | <b>(1)</b>      | <b>1,265</b> | <b>(28.5)</b>    |
| <b>EBITDA margin (%)</b>        | <b>12.7</b>  | <b>19.2</b>  | <b>-645 bps</b>  | <b>16.4</b>  | <b>-361 bps</b> | <b>23.6</b>  | <b>-1090 bps</b> |
| Depreciation                    | 203          | 209          | (2.8)            | 201          | 1               | 194          | 4.7              |
| Interest                        | 24           | 21           | 13.6             | 21           | 11              | 21           | 16.3             |
| Other Income                    | 138          | 90           | 52.8             | 90           | 54              | 83           | 67.3             |
| PBT                             | 826          | 1,202        | (31.2)           | 779          | 6               | 1,146        | (27.9)           |
| Provision for Tax               | 221          | 303          | (27.0)           | 204          | 8               | 294          | (24.7)           |
| Tax rate (%)                    | 26.8         | 25.2         | 156 bps          | 26.2         | 52 bps          | 25.6         | 112 bps          |
| <b>Reported PAT</b>             | <b>605</b>   | <b>899</b>   | <b>(32.7)</b>    | <b>574</b>   | <b>5</b>        | <b>852</b>   | <b>(29.0)</b>    |
| EPS (Rs.)                       | 6.3          | 9.4          | (32.7)           | 6.0          | 5.4             | 8.9          | (29.0)           |

|                                   | Q2FY22 | Axis Sec Est | Axis Sec Var (%) | Q1FY22 | QoQ growth % | Q2FY21 | YoY growth % |
|-----------------------------------|--------|--------------|------------------|--------|--------------|--------|--------------|
| <b>Profitability Analysis (%)</b> |        |              |                  |        |              |        |              |
| Gross Margin                      | 34.7   | 39.7         | -495 bps         | 38     | -368 bps     | 44.4   | -966 bps     |
| EBITDA Margin                     | 12.7   | 19.2         | -645 bps         | 16.4   | -361 bps     | 23.6   | -1090 bps    |
| PAT Margin                        | 8.5    | 12.9         | -439 bps         | 10.3   | -175 bps     | 15.9   | -739 bps     |
| <b>Cost Analysis (%)</b>          |        |              |                  |        |              |        |              |
| COGS                              | 65.3   | 60.3         | 495 bps          | 61.6   | 368 bps      | 55.6   | 966 bps      |
| Staff Expenses                    | 6.2    | 6.8          | -58 bps          | 7.7    | -151 bps     | 7.1    | -86 bps      |
| Other Expenses                    | 15.8   | 13.7         | 208 bps          | 14.3   | 144 bps      | 13.7   | 210 bps      |
| Tax Rate                          | 26.8   | 25.2         | 156 bps          | 26.2   | 52 bps       | 25.6   | 112 bps      |

Source: Company; Axis Securities

**Q2FY22 Segmental Performance (Consolidated)**

| (Rs Cr)                      | Q2FY22 | Q1FY22 | QoQ growth % | Q2FY21 | YoY growth % |
|------------------------------|--------|--------|--------------|--------|--------------|
| <b>Segmental Revenues</b>    |        |        |              |        |              |
| Decorative Paints            | 6,902  | 5,465  | 26.3         | 5,233  | 31.9         |
| Home Improvement             | 195    | 122    | 60.7         | 117    | 66.4         |
| <b>Segmental EBIT</b>        |        |        |              |        |              |
| Decorative Paints            | 845    | 809    | 4.5          | 1,182  | (28.5)       |
| Home Improvement             | 3      | -9     | -133.8       | -4     | (174.0)      |
| <b>Segmental Margins (%)</b> |        |        |              |        |              |
| Decorative Paints            | 12     | 15     | -256 bps     | 23     | -1033 bps    |
| Home Improvement             | 1.6    | (7.6)  | 914 bps      | (3.6)  | 516 bps      |

Source: Company; Axis Securities

## Other Key Concall Takeaways

1. **Global Outlook:** The target is to get EBIDTA to 18-20% levels. Q3 demand outlook looks positive on account of (a) Festive season demand (b) good monsoon aiding rural demand (c) upturn in housing construction & industrial demand with Covid fears receding. Management remains cautious even though Covid 3rd wave remains a distant possibility.

