

26 July 2023

India | Equity Research | Q1FY24 results review

## Asian Paints

Consumer Staples & Discretionary

### Mix deterioration continues; Margin expansion in Q1FY24 is fleeting respite

While Q1FY24 PAT growth of 48.9% YoY was higher than consensus estimates, the results were qualitatively weaker in our view as (1) In-spite of delay in monsoon and stronger Apr'23, the revenue growth was muted at 6.7% YoY, (2) volume growth was 330bps higher than revenue growth indicating mix deterioration and higher volumes of low value products such as putty and (3) B2B portfolio (Industrial paints and Projects) has reported double digit revenue growth indicating weaker growth of consumer portfolio. APNT is likely to report EBITDA margin (Q1FY24 standalone: 24.6%) higher than its target range of 18-20% in FY24 due to lower RM prices. However, we believe the margin expansion is likely to be short lived and is likely to correct with increase in competitive intensity from Q4FY24. Maintain **REDUCE**.

### Q1FY24 results

Asian Paints reported revenue, EBITDA and PAT growth of 6.7%, 36.3% and 48.9%, respectively YoY. Gross and EBITDA margins expanded 523bps and 502bps, respectively YoY due to correction in commodity prices. Domestic decorative volume growth was 10%. Industrial paints reported double digit revenue growth YoY. International business revenues declined 1.4% YoY but constant currency revenue growth was 3.8% YoY. Standalone revenue, EBITDA and PAT growth was 7%, 36.7% and 48.3%, respectively YoY.

### Mix deterioration

We note (1) volume growth was higher than value growth which indicates the company has sold low value products such as putty more during Q1FY24, (2) the company indicated that economy and premium segments have done well but the luxury segment reported weak numbers and (3) B2B portfolio (relatively lower realizations and margins) has done well during the quarter.

### Strong growth in Institutional / Industrial sales

Post recovery in Industrial capex and infrastructure spends, the company has reported strong recovery in Industrial paints. Recovery in Automotive sector also resulted in higher revenue of automotive paints. Apart from real estate sector led demand, there is healthy growth from Government projects as well as private capex.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	2,91,013	3,44,886	3,77,311	4,15,484
EBITDA	48,036	62,598	79,337	82,936
EBITDA Margin (%)	16.5	18.2	21.0	20.0
Net Profit	28,183	41,310	53,414	54,186
EPS (Rs)	29.4	43.1	55.7	56.5
EPS % Chg YoY	(10.3)	46.6	29.3	1.4
P/E (x)	115.7	79.0	61.1	60.2
EV/EBITDA (x)	67.2	51.5	40.5	38.7
RoCE (%)	21.2	24.5	27.9	24.9
RoE (%)	22.3	28.2	32.2	28.4

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#### Market Data

Market Cap (INR)	3,262bn
Market Cap (USD)	39,841mn
Bloomberg Code	APNT IN
Reuters Code	ASPN.BO
52-week Range (INR)	3,590 /2,686
Free Float (%)	47.0
ADTV-3M (mn) (USD)	35

Price Performance (%)	3m	6m	12m
Absolute	18.1	23.4	10.4
Relative to Sensex	11.1	11.2	20.5

ESG Disclosure	2021	2022	Change
ESG score	45.0	57.6	12.5
Environment	15.9	33.9	17.9
Social	34.2	53.9	19.7
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(2.8)	(5.2)
EBITDA	11.3	1.6
EPS	12.7	2.4

#### Previous Reports

12-05-2023: [Q4FY23 results review](#)

20-01-2023: [Q3FY23 results review](#)

### **Margins likely to remain above target range of 18-20% in FY24**

The correction in commodity prices as well as operating leverage has resulted in strong expansion of EBITDA margin. The company posted EBITDA margin of 23.1% at consolidated level (Standalone: 24.6%), highest in past 10 quarters. While the company is likely to pass on some of the savings to trade/ consumers in coming quarters, we believe it is likely to retain majority of benefits. It may post EBITDA margin closer to top end/ higher than its target EBITDA margin range of 18-20% in FY24.

### **Investments in Home Décor business**

Asian Paints has now rolled out 44 Beautiful Homes stores and has also plans to roll out Beautiful Homes Studio. It has rolled out first studio in Chennai. It expects Home Décor segment to account for ~7% of revenues in FY26.

