

27 October 2023

India | Equity Research | Q2FY24 result review

## Asian Paints

Consumer Staples & Discretionary

### Near peak margins amidst rising competitive pressures; Maintain REDUCE

We reckon paint volumes declined for APNT in 2QFY24. We expect growth triggers to be muted in the near term considering (1) weak consumer sentiment may impact volume offtake, (2) international business will likely be under pressure due to geopolitical concerns, (3) rising competitive pressures due to entry by Grasim and (4) limited scope for margin expansion as the benefit of deflation in commodity prices is largely over by the end of Q2FY24 and margins are near peak now. While B2B demand is likely to be strong, we believe it is likely to be low margin and low RoCE. In our view, the stock price performance of Asian Paints will be driven the pricing strategy and aggression by Grasim. **REDUCE.**

### Q2FY24 results

Asian Paints reported revenue, EBITDA and PAT growth of 0.2%, 39.8% and 54.2%, respectively YoY. Domestic sales grew 1.1% and Decorative volume growth was 6% YoY. With correction in commodity prices, gross and EBITDA margin expanded 764bps and 573bps, respectively YoY.

### Segment-wise details

While decorative revenues were up 0.5%, Industrial paints grew at faster pace. International sales declined 3.9% YoY but constant currency revenues were up 1.9% YoY. Home Décor sales were impacted due to weaker consumer sentiment. Waterproofing segment continued to do well YoY. The urban markets have performed better than rural markets. Also, the Projects business continued to perform better due to government and real estate demand.

### Benefit of commodity deflation largely over

Commodity (crude oil and TiO<sub>2</sub>) deflation is largely over by the end of Q2FY24 and we model inflationary pressures in H2FY24. Volatile crude oil prices due to geopolitical concerns and Grasim's entry in Q4FY24 are also likely to impact pricing power in H2FY24.

### Higher share of Industrial paints to impact RoCE

While demand from B2B sectors was very strong, we believe it is likely to result in higher working capital, lower margins and lower RoCE.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	3,44,886	3,63,922	4,00,747	4,34,182
EBITDA	62,598	79,689	83,622	88,408
EBITDA Margin (%)	18.2	21.9	20.9	20.4
Net Profit	41,504	53,503	54,611	57,102
EPS (Rs)	43.3	55.8	56.9	59.5
EPS % Chg YoY	31.0	28.9	2.1	4.6
P/E (x)	68.4	53.1	52.0	49.7
EV/EBITDA (x)	46.3	36.3	34.4	32.4
RoCE (%)	24.5	28.0	25.1	23.1
RoE (%)	28.4	32.2	28.5	26.2

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### Market Data

Market Cap (INR)	2,840bn
Market Cap (USD)	34,109mn
Bloomberg Code	APNT IN
Reuters Code	ASPN.BO
52-week Range (INR)	3,568 /2,686
Free Float (%)	47.0
ADTV-3M (mn) (USD)	34.8

Price Performance (%)	3m	6m	12m
Absolute	(12.2)	2.4	(3.3)
Relative to Sensex	(7.2)	(3.4)	(10.8)

ESG Disclosure	2021	2022	Change
ESG score	45.0	59.8	14.7
Environment	15.9	40.4	24.5
Social	34.2	53.9	19.7
Governance	84.9	84.9	-

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

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(3.5)	(3.5)
EBITDA	0.4	0.8
EPS	0.5	1.1

### Previous Reports

26-07-2023: [Q1FY24 results review](#)

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

## Maintain REDUCE

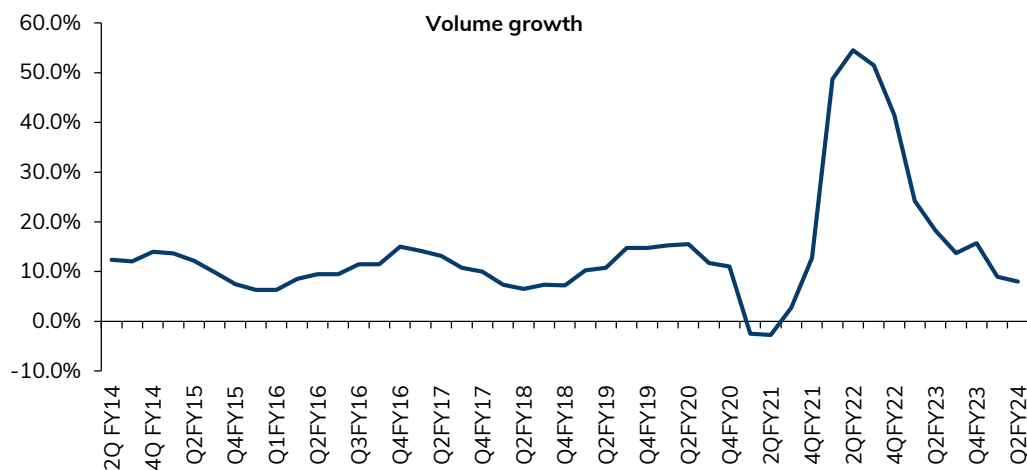
We model Asian Paints to report revenue and PAT CAGR of 8% and 11.2%, respectively over FY23-26. We believe the valuations (P/E of 51.4x FY26E) are stretched considering the increase in competitive pressure and the limited scope for margin expansion. Our DCF based revised target price is INR 2,740. Maintain REDUCE.