Given the unprecedented inflation seen in the business over the last 40 years, management believes that *'Have you got an eye on your consumer or have you got an eye on your balance sheet'* to be APNT's mantra for balancing growth and thus in line with this strategy it will take calibrated & judicious price hikes. RM inflation looks persistent in coming quarters as well & to relieve GM pressure ANPT would look at other levers like a) calibrated price hikes across product categories, b) improving formulation efficiencies and finding cheaper & quality substitutes of current mixes, c) cost optimization, d) rationalizing overheads and A&P spends, e) scale benefits and volume play

2. **Robust volume performance:** The strong volume performance in Q2FY22 was aided by factors such as a) Pent up demand from Metros, Tier 1/2 towns, and premium products as well as sustained demand in rural regions and economy products (upgradation to emulsions happening at bottom of the pyramid), b) New demand from new projects, new products in institutional business, c) Market share gains, d) Improved demand in other business segments like waterproofing which has been supporting growth ahead of the industry for ANPT.
3. **Gross margin contraction in Q2FY22:** GM contracted ~966 bps YoY at 34.7% on the back of an unprecedented rise in key RMs and other industrial chemicals (monomers, additives, TiO2 etc). Steep inflationary trend persists and unprecedented key RM price hikes be it crude derivatives or other industrial chemicals have burnt a hole in the Operating Margins of APNT. GM have significantly narrowed from earlier ~45% levels to now 39.6%/35.7% in Q1FY22/Q2FY22 respectively.
4. **Aggressive price hikes coming to offset steep RM price inflation:** During Q1FY22, ANPT saw a 15% RM inflation to which it took a 3% price hike to partially offset the RM pressure. However a further 6% RM inflation in RM prices in Q2 over the Q1 average input prices. APNT undertook an additional 4% price hike during the quarter. The company plans to increase frequency of price hikes over the next 3 months and is confident of returning to 18-20% margin band by Q4. Further, to drive improvement in Gross Margin, ANPT would look to bring in formulation efficiencies (Rs. 300Cr savings in H1 from formulation efficiency). However, the company's strategy would be to grow topline by driving volume growth as it looks to develop the market.
5. **Expanding R-Urban distribution footprint** - APNT's top management aims to exploding their presence across the country and this is fairly evident seeing their stores expansion policy. Over 40,000 new retail points have been added over last 1&1/2 yr into new towns and suburbs. As many as 16 new colour Ideas stores have opened this quarter itself. 26 new state-of-the-art Beautiful Homes stores (meant for complete home decor) are now functional which APNT claims to be it's first 'Phygital' store and management aims to take this tally to a good 35-40 stores by yr end.
6. **Inventory buildup a short term blip:** Management indicated that inventory build-up (54% increase over March 2021) in both RM and Finished Goods is a short term blip as it looks to secure supplies/ensures order fill rates are maintained on account of the disruption in material supplies coming from logistic and supply chain issues on account of power crisis and freight issues. Inventory levels expected to normalize in H2FY22.
7. **NPD launches:** One of the products which has given APNT a big leeway is 'Royal Glitz Teflon' in the entire luxury interior emulsions segment which is a relatively new technology. Another one-of-its-kind revolutionary product is ALL Protek Fire Retardant Paint and has been receiving a strong response. Several other innovative items have made their way onto retailer shelves and people's minds backed by ANPTS persistent focus on technological innovation and R&D.
8. **International Business:** Overall international business revenues have grown by 6% raking in Rs 701 Cr in total. Profitability however is significantly impacted due to inflation thus leading to PBT level loss of Rs 17 Cr in Q2. The growth numbers have been a mixed bag across regions with Asia & Middle East showing good growth signs despite Covid restrictions & Sri Lanka's Forex crisis. Several projects are yet to take off in Middle East region due to several lockdowns and sluggish retail markets. In Africa region, particularly Egypt & Ethiopia remained affected due to regional disturbances hurting market sentiments.
9. **Industrial Business:**
  - a. **PPG-AP:** Auto sector & OEM segment exhibited continued recovery momentum in Q2 as well. This segment reported strong revenue growth of 33% YoY in Q2FY22 at Rs 377cr. PBT however saw de-growth of 13% YoY at Rs 27 Cr hurt by RM price inflation. As a result, there is a strong push from management for implementing price increases across B2B customers.
  - b. **AP-PPG:** Registered strong 55% revenue growth in Q2 with Rs 180 Cr albeit 42% de-growth observed in PBT at Rs. 5Cr impacted by the sharp material inflation. Growth was largely led by strong performance in Protective Coatings, Retail Channel and Project orders. Powder Coatings has seen an uptick sequentially.
  - c. **Gross margins:** Gross margins had a significant impact on the overall profitability of the business owing to unprecedented inflation.