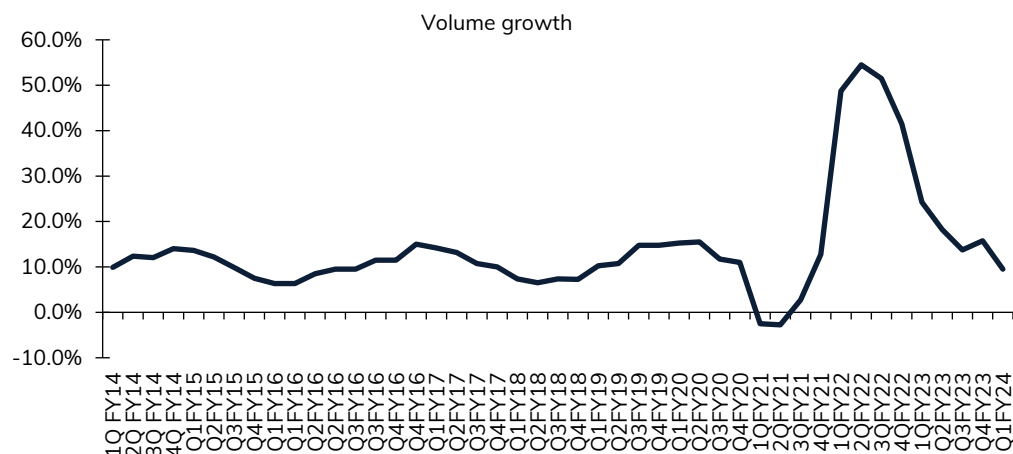
### **Valuation and key risks**

We model Asian Paints to report revenue and PAT CAGR of 9.8% and 14%, respectively. We believe the valuations (P/E of 60.2x FY25E) are stretched considering the increase in competitive pressure. Our DCF based revised target price is Rs3,000. Maintain REDUCE. Key risks: Lower-than-expected competitive pressures and steep correction in commodity prices.

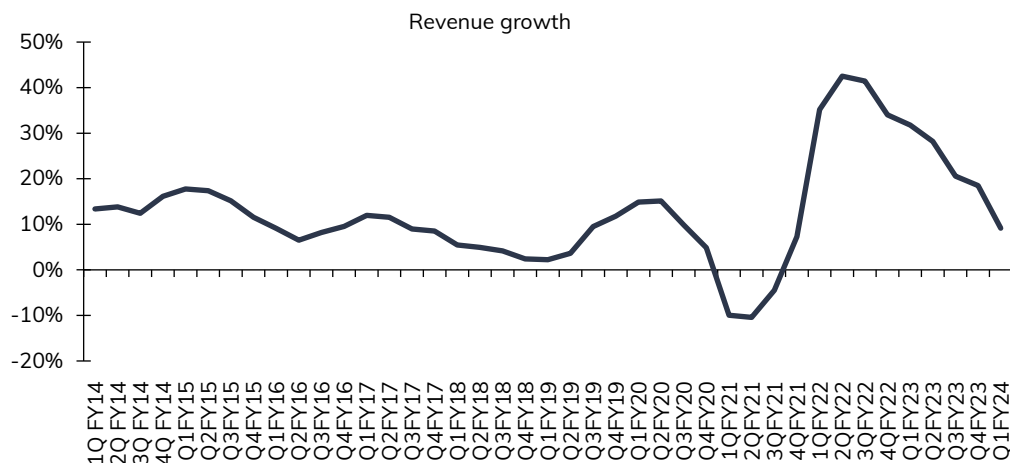
**Exhibit 1: Q1FY24 consolidated financial performance**

INR mn	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
<b>Net revenues</b>	<b>91,823</b>	<b>86,069</b>	<b>6.7</b>	<b>87,873</b>	<b>4.5</b>
Raw materials	52,404	53,619	(2.3)	50,532	3.7
% of sales	57.1%	62.3%	-523 bps	57.5%	-44 bps
Employee costs	5,457	4,896	11.5	5,220	4.5
% of sales	5.9%	5.7%	25 bps	5.9%	0 bps
Other expenditure	12,750	11,995	6.3	13,473	(5.4)
% of sales	13.9%	13.9%	-5 bps	15.3%	-145 bps
<b>Total expenditure</b>	<b>70,610</b>	<b>70,510</b>	<b>0.1</b>	<b>69,226</b>	<b>2.0</b>
<b>EBITDA</b>	<b>21,213</b>	<b>15,560</b>	<b>36.3</b>	<b>18,648</b>	<b>13.8</b>
EBITDA margin (%)	23.1%	18.1%	502 bps	21.2%	188 bps
Other income	1,971	990	99.1	1,055	86.8
<b>PBDIT</b>	<b>23,184</b>	<b>16,549</b>	<b>40.1</b>	<b>19,702</b>	<b>17.7</b>
Depreciation	1,983	2,081	(4.7)	2,202	(9.9)
<b>PBIT</b>	<b>21,200</b>	<b>14,468</b>	<b>46.5</b>	<b>17,501</b>	<b>21.1</b>
Interest	458	288	59.1	389	17.6
<b>PBT</b>	<b>20,743</b>	<b>14,181</b>	<b>46.3</b>	<b>17,112</b>	<b>21.2</b>
Tax	5,301	3,706	43.0	4,514	17.4
% of PBT	26%	26%	(2.2)	26%	(3.1)
<b>PAT before associates &amp; MI</b>	<b>15,442</b>	<b>10,475</b>	<b>47.4</b>	<b>12,597</b>	<b>22.6</b>
Share of profit from associates	307	128	140.4	234	31.3
Minority interest	234	185	26.6	169	38.8
<b>Extraordinary</b>	<b>606</b>	<b>(778)</b>	<b>(177.9)</b>	<b>(67)</b>	<b>(1,004.0)</b>
<b>PAT</b>	<b>16,120</b>	<b>9,640</b>	<b>67.2</b>	<b>12,595</b>	<b>28.0</b>
<b>Adj. PAT</b>	<b>15,514</b>	<b>10,418</b>	<b>48.9</b>	<b>12,662</b>	<b>22.5</b>

