

# Asian Paints Ltd.



## Asian Paints Ltd.

Volume growth in double digits, strong margin delivery

CMP INR 3,164	Target INR 3,460	Potential Upside 9.4%	Market Cap (INR Mn) 30,57,922	Recommendation <b>ACCUMULATE</b>	Sector Consumer
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### Result highlights

- For Q3FY24, APNT reported revenue of INR 91,031 Mn, a growth of 5.4% YoY/ 7.4% QoQ. Revenue was in line with our estimate. For 9MFY24, revenue grew by 4.1% YoY to INR 2,67,640 Mn. Q3FY24 growth was supported by the extended festive season, however there was some relative moderation in demand in the latter part of the quarter. APNT saw some recovery in the rural markets.
- Gross margin expanded by 504 bps YoY/ 24 bps QoQ in the quarter as raw material prices saw further deflation of 0.2% QoQ. The gross margins inched up despite a 1.3% price decrease taken in the portfolio. In 9MFY24, the gross margin expanded by 595 bps YoY.
- EBITDA for the quarter grew by 27.6% YoY/ 19.8% QoQ to INR 20,561 Mn and was 3.1% higher than our estimate due to lower employee and other expenses. EBITDA margin expanded by 393 bps YoY/ 234 bps QoQ to 22.6%. EBITDA margin expansion was driven by material cost softening, growth in luxury products, and operating, sourcing and formulation efficiencies. For 9MFY24, EBITDA grew by 34.1% YoY to INR 58,936 Mn while EBITDA margin expanded by 492 bps YoY to 22.0%.
- PAT for the quarter was at INR 14,477 Mn, reporting a growth of 35.0% YoY/ 20.1% QoQ. PAT was 2.7% higher than our estimate, flowing down from the higher EBITDA. PAT for 9MFY24 grew by 46.3% YoY to INR 42,035 Mn. While there were no exceptional items for the quarter or comparable quarters, on a 9MFY24 basis, growth in Adj. PAT was 45.1% YoY.

### MARKET DATA

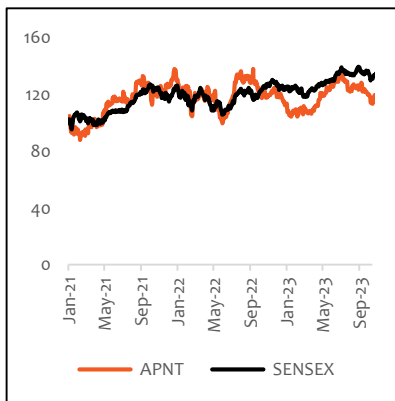
Shares O/S (Mn)	959
Mkt Cap (INR Mn)	30,57,922
52 Wk H/L (INR)	3,568/ 2,686
Volume Avg (3m K)	859
Face Value (INR)	1
Bloomberg Code	APNT IN

### KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	2,17,128	2,91,013	3,44,886	3,62,104	4,10,402	4,58,594
EBITDA	48,556	48,036	62,598	79,705	84,433	94,244
PAT	31,393	30,306	41,065	56,087	57,906	63,830
Adj. PAT	31,393	31,463	41,553	55,747	57,906	63,830
EPS	32.7	31.6	42.8	58.5	60.4	66.5
Adj. EPS	32.7	32.8	43.3	58.1	60.4	66.5
EBITDA Margin (%)	22.4%	16.5%	18.2%	22.0%	20.6%	20.6%
Adj. PAT Margin (%)	14.5%	10.8%	12.0%	15.4%	14.1%	13.9%

