

**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✗	✗	✓

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

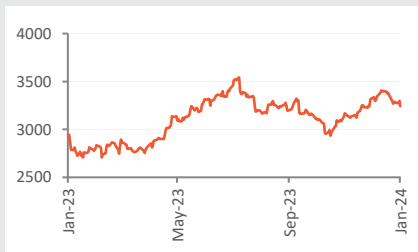
	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✗

Company details

Market cap:	Rs. 3,11,001 cr
52-week high/low:	Rs. 3,567 / 2,686
NSE volume: (No of shares)	836493 lakh
BSE code:	500820
NSE code:	ASIANPAINT
Free float: (No of shares)	45.4 cr

Shareholding (%)

Promoters*	52.6
FII	18.9
DII	10.1
Others	18.4

Price chart**Price performance**

(%)	1m	3m	6m	12m
Absolute	-2.7	4.5	-7.7	10.2
Relative to Sensex	-3.0	-4.4	-14.3	-7.6

Sharekhan Research, Bloomberg

Asian Paints Ltd**Good Q3; risk-reward unfavourable****Consumer Goods****Sharekhan code: ASIANPAINT****Reco/View: Hold****CMP: Rs. 3,242****Price Target: Rs. 3,490**

Upgrade



Maintain



Downgrade

Summary

- Asian Paints' (APL's) Q3FY24 performance beat expectations with PAT growing 35% y-o-y to Rs. 1,475 crore driven by a 393 bps y-o-y rise in OPM to 22.6%.
- Decorative paint volume growth improved to 12% from 6% in Q2 due to shift of festive season. Volume growth to remain in double-digits in Q4, while value growth will remain lower due to a change in mix.
- 9MFY24 OPM stood at 22%; management retained 18-20% OPM guidance for near term.
- Stock trades at premium valuation of 52x and 47x its FY2025E and FY2026E EPS. Premium valuations and risk of heightened competition on margins keeps risk-reward unfavourable. We maintain Hold with a revised PT of Rs. 3,490.

Asian Paints Ltd's (APL's) Q3FY2024 performance beat our expectation mainly on account of sharp rise in OPM, resulting in an over 30% y-o-y PAT growth. Consolidated revenues grew by 5.4% y-o-y to Rs. 9,103 crore with volume growth in the decorative paint business at 12% y-o-y. Gross margins improved by 504 bps y-o-y to 43.6% and OPM expanded by 393 bps y-o-y to 22.6%. Operating profit grew by 27.6% y-o-y to Rs. 2,056 crore. This, along with higher other income led to 34.5% y-o-y growth in adjusted PAT to Rs. 1,475 crore (ahead of our expectation of Rs. 1,350 crore). For 9MFY2024, revenues grew by 4.1% y-o-y to Rs. 26,764 crore, EBITDA margins improved by 492 bps y-o-y to 22% and adjusted PAT grew by 43.9% y-o-y to Rs. 4,150 crore.

Key positives

- Decorative paints volume growth improved to 12% from 6% in Q2FY24.
- Early signs of rural recovery; demand for economy range improved in Q3.
- Contribution of new products stood at 12% in Q3; focus remains on adding differentiated products.

Key negatives

- Decorative paints' value growth stood at 5.5% affected by change in mix and price cut of 1.3%.
- Kitchen business' revenues stood flat y-o-y at Rs. 100 crore; bath business revenues fell by 5% y-o-y.
- International business' revenues stood flat y-o-y at Rs. 779 crore on account of macro-economic and forex challenges in key markets such as South Asia and Egypt.

Management Commentary

- Decorative paint volumes would grow in double digits in Q4 with a good recovery seen in tier 3 and 4 towns. Elections might act as a spoiler in Q1FY2025, while deferment in demand could be seen in subsequent quarters with expected boost given in the post-election budget in 2024.
- Decorative paints volume and value gap is expected to be at 4% due to change in mix and price cuts. It stood at 6% in Q3.
- Industrial paints business is expected to maintain the double-digit growth momentum led by automotive OEM and higher growth in protective segment helping drive good growth.
- Kitchen and Bath fittings performance stayed subdued in Q3. Management expects gradual recovery in the business. Overall, the home décor business will act as a catalyst to gain more share in the core decorative paints business.
- Slower consumption growth in the two largest economies globally will help commodity and input prices to remain lower in the quarters ahead. The company will continue to post healthy gross margins in the coming quarters.
- International business (excluding Nepal) grew at 7%. Currency devaluation in Egypt and macro concerns in Nepal/Bangladesh will continue to put stress on the international business in the near term.
- The management expects the cement plant to be operational from Dec-25 and VAM plant to be commercialised 4-5 months after that (April-May'26). Thus, benefit of backward integration to start flowing in from FY2026.

