

Retail Equity Research
Asian Paints Ltd.
Paint & Varnishes

BUY

BSE CODE : 500820 NSE CODE: ASIANPAINT
BLOOMBERG CODE: APNT:IN SENSEX : 65,953

12 Months Investment Period Rating as per Large Cap
CMP Rs.3,342 TARGET Rs.3,691 RETURN 10% ↑
(Closing: 07-08-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Coloured by margins...

Asian Paints Ltd. (APNT), is engaged in the business of manufacturing, selling and distribution of paints and related products for home décor. APNT is the market leader in the Indian paint manufacturing industry.

- APNT maintained double digit volume growth of 10% YoY, aided by improving rural demand. While revenue grew by 6.7% YoY in Q1FY24.
- EBITDA margin expanded by 502bps YoY to 23.1%, supported by a fall in raw material prices and efficient sourcing of raw materials.
- Robust demand and expansion in the distribution network supported the decorative volumes, while industrial paint demand was supported by the Auto segments.
- Good progress in the monsoon and a longer festival season augur well for peak season demand.
- Superior product mix and comfort with moderating raw material prices bode well for profitability. We increase FY24 & FY25 earnings forecasts by 5%/2%, respectively, in expectation of margin expansion. We revise our rating to BUY with a TP of Rs. 3,691, based on a P/E of 60x on FY25E EPS.

Maintained double digit volume growth...

APNT reported revenue growth of 6.7% YoY to Rs 9,82cr, supported by a 10% YoY growth in decorative paint volume and double digit volume growth in industrial paints. The sustained growth in the industrial paint business driven by Auto OEMs and the refinish segment. However, the kitchen and bath fitting business reported de-growth of -12% YoY to Rs 96cr and -28% YoY to Rs85cr respectively, due to subdued retail demand. The management expects demand conditions to improve further with double digit growth in FY24. Good progress in the monsoon bode well for rural demand in H2FY24.

Raw material prices softening...

Gross margin improved by 523bps YoY to 42.9% in Q1FY24 due to deflation in input prices by ~2% and efficient sourcing of raw materials. The EBITDA margin expanded by 502bps YoY to 23.1% during the quarter. However, the management remains conservative and guides EBITDA margins in the range of 18% to 20% in the medium term as the company may increase advertising expenses. We expect softening raw material prices and operating leverage to lead to improvements in profitability. During the quarter, reported PAT increased by 52% YoY to Rs 1,575cr.

Key con-call highlights

- Maintained strong growth in smartcare, waterproofing, premium wood finishes, enamels, and economy emulsions.
- A robust expansion of the distribution footprint, catering to almost 1.6 lakh retail touchpoints, added 6,000 retail touchpoints in Q1.
- The home decor segment is contributing ~4% of decorative revenue, and the company is focusing on increasing the mix to 8% to 10% in the medium term.

Valuations

We expect a better product mix and a softening of raw material prices to drive earnings. The management indicated double digit volume growth would continue, supported by distribution expansion and innovation. We revise our rating to BUY with a TP of Rs. 3,691, based on a P/E of 60x on FY25E EPS.

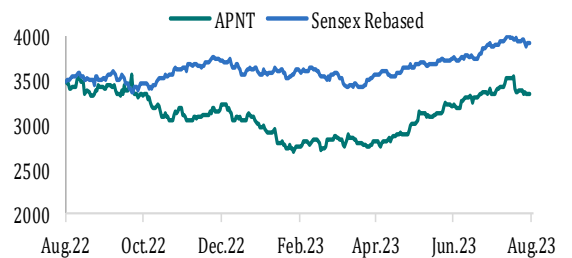
Company Data

Market Cap (cr)	₹ 3,20,536
Enterprise Value (cr)	₹ 3,19,947
Outstanding Shares (cr)	96
Free Float	47.20%
Dividend Yield	0.8%
52 week high	₹ 3,590
52 week low	₹ 2,686
6m average volume (cr)	0.14
Beta	0.43
Face value	₹ 1