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	71,187
NIFTY	21,462

### Volume growth back in double-digits; industrial and projects businesses on strong footing

For Q3FY24, APNT reported revenue of INR 91,031 Mn, a growth of 5.4% YoY/ 7.4% QoQ (-0.6% vs. our estimate). Growth was supported by the extended festive season, however, there was relative moderation in demand in the latter part of the quarter. The Domestic Decorative Paint business had a sales growth of 5.5% YoY, backed by volume growth of 12.0% YoY. Volume growth was back in double-digits after seeing a muted 6.0% growth in Q2FY24. APNT saw green shoots in rural markets which had double-digit volume growth in the quarter. Value growth was impacted by a price cut of 1.3% (1.0% in the quarter and 0.3% earlier) and an unfavorable mix as the economy grew in double-digits with a resurgence in rural, while growth in premium segments was lower. However, the luxury segment also saw double-digit growth, which is a positive. Industrial business saw a double-digit growth which pushed the overall India coatings revenue growth to 6.1% YoY. PPG-AP, the Auto coatings business, saw its revenue grow by 12.3% YoY while AP-PPG, the industrial coatings business grew by 9.9% YoY. Strong growth continued in waterproofing in both retail and B2B channels. Overall, the Project business performance continued to be stronger than retail.

### International and kitchen revenues flat YoY; bath business sees lower decline than in previous quarters

Within International businesses, the Middle East and Africa saw revenue growth. On the other hand, South Asia and Egypt remained impacted by macroeconomic headwinds and inflationary pressures. Overall, the international revenue was flat YoY, vs. a 3.0% decline in H1FY24. Within Home Décor, the Kitchen business revenue was flat YoY against double-digit declines seen in the last 3 quarters. Bath business revenue decline also reduced to 5.6% YoY vs. 24.5% YoY decline in H1FY24 and a double-digit decline in the last 4 quarters.

### Margin delivery beyond target band despite price cuts and higher growth in the economy segment

Gross margin expanded by 504 bps YoY/ 24 bps QoQ in the quarter as raw material prices saw further deflation of 0.2% QoQ. Gross margins inched up despite a 1.3% price decrease taken in the portfolio. For 9MFY24, gross margin expanded by 595 bps YoY. EBITDA for the quarter grew by 27.6% YoY/ 19.8% QoQ to INR 20,561 Mn while EBITDA margin expanded by 393 bps YoY/ 234 bps QoQ to 22.6%. Reported EBITDA was 3.0% higher than our estimate due to lower employee and other expenses. EBITDA margin expansion was driven by material cost softening, growth in luxury products, and operating, sourcing and formulation efficiencies. PAT for the quarter was at INR 14,477 Mn, reporting a growth of 35.0% YoY/ 20.1% QoQ. PAT was 2.7% higher than our estimate, flowing down from the higher EBITDA. PAT for 9MFY24 grew by 46.3% YoY to INR 42,035 Mn.

### SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	52.6	52.6	52.6
FIIIs	17.3	17.7	17.5
DIIIs	10.6	10.1	10.1
Others	19.5	19.6	19.8
Total	100.0	100.0	100.0