**Key risks:** Lower-than-expected competitive pressures and steep correction in commodity prices.

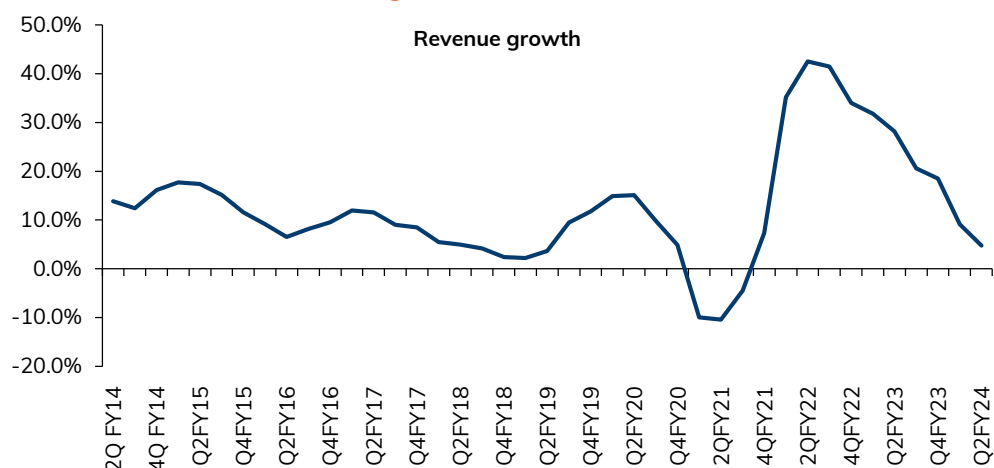
**Exhibit 1: Q2FY24 consolidated financial performance**

INR mn	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ
<b>Net revenues</b>	<b>84,786</b>	<b>84,576</b>	<b>0.2</b>	<b>91,823</b>	<b>(7.7)</b>
Raw materials	48,015	54,356	(11.7)	52,404	(8.4)
% of sales	56.6%	64.3%	-764 bps	57.1%	-44 bps
Employee costs	5,961	5,126	16.3	5,457	9.2
% of sales	7.0%	6.1%	97 bps	5.9%	109 bps
Other expenditure	13,648	12,816	6.5	12,750	7.0
% of sales	16.1%	15.2%	94 bps	13.9%	221 bps
<b>Total expenditure</b>	<b>67,623</b>	<b>72,299</b>	<b>(6.5)</b>	<b>70,610</b>	<b>(4.2)</b>
<b>EBITDA</b>	<b>17,162</b>	<b>12,277</b>	<b>39.8</b>	<b>21,213</b>	<b>(19.1)</b>
EBITDA margin (%)	20.2%	14.5%	573 bps	23.1%	-286 bps
Other income	1,652	955	73.0	1,971	(16.2)
<b>PBDIT</b>	<b>18,814</b>	<b>13,232</b>	<b>42.2</b>	<b>23,184</b>	<b>(18.8)</b>
Depreciation	2,087	2,157	(3.2)	1,983	5.2
<b>PBIT</b>	<b>16,727</b>	<b>11,075</b>	<b>51.0</b>	<b>21,200</b>	<b>(21.1)</b>
Interest	509	354	43.8	458	11.3
<b>PBT</b>	<b>16,218</b>	<b>10,721</b>	<b>51.3</b>	<b>20,743</b>	<b>(21.8)</b>
Tax	4,186	2,903	44.2	5,301	(21.0)
% of PBT	26%	27%	(4.7)	26%	1.0
<b>PAT before associates &amp; MI</b>	<b>12,033</b>	<b>7,817</b>	<b>53.9</b>	<b>15,442</b>	<b>(22.1)</b>
Share of profit from associates	291	221	31.9	307	(5.0)
Minority interest	266	220	21.0	234	13.6
<b>Extraordinary</b>	<b>(6)</b>	<b>784</b>	<b>(100.8)</b>	<b>606</b>	<b>(101.0)</b>
<b>PAT</b>	<b>12,052</b>	<b>8,602</b>	<b>40.1</b>	<b>16,120</b>	<b>(25.2)</b>
<b>Adj. PAT</b>	<b>12,058</b>	<b>7,819</b>	<b>54.2</b>	<b>15,514</b>	<b>(22.3)</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\***


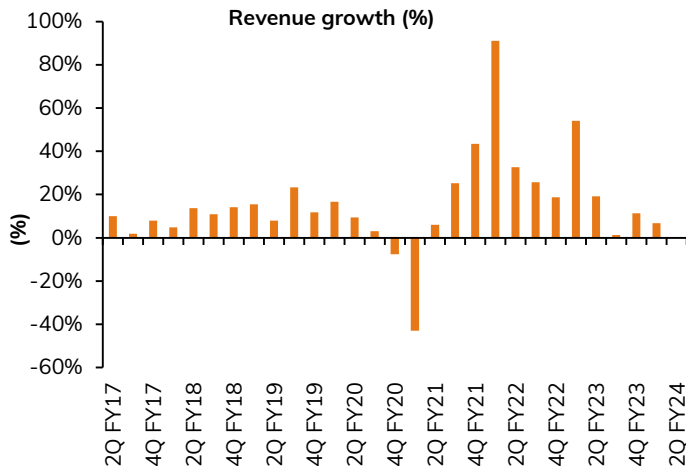
Source: Company data, I-Sec research, \*TTM revenue growth