Source: Company data, I-Sec research

**Exhibit 2: Normalised volume growth (average of past 4 quarter volume growth)**


Source: Company data, I-Sec research

**Exhibit 3: Normalised revenue growth\***


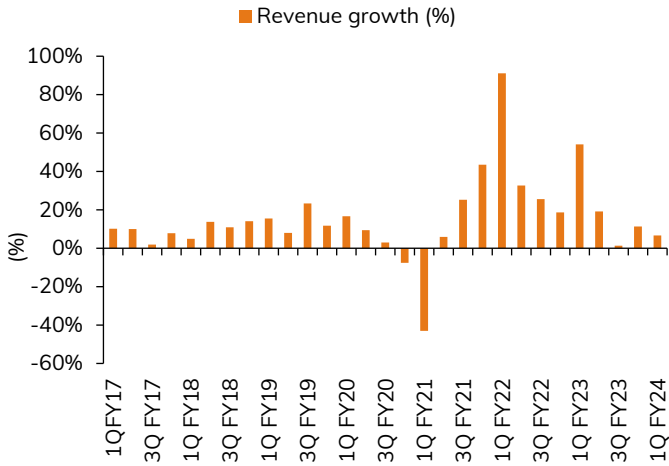
Source: Company data, I-Sec research, \*TTM revenue growth

**Exhibit 4: Q1FY24 standalone financial performance**

INR mn	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
<b>Net revenues</b>	<b>81,140</b>	<b>75,862</b>	<b>7.0</b>	<b>76,260</b>	<b>6.4</b>
Raw materials	45,783	46,945	(2.5)	43,296	5.7
% of sales	56%	62%	-546 bps	57%	-35 bps
Employee costs	4,046	3,636	11.3	3,855	5.0
% of sales	5%	5%	19 bps	5%	-7 bps
Other expenditure	11,313	10,656	6.2	11,634	(2.8)
% of sales	14%	14%	-10 bps	15%	-131 bps
<b>Total expenditure</b>	<b>61,142</b>	<b>61,237</b>	<b>(0.2)</b>	<b>58,784</b>	<b>4.0</b>
<b>EBITDA</b>	<b>19,998</b>	<b>14,626</b>	<b>36.7</b>	<b>17,476</b>	<b>14.4</b>
EBITDA margin (%)	24.6%	19.3%	537 bps	22.9%	173 bps
Other income	2,168	1,138	90.4	1,250	73.4
<b>PBDIT</b>	<b>22,165</b>	<b>15,764</b>	<b>40.6</b>	<b>18,726</b>	<b>18.4</b>
Depreciation	1,721	1,841	(6.5)	1,937	(11.1)
<b>PBIT</b>	<b>20,444</b>	<b>13,923</b>	<b>46.8</b>	<b>16,789</b>	<b>21.8</b>
Interest	263	199	32.1	249	5.5
<b>PBT</b>	<b>20,182</b>	<b>13,724</b>	<b>47.1</b>	<b>16,540</b>	<b>22.0</b>
Tax	5,098	3,551	43.5	4,203	21.3
% of PBT	25.3%	25.9%	(2.4)	25%	(0.6)
<b>PAT</b>	<b>15,084</b>	<b>10,173</b>	<b>48.3</b>	<b>12,337</b>	<b>22.3</b>
<b>Minority interest</b>	-	-	-	-	-
Extraordinary items	392	(151)	(359.0)	90	334.6
PAT after MI	15,475	10,022	54.4	12,427	24.5
<b>Adj. PAT</b>	<b>15,084</b>	<b>10,173</b>	<b>48.3</b>	<b>12,337</b>	<b>22.3</b>

