

Asian Paints

Growth disappoints; margin recoup cushions bottom line

APNT's revenue growth flat-lined in Q2 (YoY) at INR 84.8bn, 4.4% below our expectation (HSIE: INR88.7bn). Decorative business clocked 6/1.1% volume/value growth in Q2FY24. The mix was economy range-heavy. Urban markets (high-single-digit growth) continued to outpace rural centres. Normalising input costs coupled with operational and formulation efficiencies led to margin expansion. GM/EBITDAM grew 764/573bps respectively to 43.4/20.2% (HSIE: 41.5/20.3%). We've cut our FY25/26 EPS estimates by 5-6% each to account for higher A&P spends/incentives (targeted to spruce up demand amid rising competitive intensity). Maintain REDUCE with a DCF-based TP of INR 3,000/sh (earlier: INR 3,200/sh), implying 48x Sep-25 P/E.

■ **Q2FY24 highlights:** Q2 consolidated revenue remained almost flat YoY to INR 84.8bn (HSIE: INR 88.7bn). The decorative business clocked +6/-5% volume/realization growth in Q2. APNT added 2.5k touchpoints in Q2. Management highlighted that the demand outlook from mid-Sept-23 onwards has improved and the Q2 slack should be made up for in Q3, given the larger festive season this year. Revenue of international business decreased by 3.9% YoY to INR7.8bn due to macroeconomic uncertainties, inflation challenges and forex unavailability in key markets of South Asia and Egypt. Bath/kitchen businesses declined on the back of weak consumer sentiment (-20/-17.9% sales growth). Within the industrial segment, both automotive (PPG-AP) and general industrial (AP-PPG) segments performed in line with the industry – growing 6/11% respectively. PBT margins for PPG-AP/AP-PPG stood at 16/11% in Q2FY24 vs. 12/6% in Q2FY23. Consolidated GM/EBITDAM expanded 764/573bps respectively to 43.4/20.2% (HSIE: 41.5/20.3%) as raw material prices continued to normalize. However, at the margin, given rising geopolitical tensions, input costs are likely to inch up. APAT grew 53% YoY to INR 12.32bn (HSIE:INR 12.91bn).

■ **Outlook:** While APNT remains an industry bellwether, it is likely to jostle with tougher revenue growth comps in FY24. This, coupled with rising competitive intensity, could mean that the pricing lever may remain out of play for some time. We've cut our FY25/26 EPS estimates by 5-6% each to account for higher A&P spends/incentives (targeted to spruce up demand amid rising competitive intensity). Maintain REDUCE rating with a DCF-based TP of INR 3,000/sh (earlier: INR 3,200/sh), implying 48x Sep-25 P/E.

Quarterly financial summary

(Rs mn)	2Q FY24	2Q FY23	YoY (%)	1Q FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	84,786	84,576	0.2	91,823	(7.7)	2,91,013	3,44,886	3,66,039	4,10,821	4,62,785
EBITDA	17,162	12,277	39.8	21,213	(19.1)	48,036	62,598	75,478	83,558	94,438
APAT	12,054	8,038	50.0	14,010	(14.0)	29,149	40,576	51,693	56,332	64,192
EPS (Rs)	12.6	8.4	50.0	15.4	(18.3)	30.4	42.3	53.9	58.7	66.9
P/E (x)						84.0	65.5	54.9	50.4	44.2
EV/EBITDA (x)						59.1	44.8	37.7	34.0	30.0
Core RoCE(%)						25.9	29.4	30.5	27.8	27.3

Change in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	3,66,039	3,76,221	(2.7)	4,10,821	4,22,398	(2.7)	4,62,785	4,76,002	(2.8)
Gross Profit	1,52,316	1,52,510	(0.1)	1,70,905	1,74,769	(2.2)	1,92,416	1,97,064	(2.4)
Gross Profit Margin (%)	41.6	40.5	107 bps	41.6	41.4	23 bps	41.6	41.4	18 bps
EBITDA	75,478	75,981	(0.7)	83,558	87,284	(4.3)	94,438	98,904	(4.5)
EBITDA margin (%)	20.6	20.2	42 bps	20.3	20.7	(32 bps)	20.4	20.8	(37 bps)
APAT	51,693	52,318	(1.2)	56,332	59,567	(5.4)	64,192	68,000	(5.6)
APAT margin (%)	14.1	13.9	22 bps	13.7	14.1	(39 bps)	13.9	14.3	(41 bps)
EPS (Rs)	53.9	54.5	(1.2)	58.7	62.1	(5.4)	66.9	70.9	(5.6)

Source: Company, HSIE Research

REDUCE

CMP (as on 26 Oct 2023) INR 2,960

Target Price INR 3,000

NIFTY 18,857

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,200	INR 3,000
EPS %	FY25E -5.4	FY26E -5.6

KEY STOCK DATA

Bloomberg code	APNT IN
No. of Shares (mn)	959
MCap (INR bn) / (\$ mn)	2,840/34,721
6m avg traded value (INR mn)	2,896
52 Week high / low	INR 3,568/2,686

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.2)	1.7	(4.0)
Relative (%)	(6.9)	(3.0)	(10.1)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	52.63	52.63
FIs & Local MFs	3.55	3.47
FPIs	17.02	17.65
Public & Others	26.65	26.25
Pledged Shares	3.9	3.42

Source : BSE

Pledged shares as % of total shares,

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Disclosure:

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