**Exhibit 4: Q2FY24 standalone financial performance**

INR mn	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ
<b>Net revenues</b>	<b>73,422</b>	<b>73,443</b>	<b>(0.0)</b>	<b>81,140</b>	<b>(9.5)</b>
Raw materials	41,036	47,092	(12.9)	45,783	(10.4)
% of sales	56%	64%	-823 bps	56%	-53 bps
Employee costs	4,495	3,857	16.6	4,046	11.1
% of sales	6%	5%	87 bps	5%	114 bps
Other expenditure	12,044	11,340	6.2	11,313	6.5
% of sales	16%	15%	96 bps	14%	246 bps
<b>Total expenditure</b>	<b>57,575</b>	<b>62,288</b>	<b>(7.6)</b>	<b>61,142</b>	<b>(5.8)</b>
<b>EBITDA</b>	<b>15,847</b>	<b>11,156</b>	<b>42.1</b>	<b>19,998</b>	<b>(20.8)</b>
EBITDA margin (%)	21.6%	15.2%	639 bps	24.6%	-306 bps
Other income	1,723	1,171	47.1	2,168	(20.5)
<b>PBDIT</b>	<b>17,570</b>	<b>12,327</b>	<b>42.5</b>	<b>22,165</b>	<b>(20.7)</b>
Depreciation	1,789	1,890	(5.3)	1,721	4.0
<b>PBIT</b>	<b>15,782</b>	<b>10,437</b>	<b>51.2</b>	<b>20,444</b>	<b>(22.8)</b>
Interest	275	235	17.1	263	4.7
<b>PBT</b>	<b>15,506</b>	<b>10,202</b>	<b>52.0</b>	<b>20,182</b>	<b>(23.2)</b>
Tax	3,904	2,569	52.0	5,098	(23.4)
% of PBT	25.2%	25.2%	(0.0)	25%	(0.3)
<b>PAT</b>	<b>11,603</b>	<b>7,633</b>	<b>52.0</b>	<b>15,084</b>	<b>(23.1)</b>
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Extraordinary items	70	587	(88.1)	392	(82.2)
PAT after MI	11,672	8,220	42.0	15,475	(24.6)
<b>Adj. PAT</b>	<b>11,603</b>	<b>7,633</b>	<b>52.0</b>	<b>15,084</b>	<b>(23.1)</b>

