

A comprehensive beat on all front...

About the stock: Asian Paints (APL) is India's largest decorative paint company. The company derives ~98% revenue from the paints business while 2% business comes from the home improvement business (kitchen and bathroom fittings).

- Strong distribution network of 70,000 dealers, 2x more than the No. 2 player
- Despite being in a capital intensive business, the company has maintained a strong balance sheet with RoCE, RoE of 30%, 25%, respectively

Q1FY23 Results: The Q1 performance was beat on all fronts...

- Reported revenue growth of ~54% YoY to ~₹ 8607 crore on a favourable base and a strong decorative volume growth of 37%
- Gross margin declined 73 bps YoY (100 bps QoQ). However, EBITDA margin up by 172 bps YoY to 18.1% due to improved operating leverage
- PAT up by ~84% YoY to ₹ 1054 crore; tracking strong sales growth and margin expansion

What should investors do? Strong brand, market leadership position and a robust balance sheet condition justify APL's premium valuation. APL has been a consistent compounder with stock price appreciating at 22% CAGR over the last five years.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We revise our target price to ₹ 3700/share and value APL at 65x P/E FY24E EPS

Key triggers for future price performance:

- Repainting represents ~80% of total decorative paint demand. Gradual reduction in repainting cycle would drive future paint demand
- Increased focus on the 'water proofing & building chemical' category will continue to drive revenue growth for Asian Paints. Water proofing & building chemical industry is pegged at ₹ 6000 crore vs. ₹ 1.5 lakh crore in China
- Model revenue, earnings CAGR of ~15%, ~33%, respectively, in FY22-24E

Alternate Stock Idea: We also like Supreme Industries in our coverage.

Supreme Industries (SIL) is India's leading plastic processing company with a presence in four major segments including piping systems, packaging products, industrial products & consumer product. It is the market leader in the PVC pipe industry with a value market share of 15%. It has a robust balance sheet with RoE & RoCE of 24% & 27% (five-year average)

- BUY with a target price of ₹ 2175



asianpaints

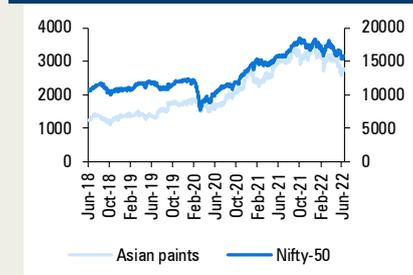
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	3,00,742.4
Total Debt (FY22) (₹ Crore)	775.7
Cash & Inv (FY22) (₹ Crore)	2,732.1
EV (₹ Crore)	2,98,786.0
52 week H/L (₹)	3590/2560
Equity capital (₹ Crore)	95.9
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	52.8	52.8	52.8	52.6	52.6
FII	20.7	21.0	20.5	19.5	18.5
DII	6.7	6.2	6.5	7.6	8.4
Others	19.8	20.0	20.2	20.3	20.5

Price Chart



Recent Event & Key risks

- **Key Risks:** (i) Lower demand from Tier III & IV cities owing to high inflation (ii) Delay in price hike

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Yr CAGR (17-22)	FY23E	FY24E	2 Yr CAGR (22-24E)
Net Sales	19240.1	20211.3	21712.8	29101.3	14.1	35168.6	38675.4	15.3
EBITDA	3765.5	4161.8	4855.6	4803.6	10.0	6717.2	7928.4	28.5
EBITDA Margin (%)	19.6	20.6	22.4	16.5		19.1	20.5	
Net Profit	2213.8	2779.1	3206.8	3084.8	8.9	4521.5	5430.8	32.7
EPS (₹)	23.1	29.0	33.4	32.2		47.15	56.63	
P/E (x)	135.8	108.2	93.8	97.5		66.5	55.4	
Price/Book (x)	31.8	29.7	23.5	21.8		20.1	17.7	
Mcap/Sales (x)	15.6	14.9	13.9	10.3		8.6	7.8	
RoE (%)	23.4	27.4	25.0	23.0		30.2	31.9	
RoCE (%)	28.9	30.5	29.6	27.1		36.4	39.1	

Key takeaways of recent quarter & conference call highlight

Q1FY23 Results: Strong volume growth continues...