10.0%

Revenue CAGR between FY23 and FY26E

15.8%

Adj. PAT CAGR between FY23 and FY26E

## Asian Paints Ltd.

### Conference Call Highlights

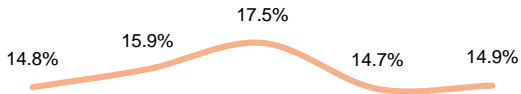
- Growth for the Domestic decorative business remained strong on a 4-year CAGR basis with volume/ value growth in the quarter at 14.9%/ 14.5%, respectively. Over 4 years, rural and urban growth rates were at similar levels.
- While PBT for the kitchen business reached breakeven in the quarter, bath business profitability deteriorated with PBT margin at 8.2% vs. 1.8% in H1FY24. Kitchen business is likely to see better performance here on. APNT has not been able to grow the kitchen and bath businesses in terms of scale and profitability. The Company has revamped its strategy and is now focusing on these 2 businesses as a part of the overall Home Décor integrated strategy, and not on a standalone basis.
- Within Home Décor, Weatherseal/ White Teak revenue grew by 100.0%/18.0% YoY, respectively. These businesses are in expansion mode so APNT will continue to make investments for expansion.
- International revenue was flat in the quarter vs. a decline in last 2-3 quarters. Constant currency growth was at 5.2%, but currency depreciation in countries like Egypt and Bangladesh impacted INR growth. Ex. Nepal, the International business grew by 7.0% YoY in INR terms and 13.0% YoY in constant currency terms. PBT improved due to lower RM costs and operating efficiencies.
- APNT is a part of a majority of the marquee projects such as in Ayodhya, metros, parliament, airport expansions, NHAI, etc. and has a 80.0% representation in such marquee projects.
- PPGAP has seen good PBT levels due to RM costs softening. APPPG also saw PBT improvement due to RM costs lowering and technological interventions.
- APNT expanded its distribution footprint by 2,000 points to reach 1,62,000 retailers.
- The completion of brownfield expansions at Khandala and Kasna has added capacity of 0.2 Mn KL.
- New launches in the quarter included Lotus 25 hydrophobic coating in the bath category, which prevents corrosion of taps/ faucets. APNT also launched Royale Wardrobes under Home Décor.
- Out of the total 54 Beautiful Homes stores, 35 to 40 stores are profitable for both the organization and the retailer. The ROI for these stores is ~2.5 to 3 years.
- New products contribute to 12.0% of sales for APNT.
- APNT has rebranded its Safe Painting Service, which was a name more suited to the Covid times, to 'Beautiful Homes Painting Service'.
- Management expects volume growth to sustain in double-digits. However, due to the upcoming elections, there could be some deferment of painting which can impact Q4FY24E or Q1FY25E. On the other hand, excess money in the market due to the elections can influence demand positively.
- In International business, Bangladesh could see an improvement as the elections are done. Sri Lanka has seen some improvement while Nepal is expected to remain impacted in Q4FY24E. Egypt will see growth in constant currency terms but will be impacted by FX depreciation and availability issues.
- APNT is not looking at price cuts as a demand generator. There could be pricing actions taken in pockets where the Company sees some downtrading.
- Management expects a gap of 3.0% to 4.0% to continue between volume and value growth as the economy and premium segments are large (~80.0% in terms of emulsions) vs. the luxury segment.
- Management expects RM prices to soften further despite geopolitical issues as global consumption is expected to be weak as larger economies like the USA and China are not seeing consumption growth.
- APNT has maintained an EBITDA margin guidance band at 18.0% to 20.0% as it will ramp up marketing and Above The Line (ATL) spending.
- The capex for backward integration of white cement will come on stream by the end of CY25E and that for Vinyl Acetate Monomer (VAM)/ Vinyl Acetate Ethylene Emulsion (VAE) will commence about 4-5 months after that.

### Valuation and view

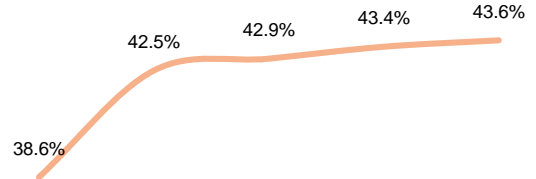
APNT has seen double-digit volume growth in the quarter after a mid-single-digit volume growth in Q2FY24, as there was some recovery in rural markets in the quarter along with the festive season tailwind. The volume CAGR has remained strong and in double digits for the past several quarters. While the premium segment is seeing slower growth, traction in luxury is positive. In the coming quarters, APNT will continue to benefit from a rural recovery, strong growth in the industrial businesses and continued traction in the projects business. With the entry of a large player in the paints industry in Q4FY24E, the competitive intensity is likely to ramp up. However, APNT has a strong gross profit margin which can be used to drive marketing and above-the-line spending. We have kept our EBITDA margin assumption at 20.6% for FY25E and FY26E, considering management's medium-term guidance of 18.0% to 20.0%. However, we believe there is a possibility of higher margin delivery due to premiumization, growth in technical areas such as waterproofing leading to better margins and continued sourcing and operating efficiencies. **We make small adjustments to our FY24E/ FY25E EPS of +1.1%/ -1.3% respectively, as we factor in the strong margin performance in Q3FY24 but reduce our revenue assumption slightly. We introduce our FY26E estimates. We expect Revenue/ EBITDA/ Adj. PAT to grow at 10.0%/ 14.6%/ 15.4% CAGR, respectively, between FY23-26E. The share currently trades at 54.4x/ 52.4x/ 47.5x FY24E/ FY25E/ FY26E Adj. EPS, respectively. Since our last report, the share price has increased by 5.6%. We roll over our valuation to FY26E and apply a P/E multiple of 52x (earlier 55x on FY25E EPS) on FY26E EPS of INR 66.5 to arrive at a target price of INR 3,460 (INR 3,365 earlier); an upside potential of 9.4%. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Asian Paints Ltd.**