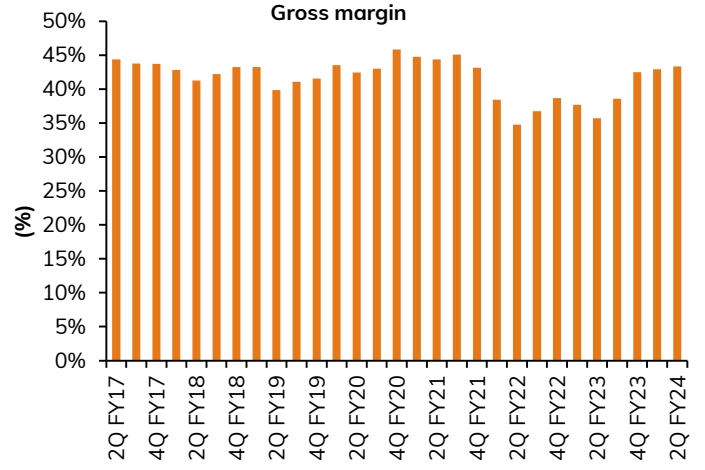
Source: Company data, I-Sec research

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



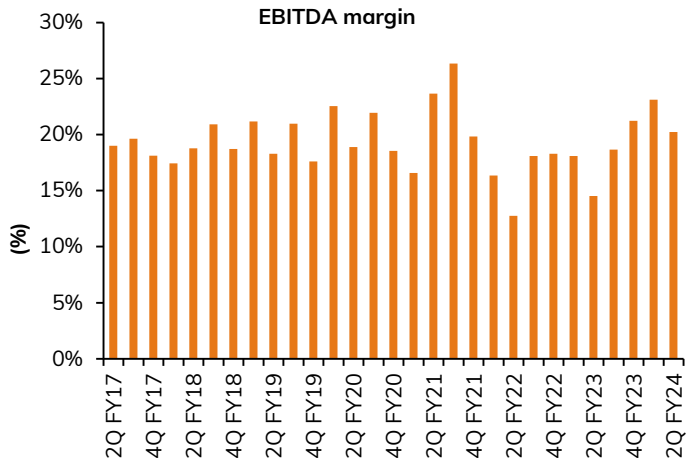
Source: Company data, I-Sec research

**Exhibit 6: Gross margin**



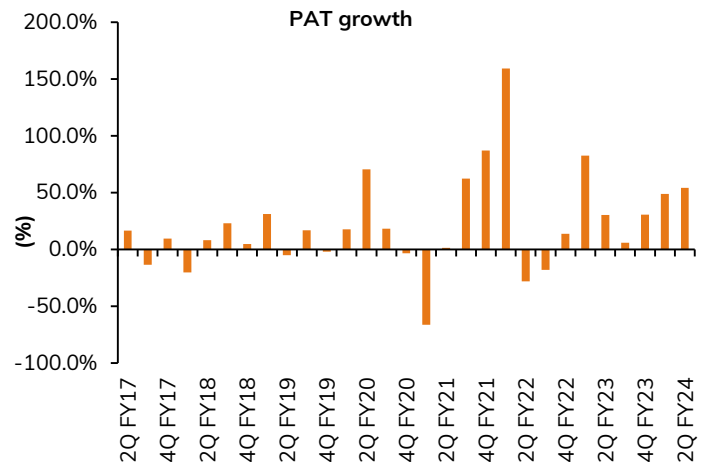
Source: Company data, I-Sec research

**Exhibit 7: EBITDA margin**



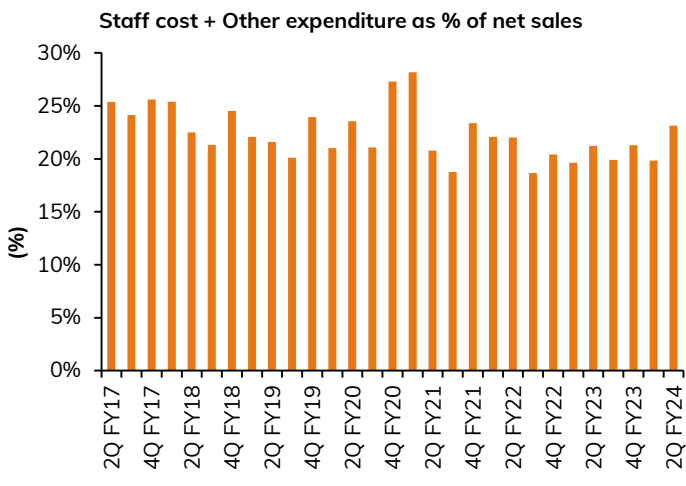
Source: Company data, I-Sec research

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



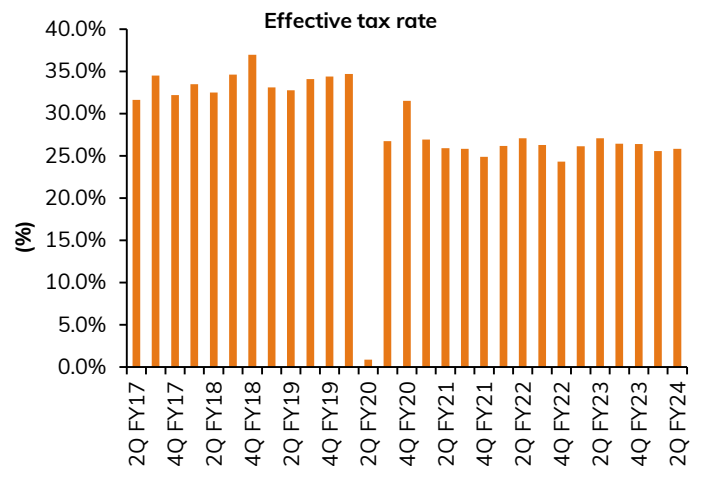
Source: Company data, I-Sec research

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



Source: Company data, I-Sec research

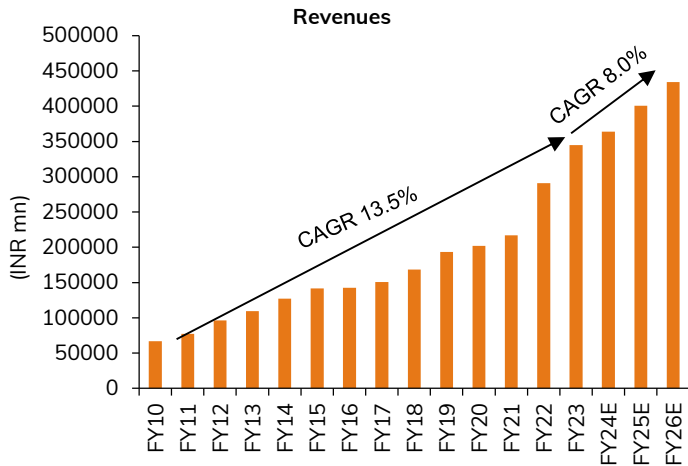
**Exhibit 10: Effective tax rate**



Source: Company data, I-Sec research

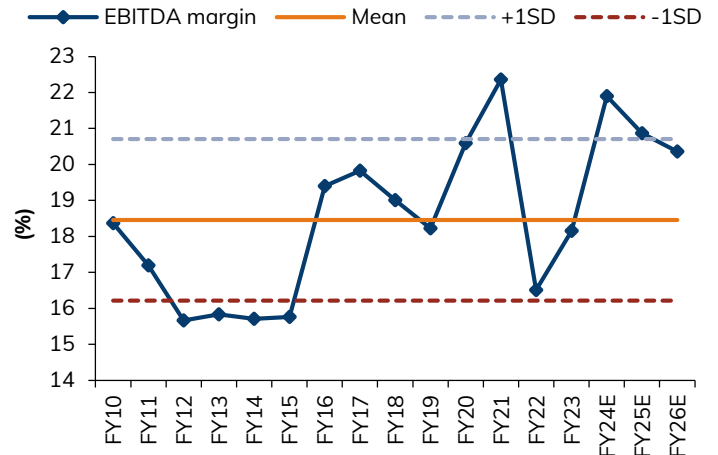
## Operational highlights – Annual

**Exhibit 11: Revenues and growth rates**



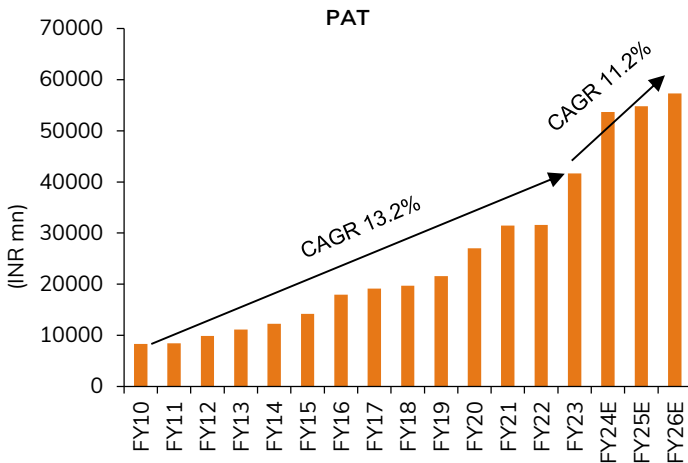
Source: Company data, I-Sec research

**Exhibit 12: EBITDA margin**



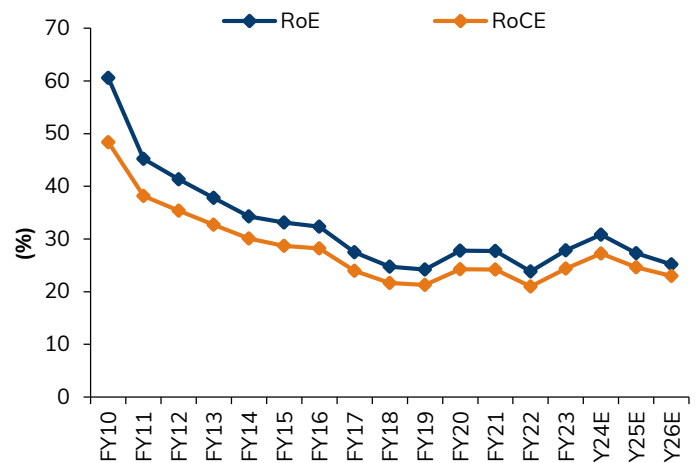
Source: Company data, I-Sec research

**Exhibit 13: PAT and growth rates**



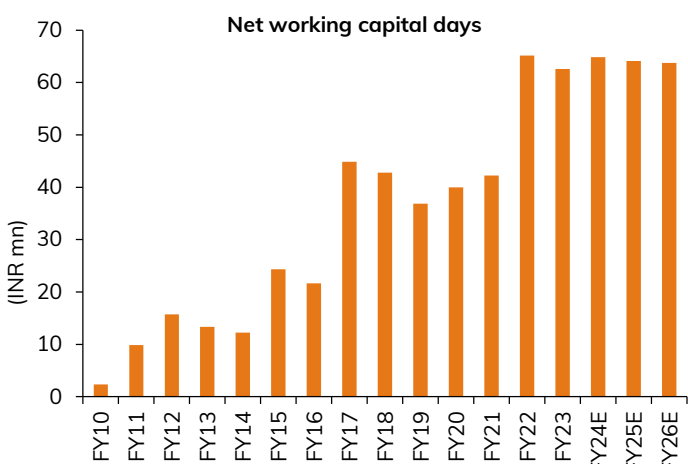
Source: Company data, I-Sec research

**Exhibit 14: RoE & RoCE**



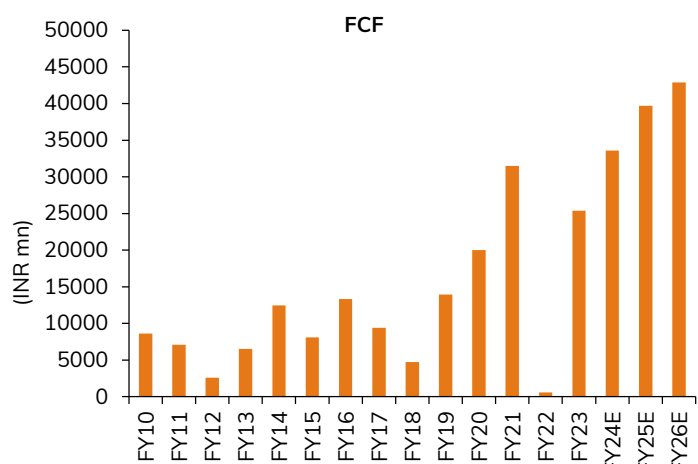