- Asian Paints continued its volume growth trajectory with higher than our and street estimates. The company has reported strong decorative volume growth of 37% YoY in Q1FY23 even on a higher base of 106% growth last year. The volume growth came in on the back of strong demand from tier II and III cities, new dealer addition and launch of new products. Company's project business also reported a strong growth in Q1FY23 (contributes ~20% of sales).
- Consolidated revenue growth of ~54% YoY to ~₹ 8607 crore was led by paint and home segment revenue growth of 53% and 87% YoY to ₹ 8380 crore and ₹ 227 crore, respectively. The company has taken a price hike of ~2% in Q1FY23 (in addition to ~22% price hike in FY22) to offset higher raw material costs.
- Gross margin declined 73 bps YoY (100 bps QoQ) in Q1FY23 suggesting a lower price hikes and adverse product mix (higher sales of low end of products). However, improved operating leverage helped negate the gross margin pressure on EBITDA margin which increased by 172 bps YoY to 18.1%
- Despite one-time exceptional loss of ₹ 24 crore (due to forex loss of Sri Lankan unit), APL reported a strong PAT growth of 84% YoY to ~₹ 1054 crore tracking strong sales and EBITDA margin expansion

Q1FY23 Earnings Conference Call highlights

Demand Outlook:

- The management has maintained its double digit volume growth guidance for FY23-24E led by strong demand from tier III and IV cities and new product launches.
- The company's B2B business (15-20% of sales) has gained traction in recent times owing to revival in real estate, housing, government and factories segment. The same momentum is expected to continue in the coming quarters
- Premium and Luxury product categories have shown a good growth in Tier 1 and 2 cities and the company plans to expand these product categories in collaboration with the Decorative Project team

Expansion of product portfolio:

- Asian Paints launched 10 new products in Q1FY23 across categories

Margins:

- According to the management, the gross margin will remain at ~38-40% for the coming few quarters due to higher inflation and volatility in raw material prices. However, with easing crude and other raw material prices along with lowering inflation, the gross margin is expected to rise to ~42%
- The company will be taking a price increase of 0.5% on a portfolio level with effect from August 1, 2022 to offset higher input cost
- The management expects inflation rate to be at ~2% in Q2FY23 and is planning to take price hikes accordingly in the quarter
- The management expects raw material inflation to ease from second half of FY23.

Network Expansion:

- The company added 5000 new retailing points in Q1FY23
- 31 Beautiful Home Stores have become operational
- Asian Paints has a total of more than 1,50,000 retail touch points and aims to add 5000-8000 touch points every year

- The company is planning to add touchpoints in the suburban areas of cities across India

Other:

- Revenue growth in Q1FY23 was on the back of better-quality products, increased marketing efforts and higher retail reach
- Projects business contributed slightly higher to the volume growth than Retail business. Volume growth has largely come from higher sales of premium and luxury products in the Emulsions and Waterproofing segment
- Although, all the regions of India have contributed to the volume growth of the company, higher volume growth was seen from South and West region in Q1FY23
- According to the management, there is no excessive stocking with the retailers
- The company has planned a Capex of ₹ 800 crores for FY23
- The company's new plant in Pune for its bath business is expected to be operational in Q4FY23

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints	3,00,742	21713	29101	35169	38675	22	17	19	21	3207	3085	4521	5431	30	27	36	39	25	23	30	32	94	97	67	55
Berger Paints	57,112	6818	8762	9870	11203	17	15	15	16	720	833	960	1151	25	23	28	30	21	21	25	27	79	69	59	50
Kansai Nero	21,611	4771	5949	6684	7550	18	11	13	13	531	374	524	651	17	12	17	20	13	9	13	15	41	58	41	33
Pidilite Ind	1,18,978	7293	9921	10874	12126	23	19	18	20	1126	1207	1319	1634	24	22	23	26	20	19	19	21	106	99	90	73