Revision in estimates – We have increased our FY2024 earnings estimates to factor in high than expected OPM, while we have broadly maintained it for FY2025. We have introduced FY2026 earnings estimates through this note.

Our Call

View - Retain Hold with a revised PT of Rs. 3,490: APL's management is confident of maintaining double-digit volume growth in Q4FY24 and quarters ahead with a sustained recovery in small towns. Value growth will remain lower due to mix impact. An expected build-up in competition from newly entered large players would pose a risk to the profitability in the near term. Stock trades at 52x and 46.5x its FY2025E and FY2026E earnings. Premium valuations and risk of heightened competition on margins keeps risk-reward unfavourable. Hence, we maintain a Hold recommendation on the stock with a revised price target of Rs. 3,490 (rolling target price to FY2026E earnings).

Key Risks

No impact on market share and profitability due to entry of large players in the domestic paints market would act as a key risk to our rating on the stock.

Valuation (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	34,489	36,163	39,132	43,705
OPM (%)	18.2	21.8	21.6	21.5
Adjusted PAT	4,231	5,512	5,983	6,687
% YoY growth	33.5	30.3	8.6	11.8
Adjusted EPS (Rs.)	44.1	57.5	62.4	69.7
P/E (x)	73.5	56.4	52.0	46.5
P/B (x)	19.4	16.7	14.6	12.7
EV/EBIDTA (x)	46.6	36.9	34.3	30.8
RoNW (%)	28.4	31.8	30.0	29.2
RoCE (%)	22.5	25.4	24.2	24.0

Source: Company; Sharekhan estimates

Double-digit volume growth; strong PAT growth driven by margin expansion

APL's consolidated revenues grew by 5.4% y-o-y to Rs. 9,103.1 crore slightly lower than our expectation of Rs. 9,215 crore and average consensus estimates of Rs. 9,267 crore. Domestic decorative paints business registered a 12% volume growth. Our and average street expectation of volume growth was 8-12%. Decorative business (India) value growth was lower at 5.5%. Gross margins increased by 504 bps y-o-y to 43.6% aided by softening of raw material prices, growth in luxury products and operational, formulation and sourcing efficiencies. OPM improved by 393 bps y-o-y to 22.6% ahead of our and average street expectation of 21.2-21.5%. Operating profit grew by 27.6% y-o-y to Rs. 2,056.1 crore. In line with growth in operating profit, adjusted PAT grew by 35% y-o-y to Rs. 1,475.2 crore ahead of our and average street expectation of Rs. 1,325-1,375 crore due to better-than-expected margins. In 9MFY24, revenue grew by 4.1% y-o-y to Rs. 26,764 crore, OPM improved by 492 bps y-o-y to 22% and adjusted PAT rose by 43.9% y-o-y to Rs. 4,150 crore.

Standalone revenue grew 5% y-o-y; OPM up by 410 bps y-o-y

Standalone revenues grew by 5.2% y-o-y to Rs. 7,913 crore aided by extended festive season. Gross margins expanded by 548 bps y-o-y to 44.4% and OPM came in higher by 410 bps y-o-y to 24% led by moderating raw material prices and operational efficiencies. Operating profit grew by 26.9% y-o-y to Rs. 1,897 crore and adjusted PAT grew by 32.9% y-o-y to Rs. 1,444 crore.

Key quarterly highlights

- ♦ **Good Q3: Double-digit volume growth in Q3, momentum likely to continue**
 - ❖ APL posted 12% y-o-y volume growth in Q3 supported by festive demand. Double-digit four-year volume CAGR momentum maintained with Q3FY24 four-year CAGR at 14.9%.
 - ❖ Both urban and rural markets delivered double-digit volume growth; with early signs of recovery visible in rural markets (management indicated that T3/T4 markets recovered in Q3).
 - ❖ APL witnessed double-digit growth in luxury and economy range of products, while premium products grew at slower pace in Q3.
 - ❖ Growth in projects/institutional business continued during the quarter with builders, factories and government sector being the key contributors.
 - ❖ Going ahead, the management expects double-digit volume growth momentum to continue aided by recovery in T3/T4 markets, good traction in projects business and continued momentum in Auto OEM and General Industrial business.
 - ❖ Satisfactory monsoon and uptick in government spending and moderating inflation are likely to bring in positivity for rural economy.
- ♦ **Gradual recovery for kitchen & bath fitting business, new categories continued to see momentum**
 - ❖ **Bath Fittings:** Revenue declined by 4.9% y-o-y to Rs. 85.4 crore in Q3FY24 and by 18.8% y-o-y to Rs. 251.5 crore in 9MFY24 impacted by weak industry demand. However, performance in Q3 is better compared to past two quarters, indicating a gradual recovery. PBDIT loss came in at Rs. 5.5 crore against profit of Rs. 0.1 crore in Q3FY23.
 - ❖ **Kitchen:** After reporting a decline for the past four quarters, kitchen business revenue stood flat y-o-y in Q3FY24 at Rs. 100.1 crore (decreased by 10.6% y-o-y in 9MFY24 to Rs. 292.8 crore). PBDIT was reported at Rs. 4.2