Source: Company data, I-Sec research

**Exhibit 15: Net working capital days**



Source: Company data, I-Sec research

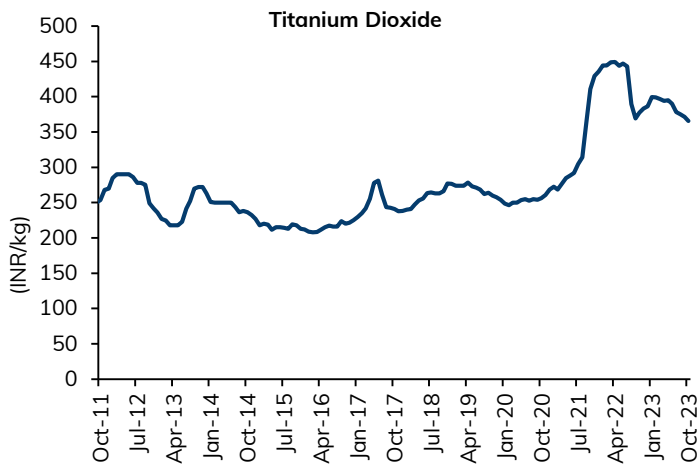
**Exhibit 16: Free cash-flow**



Source: Company data, I-Sec research

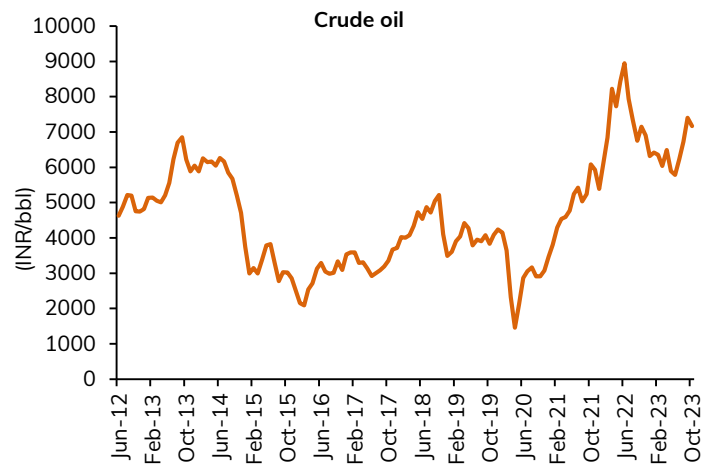
### Key raw material prices

Exhibit 17: Titanium di-oxide



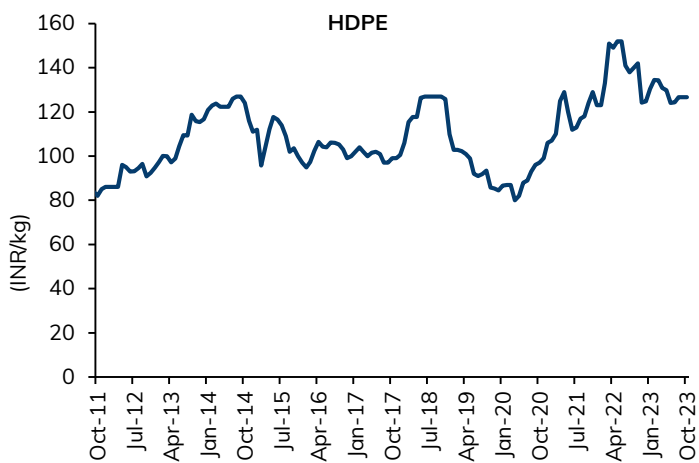
Source: Company data, I-Sec research

Exhibit 18: Crude oil



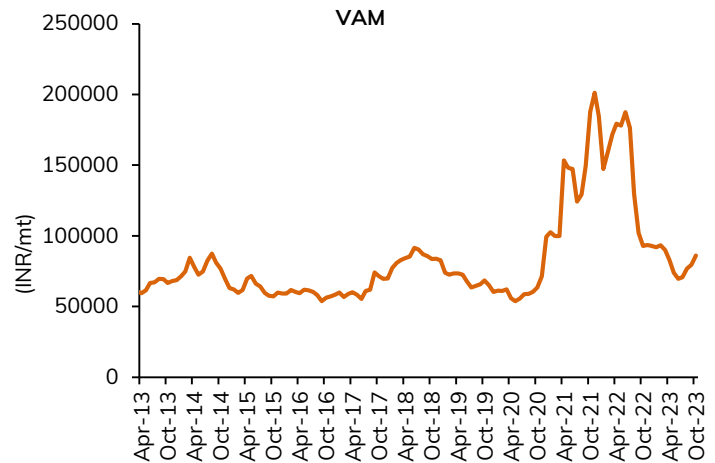
Source: Company data, I-Sec research

Exhibit 19: Packaging material - HPDE



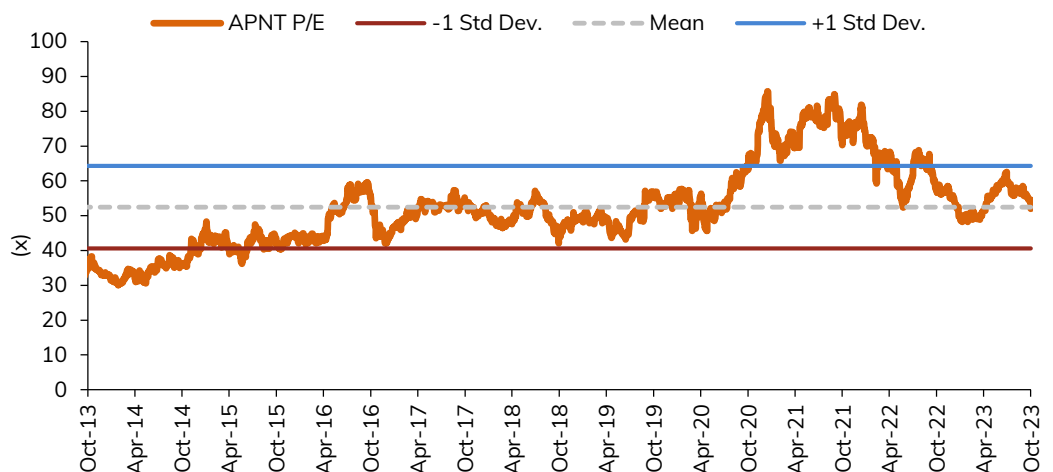
Source: Company data, I-Sec research

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 Q2FY24 results and conference call

- Decorative paints reported revenue growth of 0.5% (volume growth of 6%) YoY.
- Due to higher sales in Industrial paints, overall domestic revenues were up 1.1% YoY.
- Urban markets have continued to better than rural markets.
- Economy paints performed better than luxury paints. However, there was better growth in luxury paints in Sept'23 YoY.
- Waterproofing segment has continued to do well.
- Projects continued to do well led by strong demand from government and real estate sector.