## Asian Paints Ltd.

4-yr Volume CAGR for India Decorative paints segment



Gross Profit Margin continues to inch up (%)



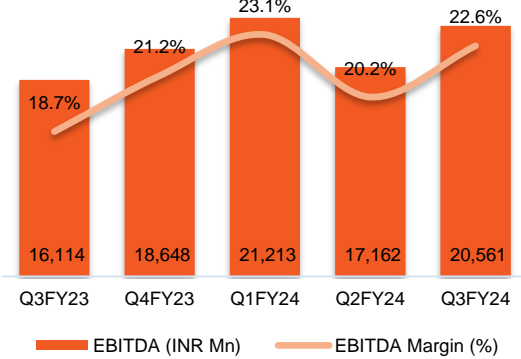
Q3FY23 Q4FY23 Q1FY24 Q2FY24 Q3FY24

Source: Company, KRChoksey Research

Q3FY23 Q4FY23 Q1FY24 Q2FY24 Q3FY24

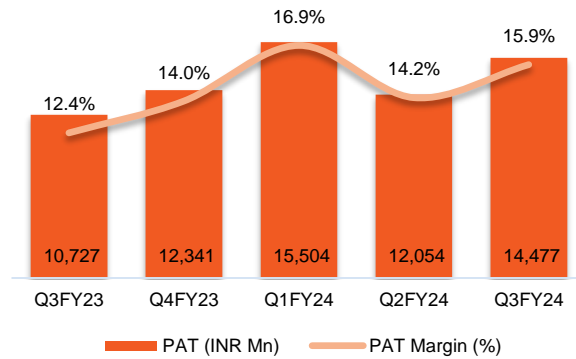
Source: Company, KRChoksey Research

EBITDA margin uptick due to material costs softening and efficiencies



Source: Company, KRChoksey Research

PAT margin inches up



Source: Company, KRChoksey Research

### KEY FINANCIALS

Particulars (INR Mn)	Q3FY24	Q2FY24	Q1FY23	QoQ	YoY	9MFY24	9MFY23	YoY
Sales	91,031	84,786	86,367	7.4%	5.4%	267,640	257,013	4.1%
Total Expenditure	70,470	67,623	70,253	4.2%	0.3%	208,704	213,062	-2.0%
Cost of Raw Materials	38,370	39,183	38,159	-2.1%	0.6%	118,264	133,512	-11.4%
Purchase of Stock	10,171	10,360	10,315	-1.8%	-1.4%	29,099	32,506	-10.5%
Changes in Inventories	2,795	-1,528	4,583	282.9%	-39.0%	4,393	-4,986	188.1%
Employee Cost	5,702	5,961	5,038	-4.3%	13.2%	17,120	15,060	13.7%
Other Expenses	13,432	13,648	12,158	-1.6%	10.5%	39,829	36,969	7.7%
EBITDA	20,561	17,162	16,114	19.8%	27.6%	58,936	43,951	34.1%
EBITDA Margin (%)	22.6%	20.2%	18.7%	234 bps	393 bps	22.0%	17.1%	492 bps
Depreciation	2,204	2,087	2,141	5.6%	2.9%	6,274	6,379	-1.6%
EBIT	18,357	15,075	13,974	21.8%	31.4%	52,662	37,572	40.2%
Interest Expense	544	509	414	6.9%	31.5%	1,511	1,055	43.1%
Other income	1,386	1,652	866	-16.1%	60.1%	5,009	2,810	78.2%
PBT	19,199	16,218	14,426	18.4%	33.1%	56,160	39,327	42.8%
Exceptional items	0	0	0	NA	NA	0	242	NA
Tax	4,926	4,186	3,811	17.7%	29.2%	14,413	10,421	38.3%
Minority interest/ Share of associates	204	22	113	846.3%	81.5%	288	59	389.0%
PAT	14,477	12,054	10,727	20.1%	35.0%	42,035	28,723	46.3%