Source: BSE, ICICI Direct Research

On a three-year basis, Asian Paint has outperformed industry growth by reporting strong volume CAGR of 20%. We believe, strong volume growth is attributable to market share gains, dealer additions and strong demand traction in tier II and tier III cities. In addition, pent up demand from B2B segment (20% of sales) also helped drive the overall volume growth. We model volume CAGR of 13% in FY22-24E (vs. 15% volume CAGR in FY17-22) supported by the company's aggressive product launches and continuous expansion in the tier 3, 4 cities. We have revised our earnings estimate upward by ~10%, 8% for FY23E and FY24E respectively, supported by improved EBITDA margin trajectory (considering easing raw material prices and improved operating leverage). We model revenue, earning CAGR of 15%, 33% over FY22-24E. We believe, strong supply chain network and robust balance sheet of Asian paints provide enough cushion to safeguard its margins going forward. We maintain our BUY rating on the stock factoring in Asian Paints dominant position in the paint industry and limited damage to its margins from increasing competition. We value the stock at 65x FY24E EPS with revised target price of ₹ 3700/share.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	8,606.9	7,335.8	5,585.4	54.1	7,892.7	9.0	Strong revenue growth led by 37% volume growth in decorative paint segment
Other Income	99.0	74.7	89.6	10.4	80.4	23.1	
Raw Material Exp	5,361.9	4,474.8	3,438.9	55.9	4,838.1	10.8	Gross margin declined by 73 bps YoY (100 bps QoQ) led by change in product mix
Employee Exp	489.6	476.8	432.1	13.3	457.4	7.0	
Manufacturing & Oth exp	1,199.5	1,122.4	800.8	49.8	1,154.0	3.9	
Total Exp	7,051.0	6,074.0	4,671.8	50.9	6,449.4	9.3	
EBITDA	1,556.0	1,261.8	913.6	70.3	1,443.3	7.8	
EBITDA Margin (%)	18.1	17.2	16.4	172 bps	18.3	-21 bps	Lower gross margin impact was completely offset by savings in employee costs and other expenditure, helped EBITDA margin expansion on a YoY basis
Depreciation	208.1	214.4	200.6	3.7	205.1	1.5	
Interest	28.8	18.8	21.5	33.8	22.6	27.1	
Exceptional items	24.2	0.0		0.0			Exceptional loss includes exchange loss in Sri Lanka due to economic crisis
PBT	1,418.1	1,103.3	781.1	81.5	1,180.3	20.1	
Total Tax	370.6	277.7	204.3	81.4	315.1	17.6	
PAT	1,053.8	830.6	574.3	83.5	874.1	20.6	Higher topline and EBITDA margin expansion drives bottomline
Key Metrics							
Volume growth (%)	37.0	8.0	106.0		8.0		Continuous demand for decorative paints from Tier III and IV cities along with strong growth in waterproofing, wood finishes drives overall volume growth
Realisation growth (%)	12.5	21.6	-7.2		9.9		Lower realisation growth against price hike of ~21% in FY22 suggesting change in product mix

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY23E			FY24E			Comment
	Old	New	% Chg	Old	New	% Chg	
Revenue	33133.0	35168.6	6.1	37847.9	38675.4	2.2	We have revised our revenue estimate upward for FY23E-24E considering strong performance in Q1FY23. We have increased our volume growth estimate to 13% (from earlier estimate of 11%) in line with management guidance
EBITDA	6096.5	6717.2	10.2	7304.7	7928.4	8.5	
EBITDA Margin (%)	18.4	19.1	70bps	19.3	20.5	120bps	We have tweaked our margin estimate upward considering price hikes and savings in other expenses (through operating leverage)
PAT	4128.9	4521.5	9.5	5012.6	5430.8	8.3	
EPS (₹)	43.1	47.1	9.5	52.3	56.6	8.3	

