

Asian Paints

Earnings broadly in line

Asian Paints' top line grew 1.3% YoY (three-year CAGR: 16.8%); fell short of expectations (var: -3%). The decorative business was largely flat (0/1% volume/value growth YoY in Q3FY23 due to (1) an extended monsoon and shortened Diwali season and (2) a high volume base impacting growth. The worst of the margin pressure seems to be over as Q3 marked the end of a six-quarter upward RM spiral. Consequently, GM/EBITDAM expanded ~180/60bps YoY. RM moderation is likely to continue in Q4. Note: price hikes (+24%) are yet to catch up with RM inflation (+29%) since Q1FY22. APNT is embarking on a significant investment phase (INR87.5bn over three years) towards (1) capacity enhancement, (2) backward integration, and (3) acquisitions. While beneficial in the long run, it will certainly be a drain on FCFF and returns profile in the short to medium term. We largely maintain our FY24/25 EPS estimates (-1/-2%) and our REDUCE rating with a DCF-based TP of INR 2,680/sh (earlier: INR2,700/sh), implying 50x Dec-24 P/E.

- **Q3FY23 highlights:** Q3 consolidated revenue grew 1.3% YoY (three-year CAGR: 16.8%) to INR 86.4bn (HSIE: INR 88.9bn). Decorative business clocked 0/1% volume/value growth in Q3 (3-year volume/value CAGR: 16/17.6% resp). (1) Extended monsoon, (2) shortened Diwali season, and (3) high volume base impacted growth YoY. Growth was tepid across all tiers of cities. Mix also was inferior as the performance was led by economy and waterproofing segments. Some product down-trading was observed in Q3. Network expansion remains healthy (added 10k new retail points in 9M; total count: 150k+). International performance remained weak too (+2% YoY) and was largely realisation-led. Many African/Asian geographies continue to reel under forex pressures. Both auto/non-auto industrial subsidiaries performed well (+24% YoY each) with improving profitability. APNT is embarking on a significant investment phase (INR87.5bn over three years) towards (1) capacity enhancement (INR 54bn), (2) backward integration (INR 25.5bn) and (3) acquisitions (INR 8bn). Consolidated EBITDA grew at 4.5% YoY to INR16.1bn (in-line) as revenue miss was made up by a beat on GMs. APAT grew 6% to INR10.97 bn (HSIE: 11.2bn).

- **Outlook:** While the worst phase of margin pangs may be over for the industry, APNT is likely to jostle with hard revenue growth comps in FY24/25. This, coupled with rising competitive intensity, could mean that the pricing lever may remain out of play for a while. APNT's investment phase may remain a drag on FCFF/return ratios too in the short to medium term. Hence, we maintain our SELL rating with a DCF-based TP of INR 2,680/sh (earlier: INR2,700/sh), implying 50x Dec-24 P/E.

Quarterly financial summary

(Rs mn)	3Q FY23	3Q FY22	YoY (%)	2Q FY23	QoQ (%)	FY21	FY22E	FY23E	FY24E	FY25E
Net Revenue	86,367	85,272	1.3	84,576	2.1	2,17,128	2,91,013	3,40,443	3,75,429	4,17,140
EBITDA	16,114	15,423	4.5	12,277	31.3	48,556	48,036	58,068	70,572	81,835
APAT	10,971	10,313	6.4	8,038	36.5	31,393	29,149	39,142	47,039	55,319
EPS (Rs)	11.4	10.8	6.4	8.4	36.5	32.7	30.4	40.8	49.0	57.7
P/E (x)						89.8	83.4	72.0	59.9	50.9
EV/EBITDA (x)						58.0	58.7	48.4	39.8	34.3
Core RoCE(%)						30.1	25.7	27.5	29.5	30.4

Source: Company, HSIE Research

Change in estimates

(Rs mn)	FY23E			FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	3,40,443	3,40,443	-	3,75,429	3,75,429	-	4,17,140	4,17,140	-
Gross Profit	1,28,273	1,27,722	0.4	1,48,367	1,48,431	(0.0)	1,68,899	1,68,968	(0.0)
Gross Profit Margin(%)	37.7	37.5	16 bps	39.5	39.5	(2 bps)	40.5	40.5	(2 bps)
EBITDA	58,068	57,517	1.0	70,572	70,636	(0.1)	81,835	81,904	(0.1)
EBITDA margin (%)	17.1	16.9	16 bps	18.8	18.8	(2 bps)	19.6	19.6	(2 bps)
APAT	39,142	38,602	1.4	47,039	47,391	(0.7)	55,319	56,264	(1.7)
APAT margin (%)	11.5	11.3	16 bps	12.5	12.6	(9 bps)	13.3	13.5	(23 bps)
EPS (Rs)	40.8	40.2	1.4	49.0	49.4	(0.7)	57.7	58.7	(1.7)

Source: Company, HSIE Research

REDUCE

CMP (as on 19 Jan 2023) INR 2,866

Target Price INR 2,680

NIFTY 18,108

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,700	INR 2,680
EPS %	FY24E -0.7	FY25E -1.7

KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (INR bn) / (\$ mn)	2,749/33,791
6m avg traded value (INR mn)	3,566
52 Week high / low	INR 3,590/2,560

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.8)	(5.1)	(12.6)
Relative (%)	(13.8)	(16.2)	(13.9)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	52.63	52.63
FIs & Local MFs	3.59	3.70
FPIs	18.51	18.56
Public & Others	25.27	25.11
Pledged Shares	5.78	5.60

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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