crore against a loss of Rs. 3.3 crore in Q3FY23. Strong focus on driving operational efficiencies resulted in PBT break-even in Q3FY2024.

- ❖ **White Teak (Decorative & Designer Lights) and Weatherseal (uPVC Windows and Doors):** White Teak's revenue increased by 18.3% y-o-y to Rs. 33.7 crore, while Weatherseal's revenue more than doubled to Rs. 13.7 crore. In 9MFY24, White Teak's revenue grew by 17.9% y-o-y to Rs. 85.7 crore, while Weatherseal's revenue more than doubled to Rs. 36.1 crore. Both these acquisitions are gaining from synergies led by APL's pan-India spread of dealer network and a growing product portfolio.
- ♦ **Improved profitability in international business despite macro-economic headwinds**
 - ❖ In the international business, APL registered flat y-o-y growth (Rupee terms) and 5.2% y-o-y growth (CC terms) in Q3 driven by good growth in Middle East & Africa, while Asian markets posted subdued performance. International business (excluding Nepal) grew by 7% y-o-y (Rupee terms).
 - ❖ Despite flat revenue growth, international business posted an improvement in profitability driven by operating efficiencies and moderating raw material prices.
 - ❖ Currency devaluation in Egypt and macro concerns in Nepal/Bangladesh will continue to put stress on the international business in the near term.
- ♦ **Strong quarter for industrial paints business**
 - ❖ The PPG-AP business grew by 12.3% y-o-y to Rs. 576 crore driven by Refinish & Auto OEM segments. Moderating raw material prices led to improvement in margins, with PBT margin rising to 22.2% versus 17.8% in Q3FY23.
 - ❖ AP-PPG business grew by 10.1% y-o-y to Rs. 288 crore led by growth in protective and powder coating segments. Enhanced sales mix and moderating raw material prices led to improvement in margins, with PBT margin improving to 11.5% against 9.8% in Q3FY23.
- ♦ **Focus on Differentiation:** APL aims to create differentiation in the market through
 - ❖ *Beautiful Homes Painting Service* (Globally the largest painting service by any player).
 - ❖ Portfolio of new and differentiated products (product portfolio contains 30-40% differentiated products, with highest number of patents granted in the industry). APL's new product contribution stood at ~12% in Q3FY2024.
- ♦ **Home décor scaling up**
 - ❖ APL currently has 54 Beautiful Home Stores functional across 11 cities. Beautiful Homes Stores contribution at ~4% of decorative revenue.
 - ❖ Management is targeting to increase Home Décor revenue contribution to 8-10% of decorative business by FY26.
- ♦ **Distribution network continued to widen:** APL added 2,000 retail touchpoints in Q3, taking the company's reach to over 1.62 lakh retail touchpoints.
- ♦ **Benefit of backward integration:** Management expects the cement plant to be operational from Dec-25 and VAM plant to be commercialised 4-5 months after that (Apr-May'26). Thus, management has guided that the benefits of backward integration are not expected to be achieved soon and will take time to be realised (FY2026).

Results (Consolidated)

				Rs cr	
Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Total Revenue	9,103.1	8,636.7	5.4	8,478.6	7.4
Raw Material Cost	5,133.6	5,305.8	-3.2	4,801.5	6.9
Employee Cost	570.2	503.8	13.2	596.1	-4.3
Other Expenses	1,343.2	1,215.8	10.5	1,364.8	-1.6
Total Operating Cost	7,047.0	7,025.3	0.3	6,762.3	4.2
Operating Profit	2,056.1	1,611.4	27.6	1,716.2	19.8
Other Income	138.6	86.6	60.1	165.2	-16.1
Interest & Other Financial Cost	54.4	41.4	31.5	50.9	6.9
Depreciation	220.4	214.1	2.9	208.7	5.6
Profit Before Tax	1,919.9	1,442.6	33.1	1,621.8	18.4
Tax Expense	492.6	381.1	29.2	418.6	17.7
Adjusted PAT	1,427.3	1,061.4	34.5	1,203.3	18.6
Share of profit from associates	47.9	35.7	34.3	29.1	64.4
Adjusted PAT after MI	1,475.2	1,097.1	34.5	1,232.4	19.7
Adj. EPS (Rs)	15.4	11.4	34.5	12.8	19.7
			bps		bps
GPM (%)	43.6	38.6	504	43.4	24
OPM (%)	22.6	18.7	393	20.2	234
NPM (%)	16.2	12.7	350	14.5	167
Tax rate (%)	25.7	26.4	-76	25.8	-15