Source: Company, ICICI Direct Research

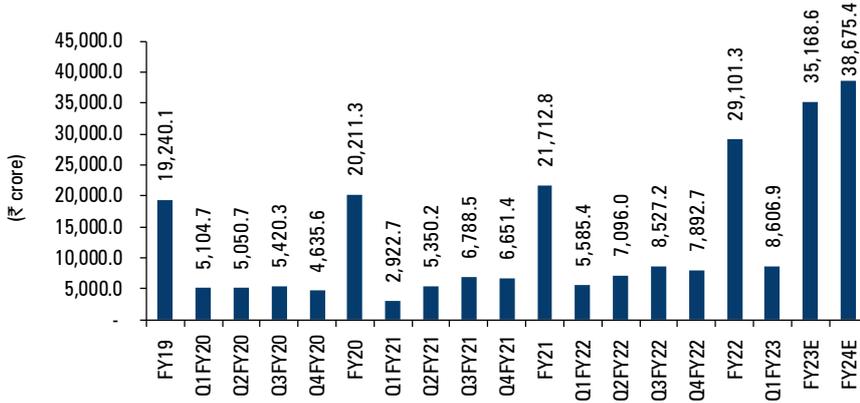
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20E	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Volume Growth (%)	10.2	13.4	31.6	13.6	12.6	9.2	12.4	We build in volume CAGR of ~13% in FY22-24E supported by new product launches, shortening repainting cycle, market share gains and government schemes (Housing for all)
Realisation Growth (%)	(5.3)	(5.3)	1.6	6.3	(2.4)	4.2	1.7	We believe price hikes would help drive realisation growth, going forward

Source: Company, ICICI Direct Research

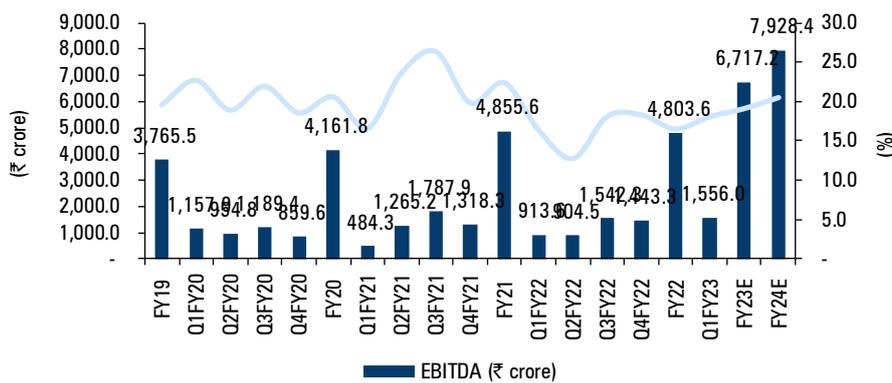
Financial story in charts....