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	52.6	52.6	52.6
FII's	18.1	17.0	17.5
MFs/Insti	9.2	10.0	10.0
Public	20.1	20.4	19.9
Total	100.0	100.0	100.0
Promoter Pledge%	7.6	7.4	7.3

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.1%	20.8%	-3.8%
Absolute Sensex	6.4%	8.3%	12.6%
Relative Return*	3.7%	12.5%	-16.4%

*over- or underperformance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	34,489	38,167	42,614
Growth (%)	18.5	10.7	11.7
EBITDA	6,260	7,824	8,608
EBITDA Margin(%)	18.15	20.50	20.20
PAT Adj.	4,244	5,334	5,901
Growth (%)	32.6	25.7	10.6
Adj.EPS	44.2	55.6	61.5
Growth (%)	32.6	25.7	10.6
P/E	75.5	60.1	54.3
P/B	19.6	16.1	13.4
EV/EBITDA	50.9	40.6	36.7
ROE (%)	28.1	29.3	26.9
D/E	0.0	0.0	0.0

Antu Eapan Thomas
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Sales	9,182	8,607	6.7	8,787	4.5
EBITDA	2,121	1,556	36.3	1,865	13.8
EBITDA margins (%)	23.1	18.1	502bps	21.2	188bps
Depreciation	198	208	-4.7	220	-9.9
EBIT	1,923	1,348	42.7	1,645	16.9
Interest	46	29	59.1	39	17.6
Other Income	197	99	99.1	105	86.8
Exceptional Items	-	-	-	-	-
PBT	2,074	1,394	48.8	1,687	23.0
Tax	530	371	43.0	451	17.4
Reported PAT	1,575	1,036	52.0	1,258	25.1
Adjustments	-	-	-	25	-
Adj PAT	1,575	1,036	52.0	1,283	22.7
No. of Shares	96	96	-	96	-
EPS (Rs)	16	11	52.0	13	22.7

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY23E	FY24E
Revenue	38,082	42,339	38,167	42,614	0.2	0.6
EBITDA	7,464	8,341	7,824	8,608	4.8	3.2
Margins (%)	19.6	19.7	20.5	20.2	90bps	50bps
Adj. PAT	5,069	5,802	5,334	5,901	5.2	1.7
EPS	52.8	60.5	55.6	61.5	5.2	1.7

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	21,713	29,101	34,489	38,167	42,614
% change	7.4	34.0	18.5	10.7	11.7
EBITDA	4,856	4,804	6,260	7,824	8,608
% change	16.7	-1.1	30.3	25.0	10.0
Depreciation	791	816	858	926	950
EBIT	4,064	3,987	5,402	6,898	7,658
Interest	92	95	144	130	128
Other Income	303.1	380.0	386.5	420.0	430.0
PBT	4,276	4,156	5,595	7,189	7,960
% change	19.3	-2.8	34.6	28.5	10.7
Tax	1,098	1,103	1,494	1,905	2,109
Tax Rate (%)	25.7	25.8	26.5	26.5	26.5
Reported PAT	3,208	3,085	4,195	5,334	5,901
Adj*	0.0	115.7	48.9	0.0	0.0
Adj PAT	3,208	3,201	4,244	5,334	5,901
% change	15.4	-0.2	32.6	25.7	10.6
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs.)	33.4	33.4	44.2	55.6	61.5
% change	15.4	-0.2	32.6	25.7	10.6
DPS (Rs.)	12.0	13.1	14.2	15.3	16.4

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	5,097	5,004	6,547	8,164	8,960
Non-cash adj.	-1108	-1163	-1375	-1776	-1955
Changes in W.C	-206	-2,659	-558	-1,639	-1,223
C.F. Operation	3,684	1,183	4,614	4,750	5,783
Capital exp.	-254	-456	-97	-847	-812
Change in inv.	-294	1566	-968	-811	-1003
Other invest.CF	0	0	0	0	0
C.F - Investment	-548	1,110	-1065	-1657	-1815
Issue of equity	0	0	0	0	0
Issue/repay debt	-64	340	-324	-240	-238
Dividends paid	-499	-1,499	-1,625	-1,751	-1,877
Other finance.CF	-203	-35	20	20	20
C.F - Finance	-3,461	-2,039	-2,016	-1,971	-2,095
Chg. in cash	-325	254	1,533	1,121	1,872
Closing cash	611	864	2,397	3,518	5,390