- The company believes delayed Diwali in CY23 augurs well for higher growth as the paint companies get ~40 days to sell paints from closure of monsoon.
- During monsoon, exterior as well as interior painting activities are on lower scale.
- The work on capacity expansion is progressing well and the company has already invested INR 15bn on brownfield expansion.
- The company has now 50 Beautiful Homes stores. However, Home Décor segment was impacted in Q2FY24 due to weak consumer sentiment.
- Kitchen and Bath business reported revenue decline of 18% and 20%, respectively YoY due to high base. Weatherseal reported almost 100% revenue growth YoY.
- International business reported revenue decline of 3.9% YoY but constant currency growth was 1.9% YoY.
- While the Middle East and Sri Lanka reported healthy revenue growth, Nepal and Bangladesh reported muted numbers.
- Material deflation continued even in Q2FY24 and it resulted in strong improvement in gross and EBITDA margins YoY.
- The extended festive season and the marriage season are likely to drive strong growth in H2FY24.
- Higher demand from OEMs and government and institutions is likely to result in higher sales of Industrial paints.
- The company remains cautious in South Asia and Egypt markets. It also has cautious stance on crude oil prices considering evolving geopolitical environment.

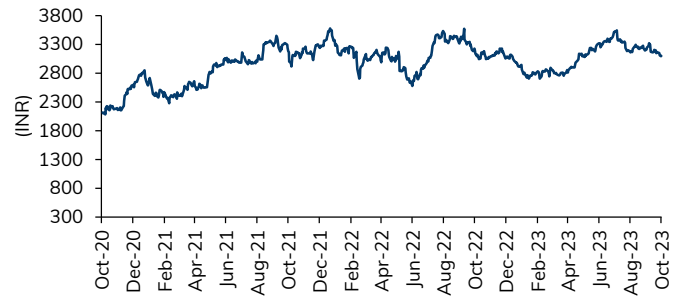


### Exhibit 22: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	52.6	52.6	52.6
Institutional investors	27.2	27.5	27.6
MFs and others	4.7	3.6	3.9
FIs/Banks, Insurance	5.3	5.6	5.9
FIIIs	17.0	18.3	17.8
Others	20.4	19.9	19.8

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)

	FY23A	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>3,44,886</b>	<b>3,63,922</b>	<b>4,00,747</b>	<b>4,34,182</b>
Operating Expenses	70,723	74,442	81,477	87,801
<b>EBITDA</b>	<b>62,598</b>	<b>79,689</b>	<b>83,622</b>	<b>88,408</b>
EBITDA Margin (%)	18.2	21.9	20.9	20.4
Depreciation & Amortization	8,580	10,542	12,751	14,905
EBIT	54,018	69,147	70,871	73,503
Interest expenditure	1,445	1,816	2,017	2,017
Other Non-operating Income	3,865	4,196	4,156	4,854
<b>Recurring PBT</b>	<b>56,439</b>	<b>71,528</b>	<b>73,010</b>	<b>76,340</b>
<b>Profit / (Loss) from Associates</b>	<b>939</b>	<b>995</b>	<b>1,054</b>	<b>1,118</b>
Less: Taxes	14,935	18,025	18,398	19,238
PAT	41,504	53,503	54,611	57,102
Less: Minority Interest	774	821	870	922
Extraordinaries (Net)	(358)	-	-	-
<b>Net Income (Reported)</b>	<b>41,310</b>	<b>53,677</b>	<b>54,796</b>	<b>57,298</b>
<b>Net Income (Adjusted)</b>	<b>41,504</b>	<b>53,503</b>	<b>54,611</b>	<b>57,102</b>