Exhibit 5: Volume growth across segments drives revenue



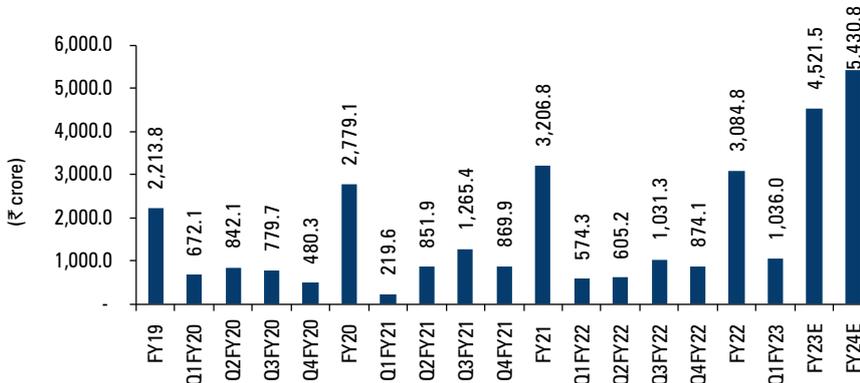
Source: Company, ICICI Direct Research

Exhibit 6: Rise in EBITDA led by better operating leverage



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Revenue	21,712.8	29,101.3	35,168.6	38,675.4
Growth (%)	7.4	34.0	20.8	10.0
Raw Material Expenses	12,097.2	18,300.8	21,452.8	22,895.8
Employee Expenses	1,540.8	1,786.7	1,969.4	2,127.1
Other expenses	3,219.2	4,210.3	5,029.1	5,724.0
Total Operating Expenditure	16,857.2	24,297.7	28,451.4	30,746.9
Growth (%)	5.0	44.1	17.1	8.1
EBITDA	4,855.6	4,803.6	6,717.2	7,928.4
Growth (%)	16.7	-1.1	39.8	18.0
Depreciation	791.3	816.4	861.6	850.9
Interest	91.6	95.4	87.2	66.0
Other Income	303.1	380.0	361.8	376.8
PBT	4,275.8	4,156.2	6,130.1	7,388.4
Total Tax	1,097.6	1,102.9	1,640.2	1,994.9
Profit from Associates	28.6	31.6	31.5	37.3
PAT	3,206.8	3,084.8	4,521.5	5,430.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before Tax	3,206.8	3,084.8	4,521.5	5,430.8
Add: Depreciation	791.3	816.4	861.6	850.9
(Inc)/dec in Current Assets	-1,888.9	-3,906.6	-1,488.3	-1,356.9
Inc/(dec) in CL and Provisions	1,566.4	1,213.2	1,197.4	802.0
Others	91.6	95.4	87.2	66.0
CF from operating activities	3,767.2	1,303.1	5,179.4	5,792.7
(Inc)/dec in Investments	-2,718.0	1,489.3	-540.0	-540.0
(Inc)/dec in Fixed Assets	-437.6	-780.1	-800.0	-850.0
Others	-161.6	-19.2	-147.3	-76.0
CF from investing activities	-3,317.2	690.0	-1,487.3	-1,466.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.1	435.4	-200.0	-130.0
Dividend paid & dividend tax	-1,711.1	-2,020.1	-2,805.1	-3,366.1
Inc/(dec) in Sec. premium	1,088.8	-154.8	-658.9	-66.0
CF from financing activities	-622.1	-1,739.5	-3,663.9	-3,562.1
Net Cash flow	-172.1	253.6	28.2	764.6
Opening Cash	782.8	610.7	864.3	892.5
Closing Cash	610.7	864.3	892.5	1,657.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	95.9	95.9	95.9	95.9
Reserve and Surplus	12,710.4	13,715.6	14,860.3	16,925.0
Total Shareholders funds	12,806.3	13,811.5	14,956.2	17,020.9
Total Debt	340.2	775.7	575.7	445.7
Deferred Tax Liability	415.6	348.9	348.9	348.9
Minority Interest	422.9	387.5	406.9	427.3
Total Liabilities	14,737.4	16,139.1	17,103.2	19,058.2
Gross Block	8,722.9	9,503.1	10,303.1	11,153.1
Less: Acc Depreciation	3,167.1	3,983.4	4,845.0	5,695.9
Capital WIP	183.0	183.0	183.0	183.0
Total Fixed Assets	5,738.9	5,702.6	5,641.0	5,640.1
Other Investments	483.9	515.5	555.5	595.5
Liquid Investments	4,252.9	2,732.1	3,232.1	3,732.1
Goodwill on Consolidation	302.6	242.9	242.9	242.9
Current Assets				
Inventory	3,798.6	6,153.0	6,744.7	7,417.2
Debtors	2,605.1	3,873.8	4,335.9	4,768.2
Loans and Advances	79.5	0.0	2.0	4.0
Other Current Assets	1,711.8	2,074.8	2,507.3	2,757.3
Cash	610.7	864.3	892.5	1,657.2
Total Current Assets	8,805.7	12,965.9	14,482.3	16,603.9
Liabilities				
Creditors	3,378.7	4,164.3	4,817.6	5,298.0
Provisions	299.6	288.0	333.2	366.4
Other current liabilities	1,953.8	2,393.0	2,891.9	3,180.3
Total Current Liabilities	5,632.2	6,845.3	8,042.8	8,844.7
Net Current Assets	3,173.5	6,120.6	6,439.6	7,759.1
Other Non Current Assets Total	785.6	825.5	992.2	1,088.6
Total Assets	14,737.4	16,139.1	17,103.2	19,058.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	33.4	32.2	47.1	56.6
Cash EPS	41.7	40.7	56.1	65.5
BV	133.5	144.0	156.0	177.5
DPS	17.8	21.1	29.3	35.1
Cash Per Share	33.0	41.5	50.5	59.4
Operating Ratios (%)				
EBITDA Margin	22.4	16.5	19.1	20.5
EBIT Margin	18.7	13.7	16.7	18.3
PAT Margin	14.8	10.9	12.9	14.0
Activity Ratios				
Inventory days	63.9	77.2	70.0	70.0
Debtor days	43.8	48.6	45.0	45.0
Creditor days	56.8	52.2	50.0	50.0
Return Ratios (%)				
RoE	29.6	27.1	36.4	39.1
RoCE	25.0	23.0	30.2	31.9
RoIC	47.2	35.3	50.7	58.2
Valuation Ratios (x)				
P/E	93.8	97.5	66.5	55.4
EV / EBITDA	61.0	62.0	44.2	37.3
EV / Net Sales	13.6	10.2	8.5	7.6
Market Cap / Sales	13.9	10.3	8.6	7.8
Price to Book Value	23.5	21.8	20.1	17.7
Solvency Ratios				
Debt/EBITDA	0.1	0.2	0.1	0.1
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	1.5	1.8	1.7	1.7
Quick Ratio	0.8	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Consumer Discretionary)