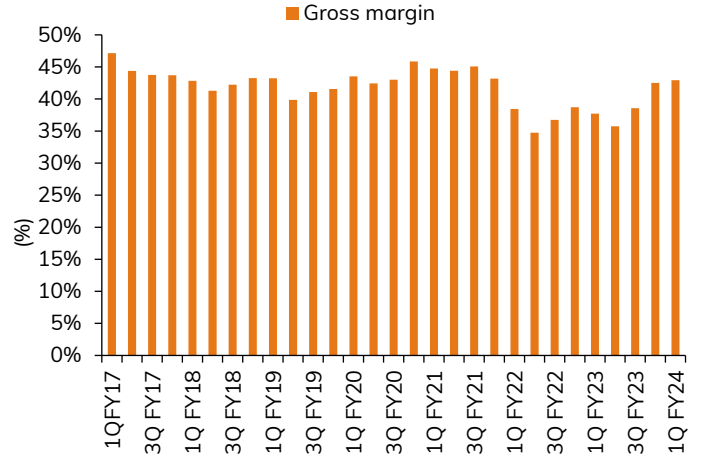
Source: Company data, I-Sec research

**Exhibit 5: Revenue growth (YoY)**



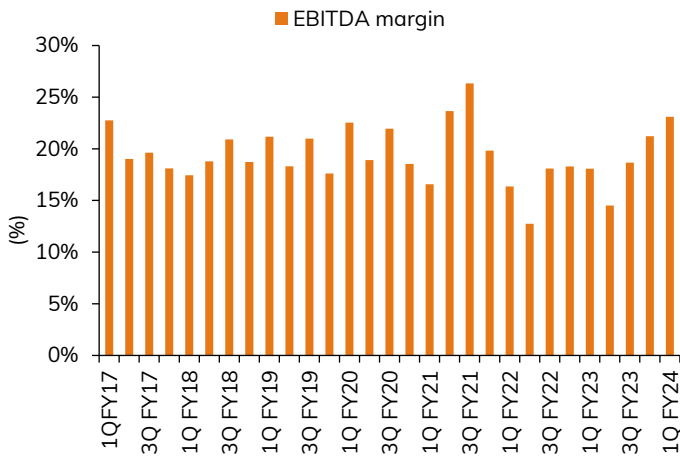
Source: Company data, I-Sec research

**Exhibit 6: Gross margin**



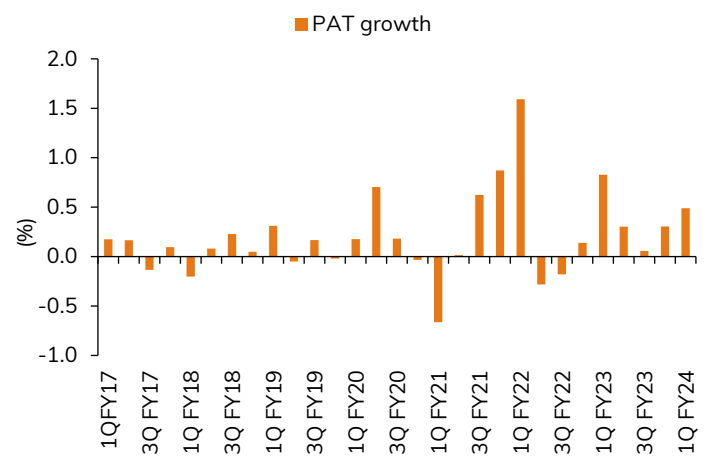
Source: Company data, I-Sec research

**Exhibit 7: EBITDA margin**



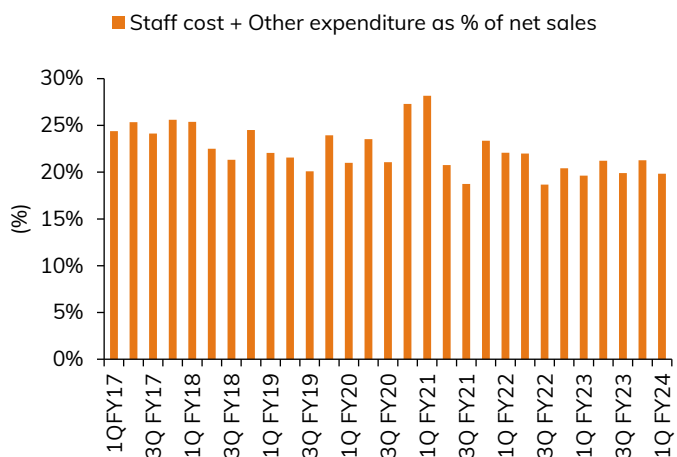
Source: Company data, I-Sec research

**Exhibit 8: PAT growth (YoY)**



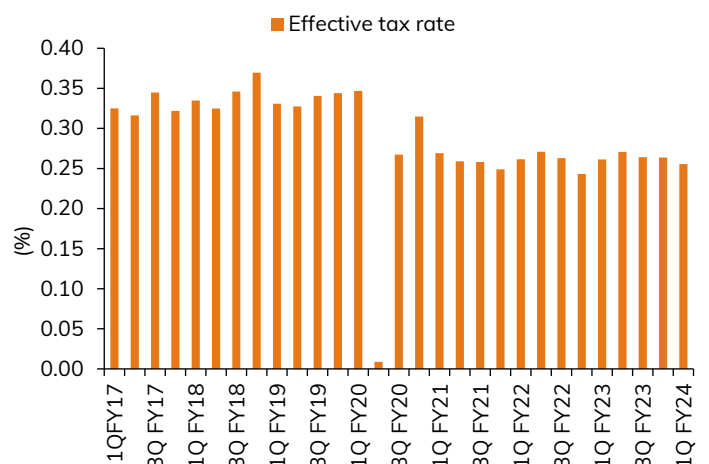
Source: Company data, I-Sec research

**Exhibit 9: Staff cost and other expenditure as % of net sales**



Source: Company data, I-Sec research

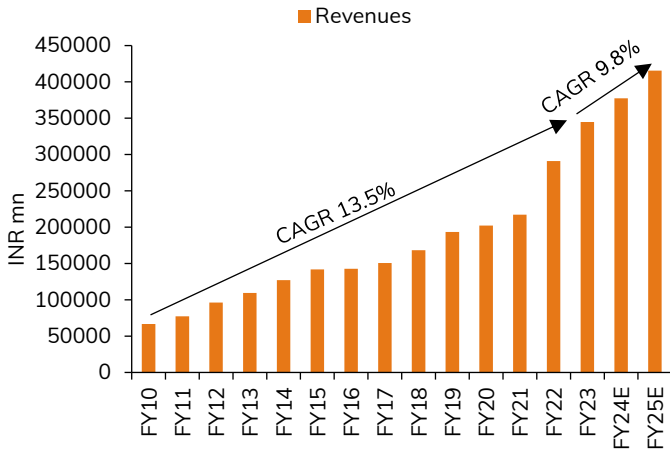
**Exhibit 10: Effective tax rate**



Source: Company data, I-Sec research

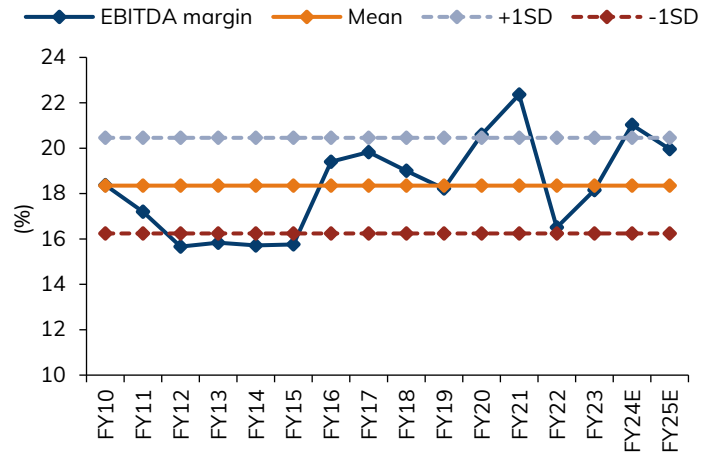
## Operational highlights - Annual

**Exhibit 11: Revenues and growth rates**



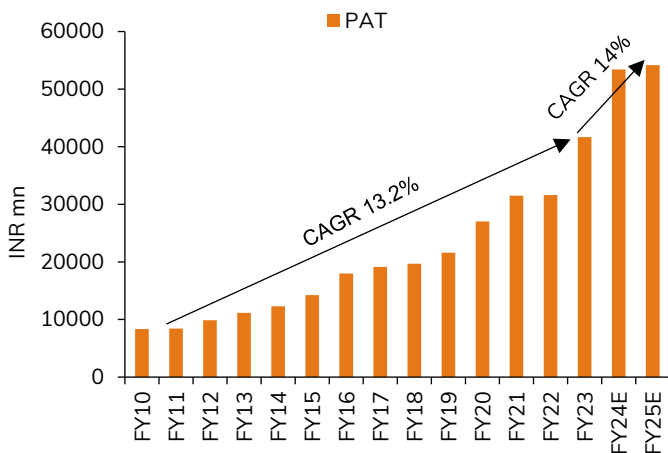
Source: Company data, I-Sec research

**Exhibit 12: EBITDA margin**



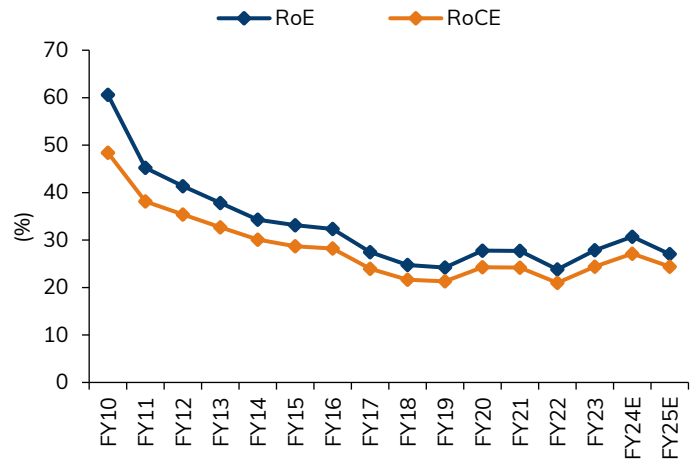
Source: Company data, I-Sec research

**Exhibit 13: PAT and growth rates**



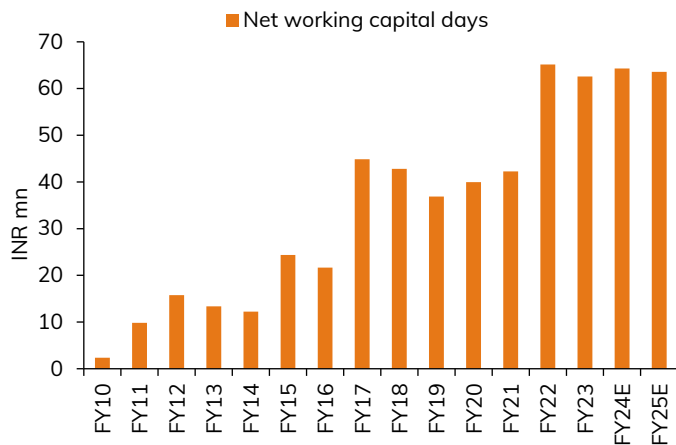
Source: Company data, I-Sec research

**Exhibit 14: RoE & RoCE**



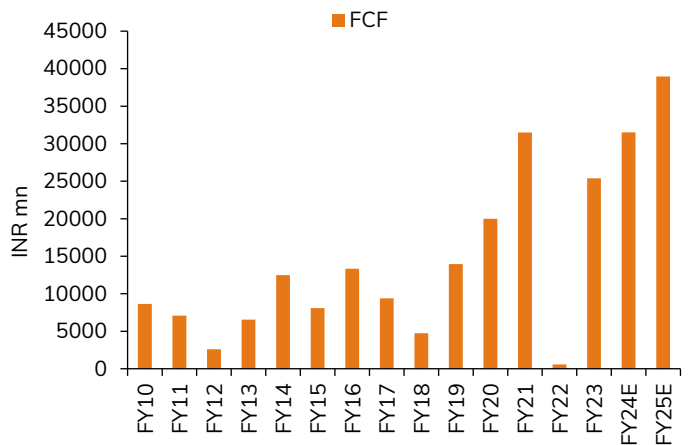
Source: Company data, I-Sec research

**Exhibit 15: Net working capital days**



Source: Company data, I-Sec research

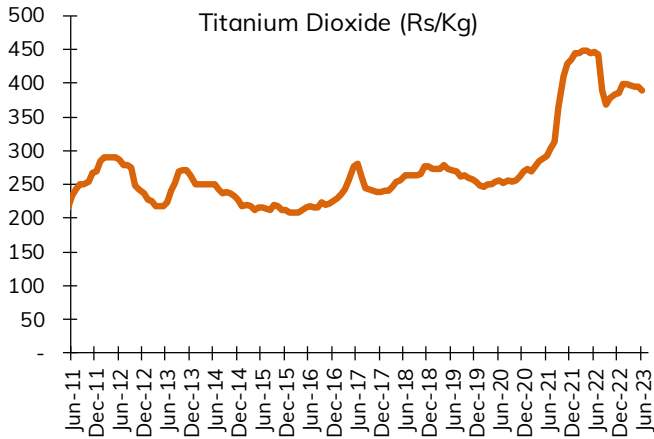