#### 10. Home Improvement Business:

- a. **Kitchen Business:** Strong growth in Q2 was supported by components as well as full kitchens. For the 1<sup>st</sup> time APNT touched Rs 100cr + revenue mark in this quarter. Revenue came in at Rs 105 Cr up 70 % YoY in Q2FY22. The business PBT reported a break- even in Q2FY22 - a first in this segment for ANPT owing to improving scale benefits despite input cost inflation.
- b. **Bath Business:** Revenue came in at Rs 93 Cr, up 69% YoY in Q2FY22. It remained a profitable quarter owing to scale benefits and cost optimization measures. Premium products were seen doing well supported by growth in projects due to strong collaboration with decorative projects.

#### Change in Estimates

| Particulars              | Revised |        |        | Old    |        |          | Change (%) |         |         |
|--------------------------|---------|--------|--------|--------|--------|----------|------------|---------|---------|
|                          | FY22E   | FY23E  | FY24E  | FY22E  | FY23E  | FY24E    | FY22E      | FY23E   | FY24E   |
| <b>Sales</b>             | 25,638  | 30,597 | 36,739 | 25,332 | 30,259 | 36,238.0 | 1.2        | 1.1     | 1.4     |
| <b>EBITDA</b>            | 4,357   | 6,240  | 7,845  | 5,666  | 6,853  | 8,407.0  | (23.1)     | (8.9)   | (6.7)   |
| <b>EBITDA Margin (%)</b> | 17.0    | 20.4   | 21.4   | 22.4   | 22.6   | 23.2     | -537bps    | -225bps | -185bps |
| <b>PAT</b>               | 2,849   | 4,265  | 5,487  | 3,817  | 4,720  | 5,905.0  | (25.4)     | (9.6)   | (7.1)   |
| <b>EPS (Rs.)</b>         | 29.7    | 44.5   | 57.2   | 39.8   | 47.8   | 61.6     | (25.4)     | (7.0)   | (7.1)   |

#### Valuation & Outlook

While, pressure on Gross Margins has been significant given the unprecedented levels of inflation (18-20%) seen for the first time in the last 40 years and are expected to remain at elevated levels in the near term. This results us in a sharp downgrade to our FY22E while FY23E/24E see a revision of +1%/-9%/-10% and 1.4%/-7%/-7% on Revenue /EBITDA/PAT. Nevertheless, from a long term stand point, we believe Asian Paints is well positioned in the industry as a leader. Further, its long term vision of emerging as a Home Décor company augurs well as it strengthens its business model by - 1) Diverse product portfolio straddling across price points, 2) Driving shift from unorganized to organized aided by distribution expansion and penetration, 3) Huge growth opportunity in rural and Tier 3/4 towns and cities, 4) Success of its new and patented products, 5) Foray in adjacent categories of waterproofing, adhesives, furnishings, furniture, and home décor. ANPT would work towards profitability improvement going forward by focusing on cost optimization, formulation efficiencies and judicious price hikes. **As we bake in the Q2FY22 performance and lower our TP to Rs. 3,300/share (Rs. 3,510 earlier) and continue to value ANPT at PE of 57x FY24E EPS. Maintain BUY.**

**Financials (consolidated)**
**Profit & Loss**

(Rs Cr)