Sector / Company	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)			
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,00,742	33.4	32.2	47.1	56.6	93.8	97.5	66.5	55.4	61.0	62.0	44.2	37.3	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9
Berger Paints (BERPAI)	Hold	57,112	7.4	8.6	9.9	11.9	79.3	68.6	59.5	49.6	47.9	43.1	37.9	32.0	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0
Kansai Nerolac (KANNER)	Reduce	21,611	9.8	6.9	9.7	12.1	40.7	57.7	41.2	33.2	25.6	33.3	25.7	21.2	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	Hold	1,18,978	22.2	23.8	26.0	32.2	105.7	98.6	90.2	72.8	70.5	64.3	60.0	48.7	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	Hold	12,990	16.5	10.8	22.0	29.5	68.6	104.4	51.4	38.4	43.6	51.5	38.4	29.2	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	Hold	23,442	9.8	9.2	8.4	10.5	38.0	40.5	44.7	35.6	31.0	30.6	27.3	22.6	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	Hold	75,741	16.7	19.1	19.4	25.1	72.9	63.4	62.5	48.3	47.6	41.9	42.1	33.3	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	Buy	33,266	59.3	61.4	67.1	77.6	37.5	36.3	33.2	28.7	29.1	25.4	21.7	18.7	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	Hold	6,611	15.3	17.3	26.1	34.8	61.8	54.6	36.2	27.2	46.3	39.9	27.8	21.0	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	9,882	4.7	5.3	5.4	6.6	48.6	42.9	42.1	34.5	30.8	29.1	27.3	22.2	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0
Voltas Ltd (VOLTAS)	Hold	31,618	16.0	15.3	21.0	28.9	59.8	62.5	45.6	33.0	48.6	45.4	37.7	26.8	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	Hold	8,066	24.7	33.0	60.4	86.2	96.9	72.5	39.7	27.8	36.4	30.6	22.1	16.5	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	Buy	22,001	27.3	32.1	58.6	88.6	135.9	115.6	63.2	41.8	76.8	58.4	35.3	24.9	23.5	17.7	28.0	32.4	21.7	19.1	32.1	35.0
Supreme Indus (SUPIND)	Buy	22,954	77.0	76.2	77.1	87.0	23.5	23.7	23.5	20.8	17.3	18.1	18.2	15.7	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1
Astral Ltd (ASTPOL)	Hold	35,355	20.3	24.4	28.8	35.1	86.6	72.1	61.1	50.2	54.2	46.1	39.4	32.8	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3
Time Techno (TIMTEC)	Hold	2,284	4.8	8.5	10.0	12.4	21.2	11.9	10.1	8.2	7.4	6.0	5.1	4.4	8.7	11.3	12.8	14.1	5.7	9.3	10.6	11.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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