**Exhibit 16: Free cash-flow**



Source: Company data, I-Sec research

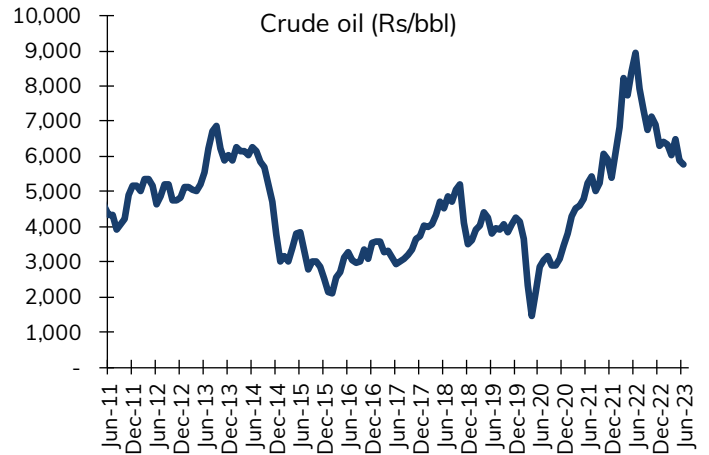
### Key raw material prices

**Exhibit 17: Titanium di-oxide**



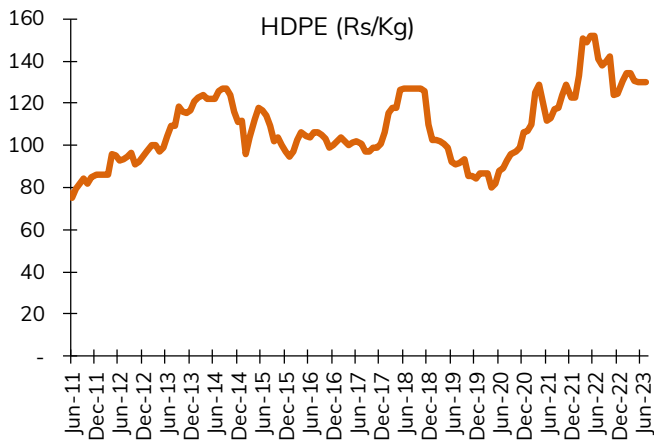
Source: Company data, I-Sec research

**Exhibit 18: Crude oil**



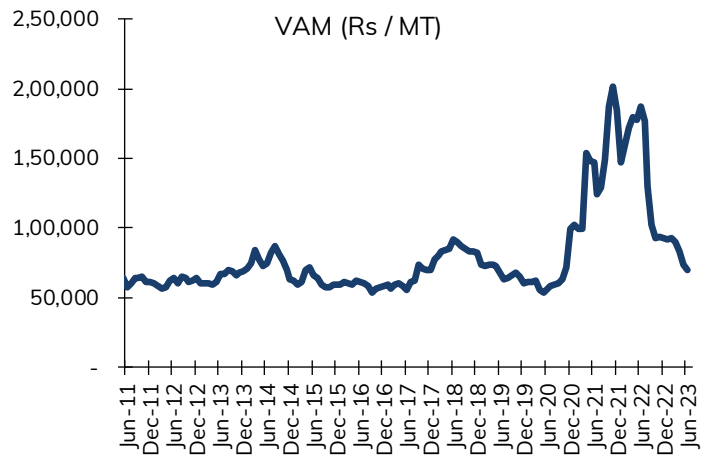
Source: Company data, I-Sec research

**Exhibit 19: Packaging material - HPDE**



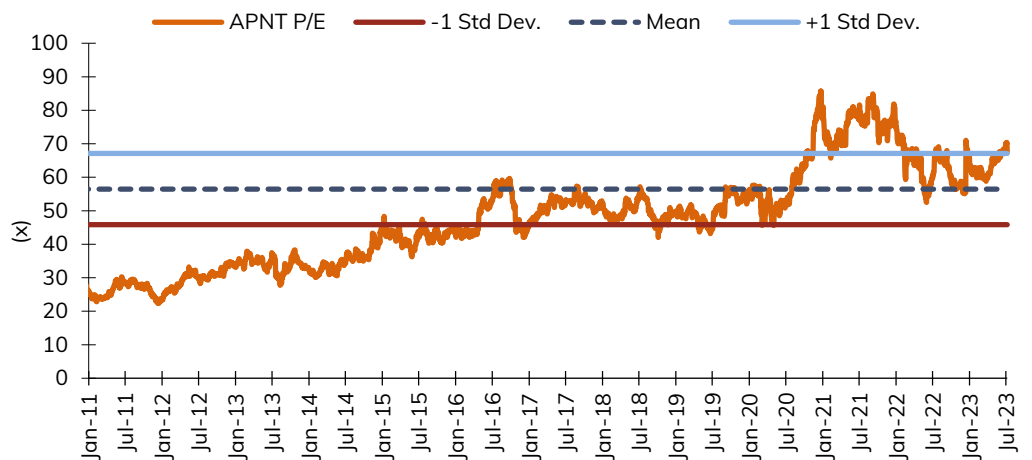
Source: Company data, I-Sec research

**Exhibit 20: VAM prices**



Source: Company data, I-Sec research

**Exhibit 21: Mean P/E and standard deviations**



Source: I-Sec research, Bloomberg

## Takeaways from Q1FY24 results and conference call

- The company reported volume growth of 10% YoY.
- There was healthy volume growth (~10%) in rural as well as urban markets.
- While economy and premium paints have done well, the luxury paints have performed poorly.
- The Projects business has continued to do well even in Q1FY24. There was strong demand for paints from Real estate, Government projects and other infrastructure projects.
- There was strong revenue growth in Waterproofing, premium wood finish, enamels and economy emulsions.
- The new products of the company account for 11% of the revenues.
- Safe painting services and trusted contractor services are now available in 650 towns.
- The company has added 6,000 new retail outlets and plans to add 10,000 new outlets in FY24.