| Y/E Mar, Rs Cr           | FY21           | FY22E          | FY23E          | FY24E          |
|--------------------------|----------------|----------------|----------------|----------------|
| <b>Net sales</b>         | <b>21,713</b>  | <b>25,638</b>  | <b>30,597</b>  | <b>36,739</b>  |
| Growth, %                | 7.43           | 18.08          | 19.35          | 20.07          |
| Other income             | 303            | 324            | 373            | 429            |
| Total income             | 22,016         | 25,962         | 30,970         | 37,168         |
| Raw material expenses    | -12,097        | -16,024        | -18,236        | -21,602        |
| Employee expenses        | -1,541         | -1,602         | -1,666         | -1,733         |
| Other Operating expenses | -3,219         | -3,938         | -4,760         | -5,888         |
| <b>EBITDA (Core)</b>     | <b>4,856</b>   | <b>4,357</b>   | <b>6,240</b>   | <b>7,845</b>   |
| Growth, %                | 15.5           | (14.7)         | 43.4           | 25.9           |
| <b>Margin, %</b>         | <b>23.8</b>    | <b>17.2</b>    | <b>20.6</b>    | <b>21.6</b>    |
| Depreciation             | (791.3)        | (811.9)        | (840.7)        | (869.5)        |
| EBIT                     | 4,367          | 3,586          | 5,467          | 7,074          |
| Growth, %                | 18.5           | (17.9)         | 52.4           | 29.4           |
| Margin, %                | 20.1           | 14.0           | 17.9           | 19.3           |
| Interest paid            | (91.6)         | (77.6)         | (81.3)         | (72.6)         |
| Pre-tax profit           | 4,304.4        | 3,540.7        | 5,421.8        | 7,041.7        |
| Tax provided             | (1,097.6)      | (974.4)        | (1,462.7)      | (1,884.2)      |
| Profit after tax         | 3,206.8        | 2,566.3        | 3,959.1        | 5,157.5        |
| <b>Net Profit</b>        | <b>3,206.8</b> | <b>2,566.3</b> | <b>3,959.1</b> | <b>5,157.5</b> |
| Growth, %                | 15.4           | (20.0)         | 54.3           | 30.3           |
| Net Profit (adjusted)    | 3,206.8        | 2,849.1        | 4,264.5        | 5,487.4        |
| Unadj. shares (m)        | 95.9           | 95.9           | 95.9           | 95.9           |
| <b>EPS (Rs.)</b>         | <b>33.4</b>    | <b>29.7</b>    | <b>44.5</b>    | <b>57.2</b>    |
| <b>Net sales</b>         | <b>21,713</b>  | <b>25,638</b>  | <b>30,597</b>  | <b>36,739</b>  |

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

| As at 31st Mar, Rs Cr                 | FY21          | FY22E         | FY23E         | FY24E         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & bank                           | 611           | 2,812         | 4,337         | 6,234         |
| Debtors                               | 2,605         | 2,458         | 2,934         | 3,523         |
| Inventory                             | 3,799         | 6,673         | 7,964         | 9,562         |
| Loans & advances                      | 79            | 79            | 79            | 79            |
| Other current assets                  | 2,331         | 2,331         | 2,331         | 2,331         |
| Total current assets                  | 9,425         | 14,354        | 17,645        | 21,730        |
| Investments                           | 4,737         | 4,737         | 4,737         | 4,737         |
| Net fixed assets                      | 4,893         | 4,381         | 3,841         | 3,271         |
| <b>Total assets</b>                   | <b>18,987</b> | <b>23,101</b> | <b>25,852</b> | <b>29,367</b> |
| Current liabilities                   | 5,518         | 8,731         | 10,362        | 12,381        |
| Total current liabilities             | 5,518         | 8,731         | 10,362        | 12,381        |
| Non-current liabilities               | 340           | 310           | 280           | 250           |
| Total liabilities                     | 5,859         | 9,042         | 10,642        | 12,631        |
| Paid-up capital                       | 96            | 96            | 96            | 96            |
| Reserves & surplus                    | 12,710        | 13,642        | 14,792        | 16,318        |
| Shareholders' equity                  | 13,128        | 14,060        | 15,210        | 16,735        |
| <b>Total equity &amp; liabilities</b> | <b>18,987</b> | <b>23,101</b> | <b>25,852</b> | <b>29,367</b> |