Source: Company; Sharekhan Research

Business-wise performance

				Rs cr	
Particulars	Q3FY24	Q3FY23	y-o-y (%)	Q2FY24	q-o-q (%)
Standalone decorative paints	7,680.1	7,295.3	5.3	7,125.3	7.8
Kitchen business	100.1	100.7	-0.6	96.8	3.4
Bath business	85.4	89.8	-4.9	81.4	4.9
White Teak	33.7	29.0	16.2	26.1	29.1
Weatherseal	13.7	7.0	95.7	12.6	8.7
Domestic standalone business	7,913.0	7,521.8	5.2	7,342.2	7.8
Africa	201.0	183.0	9.8	182.0	10.4
Middle East	252.0	240.0	5.0	246.0	2.4
Asia	289.0	323.0	-10.5	318.0	-9.1
South Pacific	45.0	40.0	12.5	44.0	2.3
International business	787.0	786.0	0.1	790.0	-0.4
PPG-AP	576.2	513.3	12.3	495.3	16.3
AP-PPG	288.0	261.6	10.1	250.6	14.9
Consolidated sales	9,103.1	8,636.7	5.4	8,478.6	7.4

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Structural growth of the paint industry is intact

In H1FY2024, paint companies witnessed moderation in volume growth affected by a sporadic monsoon and shift of the festive season to Q3. However, an extended festive season, strong wedding season in November-December 2023, distribution expansion and gradual recovery in the rural market would help the paint companies to post a recovery in volume growth in H2FY2024. Entrant of large player in the decorative paint industry might put stress on the market share of smaller players in the near term. In the medium-long term, the decorative paints industry is expected to clock a 12% CAGR over FY2023-FY2027 to Rs. 1,00,000 crore, led by a reduction in the repainting cycle to 4-5 years (from 8-10 years earlier), increase construction activities of new real estate projects acceptance of better paint products in smaller towns and upgradation of premium brands in cities and large towns. A better product mix and efficiencies would help paint companies post higher margins in the long run.

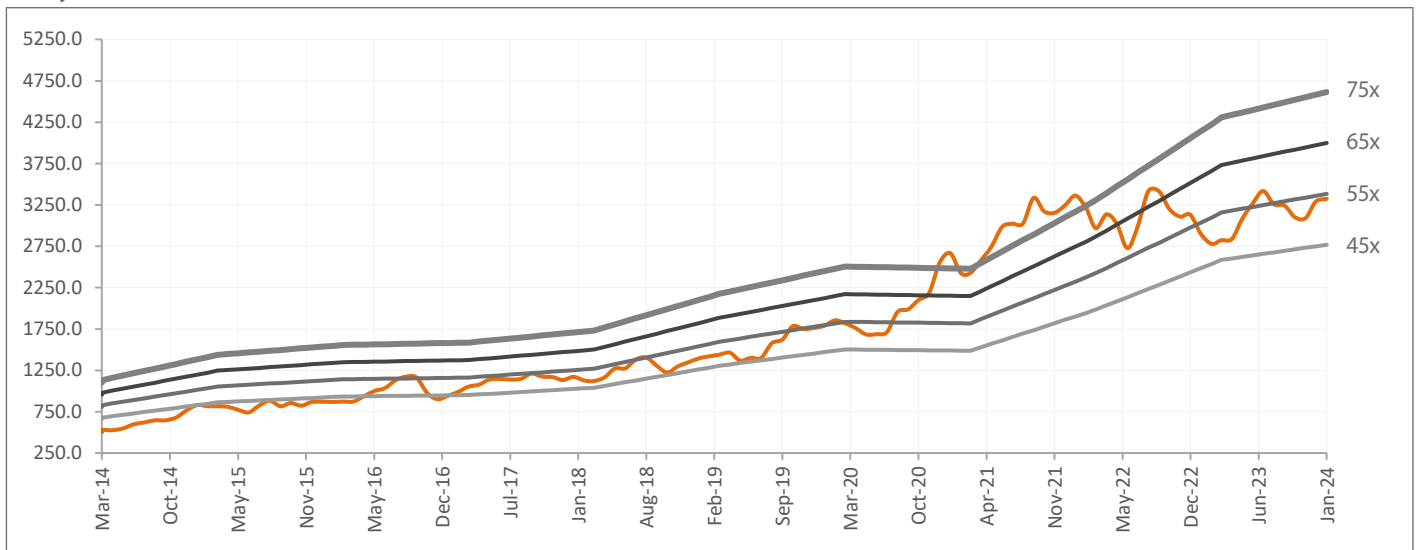
■ Company Outlook – Volumes to grow in double digit; value growth to remain in single digit