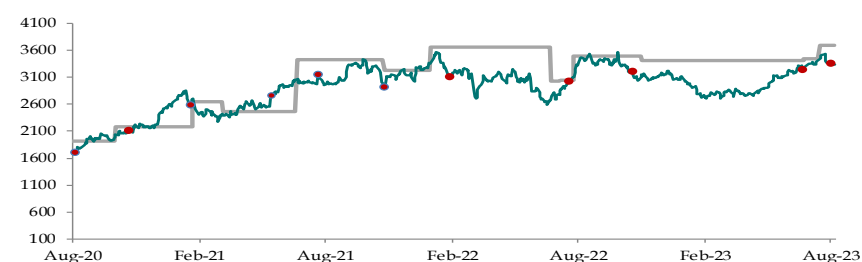
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	611	864	2,397	3,518	5,390
Accounts Receivable	2,605	3,874	4,535	5,019	5,254
Inventories	3,799	6,153	5,796	7,155	7,989
Other Cur. Assets	2,563	2,874	3,912	4,329	4,833
Investments	4,737	3,248	4,222	5,066	6,079
Gross Fixed Assets	7,618	7,903	8,103	8,903	9,703
Net Fixed Assets	5,322	5,090	4,472	4,386	4,277
CWIP	183	426	300	300	300
Intangible Assets	537	429	498	505	477
Def. Tax (Net)	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	20,355	22,958	26,133	30,279	34,599
Current Liabilities	6,085	7,373	8,115	8,710	9,031
Provisions	300	288	331	356	385
Debt Funds	340	776	596	486	376
Other Liabilities	824	710	710	764	820
Equity Capital	96	96	96	96	96
Reserves & Surplus	12,710	13,716	16,286	19,868	23,891
Shareholder's Fund	12,806	13,812	16,382	19,964	23,987
Total Liabilities	20,355	22,958	26,133	30,279	34,599
BVPS (Rs.)	134	144	171	208	250

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	22.4	16.5	18.2	20.5	20.2
EBIT margin (%)	18.7	13.7	15.7	18.1	18.0
Net profit mgn.(%)	14.8	11.0	12.3	14.0	13.8
ROE (%)	28.0	24.0	28.1	29.3	26.9
ROCE (%)	20.6	17.1	20.3	21.6	19.9
W.C & Liquidity					
Receivables (days)	37.0	40.6	44.5	45.7	44.0
Inventory (days)	60.4	62.4	63.2	61.9	64.9
Payables (days)	6.9	5.1	4.2	4.0	3.7
Current ratio (x)	1.5	1.8	2.0	2.2	2.5
Quick ratio (x)	0.5	0.6	0.9	1.0	1.2
Turnover & Leverage					
Gross asset T.O (x)	2.9	3.8	4.3	4.5	4.6
Total asset T.O (x)	1.2	1.3	1.4	1.4	1.3
Int. coverage ratio (x)	44.4	41.8	37.4	53.1	59.8
Adj. debt/equity (x)	0.0	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	14.8	11.0	9.2	8.3	7.4
EV/EBITDA (x)	66.0	66.7	50.9	40.6	36.7
P/E (x)	99.9	100.2	75.5	60.1	54.3
P/BV (x)	25.0	23.2	19.6	16.1	13.4

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
01-Jul-2020	Buy	1,901
27-Jul-2020	Buy	1,922
23-Oct-2020	Hold	2,186
25-Jan-2021	Hold	2,653
17-May-2021	Reduce	2,470
23-Jul-2021	Buy	3,438
27-Oct-2021	Buy	3,285
31-Jan-2022	Buy	3,663
26-Jun-2022	Buy	3,025
28-Jul-2022	Buy	3,502
1-Nov-2022	Buy	3,416
24-Jan-2023	Buy	3,115
26-Jun-2023	Hold	3,448
08-Aug-2023	Buy	3,691

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

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