- The company believes that there is healthy growth potential in markets such as Jammu and Kashmir and North East with improving infrastructure.
- It expects the festive season in H2FY24 to be stronger than Q1FY24. It believes that Q1FY24 was impacted by high base of Q1FY23. The demand for paints commences ~45 days before the festive season.
- The company expects Home Décor segment to be ~7% of net sales by FY26.
- Industrial paints have reported double digit revenue growth and are expected to maintain the growth rates due to revival in infrastructure and automotive segments.
- Kitchen and Bath segments reported revenue decline of 12% and 28%, respectively YoY. However, the company expects this segment to report healthy growth ahead.
- White Teak reported revenue growth of 28.4% YoY whereas Weatherseal reported 100% revenue growth YoY.
- The company has 44 Beautiful Homes stores and also plans to roll out new format as Beautiful Homes Studio. First studio is launched in Chennai.
- International business reported 1.4% revenue decline. However, constant currency revenue growth was 3.8% YoY.
- There is raw material deflation of 2% during Q1FY24. The correction in commodity prices is likely to result in margin expansion over rest of FY24.
- While the company may pass on some benefits to trade / consumers and reinvest some benefits, margins are likely to improve in FY24.
- The company plans to scale up Industrial paints and Home Décor business in FY24. It also expects good progress of monsoon to drive rural growth in H2FY24.

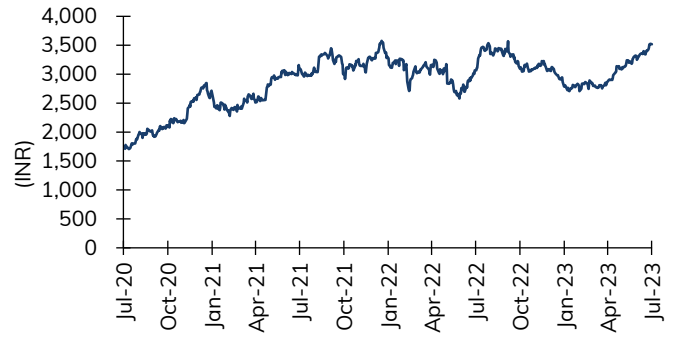


### Exhibit 22: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	52.6	52.6	52.6
Institutional investors	27.2	27.2	27.5
MFs and others	4.6	4.7	3.6
FIs/Banks, Insurance	4.5	5.3	5.6
FIIIs	18.1	17.0	18.3
Others	20.2	20.4	19.9

Source: Bloomberg, I-Sec research

### Exhibit 23: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 24: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>2,91,013</b>	<b>3,44,886</b>	<b>3,77,311</b>	<b>4,15,484</b>
Operating Expenses	59,969	70,723	77,063	84,342
<b>EBITDA</b>	<b>48,036</b>	<b>62,598</b>	<b>79,337</b>	<b>82,936</b>
EBITDA Margin (%)	16.5	18.2	21.0	20.0
Depreciation & Amortization	8,164	8,580	10,542	12,751
EBIT	39,873	54,018	68,795	70,185
Interest expenditure	954	1,445	1,816	2,017
Other Non-operating Income	3,800	3,865	4,196	4,026
<b>Recurring PBT</b>	<b>42,719</b>	<b>56,439</b>	<b>71,176</b>	<b>72,194</b>
<b>Profit / (Loss) from Associates</b>	<b>316</b>	<b>939</b>	<b>995</b>	<b>1,054</b>
Less: Taxes	11,029	14,935	17,936	18,193
PAT	31,689	41,504	53,240	54,001
Less: Minority Interest	409	774	821	870
Extraordinaries (Net)	(3,414)	(358)	-	-
<b>Net Income (Reported)</b>	<b>28,592</b>	<b>42,084</b>	<b>54,235</b>	<b>55,055</b>
<b>Net Income (Adjusted)</b>	<b>28,183</b>	<b>41,310</b>	<b>53,414</b>	<b>54,186</b>