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

| Y/E Mar (Rs Cr)                            | FY21          | FY22E        | FY23E         | FY24E         |
|--------------------------------------------|---------------|--------------|---------------|---------------|
| Pre-tax profit                             | 4,304         | 3,541        | 5,422         | 7,042         |
| Depreciation                               | 791           | 812          | 841           | 870           |
| Change in working capital                  | -821          | 788          | -136          | -168          |
| Total tax paid                             | -1,081        | -974         | -1,463        | -1,884        |
| Other operating activities                 | 0             | 0            | 0             | 0             |
| <b>Cash flow from operating activities</b> | <b>3,194</b>  | <b>4,166</b> | <b>4,664</b>  | <b>5,859</b>  |
| Capital expenditure                        | -192          | -300         | -300          | -300          |
| Change in investments                      | -2,718        | 0            | 0             | 0             |
| <b>Cash flow from investing activities</b> | <b>-2,881</b> | <b>-268</b>  | <b>-264</b>   | <b>-260</b>   |
| Free cash flow                             | 312           | 3,898        | 4,400         | 5,599         |
| Equity raised/(repaid)                     | 2,731         | 932          | 1,150         | 1,526         |
| Dividend (incl. tax)                       | -1,929        | -1,885       | -3,079        | -3,962        |
| <b>Cash flow from financing activities</b> | <b>822</b>    | <b>-984</b>  | <b>-1,959</b> | <b>-2,466</b> |
| Net change in cash                         | 1,134         | 2,914        | 2,441         | 3,133         |
| Opening cash balance                       | 783           | 611          | 2,812         | 4,337         |
| Closing cash balance                       | 611           | 2,812        | 4,337         | 6,234         |

Source: Company, Axis Securities

**Ratio Analysis**

(%)

| Y/E Mar                        | FY21  | FY22E  | FY23E  | FY24E  |
|--------------------------------|-------|--------|--------|--------|
| <b>Per Share data</b>          |       |        |        |        |
| EPS (INR)                      | 33.4  | 29.7   | 44.5   | 57.2   |
| FDEPS (INR)                    | 33.4  | 26.8   | 41.3   | 53.8   |
| CEPS (INR)                     | 41.7  | 35.2   | 50.0   | 62.8   |
| CFPS (INR)                     | 36.2  | 39.9   | 48.2   | 60.7   |
| DPS (INR)                      | 16.7  | 16.3   | 26.7   | 34.3   |
| <b>Return ratios</b>           |       |        |        |        |
| Return on assets (%)           | 19.4  | 12.4   | 16.4   | 18.8   |
| Return on equity (%)           | 25.2  | 18.8   | 26.8   | 31.6   |
| Return on capital employed (%) | 27.0  | 18.8   | 26.8   | 32.0   |
| <b>Turnover ratios</b>         |       |        |        |        |
| Asset turnover (x)             | 2.6   | 3.3    | 4.4    | 5.6    |
| Sales/Total assets (x)         | 1.3   | 1.2    | 1.3    | 1.3    |
| Sales/Net FA (x)               | 4.2   | 5.5    | 7.4    | 10.3   |
| Working capital/Sales (x)      | 0.2   | 0.1    | 0.1    | 0.1    |
| Fixed capital/Sales (x)        | 0.4   | 0.4    | 0.3    | 0.3    |
| <b>Liquidity ratios</b>        |       |        |        |        |
| Current ratio (x)              | 1.7   | 1.6    | 1.7    | 1.8    |
| Quick ratio (x)                | 1.0   | 0.9    | 0.9    | 1.0    |
| Interest cover (x)             | 47.7  | 46.2   | 67.3   | 97.5   |
| Dividend cover (x)             | 2.0   | 1.6    | 1.5    | 1.6    |
| Net debt/Equity (%)            | (2.1) | (18.3) | (27.4) | (36.7) |
| <b>Valuation</b>               |       |        |        |        |
| PER (x)                        | 89.9  | 112.3  | 72.8   | 55.9   |
| Price/Book (x)                 | 22.7  | 21.1   | 19.5   | 17.7   |
| EV/Net sales (x)               | 13.3  | 11.1   | 9.3    | 7.7    |
| EV/EBITDA (x)                  | 55.8  | 64.9   | 45.0   | 35.5   |
| EV/EBIT (x)                    | 65.9  | 79.6   | 52.0   | 39.9   |

Source: Company, Axis Securities

**About the analyst****Analyst:** Suvarna Joshi**Contact Details:** [suvarna.joshi@axissecurities.in](mailto:suvarna.joshi@axissecurities.in)**Sector:** FMCG, Consumption sector, Sp. Chemicals, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10 years of experience in Equity market and research.**About the analyst****Analyst:** Dhananjay Choudhury**Contact Details:** [ghananjay.choudhury@axissecurities.in](mailto:ghananjay.choudhury@axissecurities.in)**Sector:** FMCG & Retail**Analyst Bio:** Dhananjay Choudhary is a Chartered Accountant and a CFA Level III candidate. He is part of the Axis Securities Research Team**Disclosures:**

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