Source Company data, I-Sec research

### Exhibit 25: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	1,38,382	1,52,631	1,77,773	2,02,880
of which cash & cash eqv.	8,438	15,515	26,783	39,292
Total Current Liabilities & Provisions	69,999	71,551	79,586	86,684
<b>Net Current Assets</b>	<b>68,383</b>	<b>81,080</b>	<b>98,187</b>	<b>1,16,196</b>
Investments	51,511	51,511	51,511	51,511
Net Fixed Assets	55,420	69,878	79,127	88,057
ROU Assets	-	-	-	-
Capital Work-in-Progress	10,196	10,196	10,196	10,196
Total Intangible Assets	2,285	2,285	2,285	2,285
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>1,87,795</b>	<b>2,14,950</b>	<b>2,41,305</b>	<b>2,68,245</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>20,174</b>	<b>20,174</b>	<b>20,174</b>	<b>20,174</b>
<b>Deferred Tax Liability</b>	<b>3,162</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	1,58,963	1,86,118	2,12,474	2,39,413
<b>Total Net Worth</b>	<b>1,59,922</b>	<b>1,87,077</b>	<b>2,13,433</b>	<b>2,40,372</b>
Minority Interest	4,537	4,537	4,537	4,537
<b>Total Liabilities</b>	<b>1,87,795</b>	<b>2,14,950</b>	<b>2,41,305</b>	<b>2,68,245</b>

Source Company data, I-Sec research

### Exhibit 26: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sept-23
Net Sales	86,367	87,873	91,823	84,786
% growth (YOY)	1.3	11.3	6.7	0.2
EBITDA	16,114	18,648	21,213	17,162
Margin %	18.7	21.2	23.1	20.2
Other Income	866	1,055	1,971	1,652
Extraordinaries	(298)	(67)	606	(6)
Adjusted Net Profit	10,770	12,662	15,514	12,058

Source Company data, I-Sec research

### Exhibit 27: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>42,553</b>	<b>58,599</b>	<b>61,708</b>	<b>66,704</b>
Working Capital Changes	(7,270)	(5,620)	(5,839)	(5,500)
Capital Commitments	(17,170)	(25,000)	(22,000)	(23,836)
<b>Free Cashflow</b>	<b>25,383</b>	<b>33,599</b>	<b>39,708</b>	<b>42,868</b>
<b>Other investing cashflow</b>	<b>(11,242)</b>	-	-	-
Cashflow from Investing Activities	(28,412)	(25,000)	(22,000)	(23,836)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,208	-	-	-
Dividend paid	(24,603)	(26,522)	(28,440)	(30,359)
Others	5,762	-	-	-
Cash flow from Financing Activities	(14,634)	(26,522)	(28,440)	(30,359)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(493)</b>	<b>7,077</b>	<b>11,267</b>	<b>12,509</b>
Closing cash & balance	8,151	15,515	26,783	39,292

Source Company data, I-Sec research

### Exhibit 28: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	43.3	55.8	56.9	59.5
Adjusted EPS (Diluted)	43.3	55.8	56.9	59.5
Cash EPS	52.2	66.8	70.2	75.1
Dividend per share (DPS)	25.6	27.6	29.6	31.6
Book Value per share (BV)	166.7	195.0	222.5	250.6
Dividend Payout (%)	59.3	49.6	52.1	53.2
<b>Growth (%)</b>				
Net Sales	18.5	5.5	10.1	8.3
EBITDA	30.3	27.3	4.9	5.7
EPS (INR)	31.0	28.9	2.1	4.6
<b>Valuation Ratios (x)</b>				
P/E	68.4	53.1	52.0	49.7
P/CEPS	56.7	44.3	42.2	39.4
P/BV	17.8	15.2	13.3	11.8
EV / EBITDA	46.3	36.3	34.4	32.4
P / Sales	8.5	8.1	7.3	6.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
<b>Operating Ratios</b>				
Gross Profit Margins (%)	38.7	42.4	41.2	40.6
EBITDA Margins (%)	18.2	21.9	20.9	20.4
Effective Tax Rate (%)	26.5	25.2	25.2	25.2
Net Profit Margins (%)	12.0	14.7	13.6	13.2
Net Debt / Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(0.6)	(0.6)	(0.7)	(0.8)
Fixed Asset Turnover (x)	3.8	3.5	3.2	2.9
Working Capital Days	77	72	70	70
Inventory Turnover Days	80	72	71	71
Receivables Days	60	54	53	53
Payables Days	47	39	40	40
<b>Profitability Ratios</b>				
RoCE (%)	24.5	28.0	25.1	23.1
RoE (%)	28.4	32.2	28.5	26.2
RoIC (%)	37.8	41.0	37.0	34.4

Source Company data, I-Sec research

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