Source Company data, I-Sec research

### Exhibit 25: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	1,29,716	1,38,382	1,55,585	1,80,495
of which cash & cash eqv.	8,643	8,438	13,424	23,952
Total Current Liabilities & Provisions	68,399	69,999	74,768	83,182
<b>Net Current Assets</b>	<b>61,318</b>	<b>68,383</b>	<b>80,817</b>	<b>97,313</b>
Investments	40,413	51,511	51,511	51,511
Net Fixed Assets	52,762	55,420	69,878	79,127
ROU Assets	-	-	-	-
Capital Work-in-Progress	4,264	10,196	10,196	10,196
Total Intangible Assets	2,429	2,285	2,285	2,285
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>1,61,186</b>	<b>1,87,795</b>	<b>2,14,687</b>	<b>2,40,432</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>15,966</b>	<b>20,174</b>	<b>20,174</b>	<b>20,174</b>
<b>Deferred Tax Liability</b>	<b>3,228</b>	<b>3,162</b>	<b>3,162</b>	<b>3,162</b>
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	959	959	959	959
Reserves & Surplus	1,37,156	1,58,963	1,85,855	2,11,601
<b>Total Net Worth</b>	<b>1,38,116</b>	<b>1,59,922</b>	<b>1,86,814</b>	<b>2,12,560</b>
Minority Interest	3,875	4,537	4,537	4,537
<b>Total Liabilities</b>	<b>1,61,186</b>	<b>1,87,795</b>	<b>2,14,687</b>	<b>2,40,432</b>

Source Company data, I-Sec research

### Exhibit 26: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	84,576	86,367	87,873	91,823
% growth (YOY)	19.2	1.3	11.3	6.7
EBITDA	12,277	16,114	18,648	21,213
Margin %	14.5	18.7	21.2	23.1
Other Income	955	866	1,055	1,971
Extraordinaries	784	(298)	(67)	606
Adjusted Net Profit	7,819	10,770	12,662	15,514

Source Company data, I-Sec research

### Exhibit 27: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>8,373</b>	<b>42,553</b>	<b>56,508</b>	<b>60,968</b>
Working Capital Changes	(27,189)	(7,270)	(7,448)	(5,968)
Capital Commitments	(7,801)	(17,170)	(25,000)	(22,000)
<b>Free Cashflow</b>	<b>572</b>	<b>25,383</b>	<b>31,508</b>	<b>38,968</b>
<b>Other investing cashflow</b>	<b>14,533</b>	<b>(11,242)</b>	-	-
Cashflow from Investing Activities	6,732	(28,412)	(25,000)	(22,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,719	4,208	-	-
Dividend paid	(18,369)	(24,603)	(26,522)	(28,440)
Others	-	-	-	-
Cash flow from Financing Activities	(13,649)	(20,396)	(26,522)	(28,440)
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,455</b>	<b>(6,255)</b>	<b>4,986</b>	<b>10,528</b>
Closing cash & balance	7,562	2,389	13,424	23,952

Source Company data, I-Sec research

### Exhibit 28: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	29.4	43.1	55.7	56.5
Adjusted EPS (Diluted)	29.4	43.1	55.7	56.5
Cash EPS	37.9	52.0	66.7	69.8
Dividend per share (DPS)	19.1	25.6	27.6	29.6
Book Value per share (BV)	144.0	166.7	194.8	221.6
Dividend Payout (%)	65.2	59.6	49.7	52.5
<b>Growth (%)</b>				
Net Sales	34.0	18.5	9.4	10.1
EBITDA	(1.1)	30.3	26.7	4.5
EPS (INR)	(10.3)	46.6	29.3	1.4
<b>Valuation Ratios (x)</b>				
P/E	115.7	79.0	61.1	60.2
P/CEPS	89.7	65.4	51.0	48.7
P/BV	23.6	20.4	17.5	15.3
EV / EBITDA	67.2	51.5	40.5	38.7
P / Sales	11.2	9.5	8.6	7.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	37.1	38.7	41.5	40.3
EBITDA Margins (%)	16.5	18.2	21.0	20.0
Effective Tax Rate (%)	25.8	26.5	25.2	25.2
Net Profit Margins (%)	9.7	12.0	14.2	13.0
Net Debt / Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.7)	(0.6)	(0.6)	(0.7)
Fixed Asset Turnover (x)	3.5	3.8	3.6	3.4
Working Capital Days	81	77	73	71
Inventory Turnover Days	95	80	73	72
Receivables Days	60	60	55	54
Payables Days	64	47	41	41
<b>Profitability Ratios</b>				
RoCE (%)	21.2	24.5	27.9	24.9
RoE (%)	22.3	28.2	32.2	28.4
RoIC (%)	32.5	37.8	40.6	36.4

Source Company data, I-Sec research

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