APL's volume growth improved to 12% in Q3 and expected to remain in double digit in Q4. Rural recovery was visible in Q3FY2024 and expected to maintain the momentum in the quarters ahead. High growth in the economy segment and price cuts would aid a greater shift from unorganised players would lead to single digit value growth in the near term. In the medium term, waterproofing products, construction chemicals and the projects business will continue to see strong traction from the real estate sector, government projects and housing society projects. Raw material correction will help margins stay high in FY2024, with gross margins is expected to be at 38-40%. The company is banking on planned initiatives (of differentiated formulations and cost efficiencies) along with a better mix to achieve margins of 18-20% in the medium term.

■ Valuation – Retain Hold with a revised PT of Rs. 3,490

APL's management is confident of maintaining double-digit volume growth in Q4FY24 and quarters ahead with a sustained recovery in small towns. Value growth will remain lower due to mix impact. An expected build-up in competition from newly entered large players would pose a risk to the profitability in the near term. Stock trades at 52x and 46.5x its FY2025E and FY2026E earnings. Premium valuations and risk of heightened competition on margins keeps risk-reward unfavourable. Hence, we maintain a Hold recommendation on the stock with a revised price target of Rs. 3,490 (rolling target price to FY2026E earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Indigo Paints	50.2	39.2	33.1	35.6	25.0	20.1	21.1	27.6	30.3
Asian Paints	73.5	56.5	52.0	46.6	36.9	34.3	22.5	25.4	24.2

Source: Company, Sharekhan estimates

About company

APL is the largest paint company in India with market leadership of over 50 years and stands among the top 10 paint companies in the world. The company has 27 paint manufacturing plants and operates in 15 countries, serving customers in over 60 countries globally. Deco India, including decorative paints, waterproofing, wall coverings, and adhesives, constitutes almost 84% of the company's total revenue, whereas the industrial coatings space, including automotive and non-automotive, constitutes only 2%, through two 50:50 JVs with PPG Industries Inc., USA (AP-PPG). The international business contributes ~12% to the total revenue mainly dominated by Nepal, Sri Lanka, and Bahrain. A small portion is contributed by kitchen and bath fittings through its subsidiary, Sleek International Pvt. Ltd. (Sleek Kitchens) and Ess Ess Bath Fittings. The company has forayed into the home décor space as it transitions its outlook from 'share of surface' to 'share of space'.

Investment theme

The rising middle-income group, fast urbanisation, shift from the unorganised to organised space, and improving penetration in rural markets are some of the key revenue drivers for paint companies in the near to medium term. APL, with a leadership position in the decorative paint business and strong brand portfolio, will continue to deliver good earnings growth in the near term. APL is expected to benefit from its recent capacity expansion, vast distribution network, product innovation, and growth in its premium products. However expected built in competition from new large players in the domestic paint industry would act as risk to profitability in the near term.

Key Risks

- ♦ **Increased raw-material prices:** Any significant increase in crude prices and other input costs will affect the company's profitability.
- ♦ **Slowdown in economic growth:** Any slowdown in economic growth will affect repainting demand, which constitutes almost 70% of the total paint demand.
- ♦ **Increase in competition from new players:** Any significant competition from the large players entering the market would act as key risk to the pricing power and profitability of the company.

Additional Data

Key management personnel

Deepak M Satwalekar	Chairman
Amit Syngle	Chief Executive Officer & Managing Director
R J Jeyamurugan	Chief Financial Officer, Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.00
2	Siddhant Commercials Pvt Ltd	4.90
3	Vanguard Group Inc	1.94
4	Blackrock Inc	1.83
5	SBI Funds Management	1.66
6	Capital Group Cos Inc	0.80
7	UTI AMC Ltd	0.77
8	FMR LLC	0.39
9	JP Morgan and Chase	0.39
10	Norges Bank	0.37

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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