PAT Margin (%)	15.9%	14.2%	12.4%	169 bps	348 bps	15.7%	11.2%	453 bps
EPS	15.1	12.6	11.2	20.1%	35.0%	43.8	29.9	46.3%
Adj PAT	14,477	12,054	10,727	20.1%	35.0%	42,035	28,965	45.1%
Adj. PAT Margin (%)	15.9%	14.2%	12.4%	169 bps	348 bps	15.7%	11.3%	444 bps
Adj. EPS	15.1	12.6	11.2	20.1%	35.0%	43.8	30.2	45.1%

Source: Company, KRChoksey Research

## Asian Paints Ltd.

### KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>291,013</b>	<b>344,886</b>	<b>362,104</b>	<b>410,402</b>	<b>458,594</b>
COGS	183,008	211,565	204,951	234,730	262,863
<b>Gross profit</b>	<b>108,005</b>	<b>133,321</b>	<b>157,153</b>	<b>175,672</b>	<b>195,731</b>
Employee cost	17,867	20,281	22,977	25,575	28,580
Other expenses	42,103	50,442	54,471	65,664	72,908
<b>EBITDA</b>	<b>48,036</b>	<b>62,598</b>	<b>79,705</b>	<b>84,433</b>	<b>94,244</b>
<b>EBITDA Margin</b>	<b>16.5%</b>	<b>18.2%</b>	<b>22.0%</b>	<b>20.6%</b>	<b>20.6%</b>
Depreciation & amortization	8,164	8,580	8,727	11,220	13,779
<b>EBIT</b>	<b>39,873</b>	<b>54,018</b>	<b>70,978</b>	<b>73,213</b>	<b>80,465</b>
Interest expense	954	1,445	1,944	1,944	1,944
Other income	3,800	3,865	5,728	6,208	6,848
Exceptional items	1,157	489	-340	0	0
<b>PBT</b>	<b>41,562</b>	<b>55,950</b>	<b>75,101</b>	<b>77,477</b>	<b>85,369</b>
Tax	11,029	14,935	19,273	19,883	21,908
Share of associates/ Minority / Discontinued operations	-227	50	258	312	370
<b>PAT</b>	<b>30,306</b>	<b>41,065</b>	<b>56,087</b>	<b>57,906</b>	<b>63,830</b>
<b>Adj. PAT</b>	<b>31,463</b>	<b>41,553</b>	<b>55,747</b>	<b>57,906</b>	<b>63,830</b>
<b>EPS (INR)</b>	<b>31.6</b>	<b>42.8</b>	<b>58.5</b>	<b>60.4</b>	<b>66.5</b>
<b>Adj. EPS</b>	<b>32.8</b>	<b>43.3</b>	<b>58.1</b>	<b>60.4</b>	<b>66.5</b>

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	9,865	41,934	60,808	58,356	66,406
Net Cash Flow from/(used in) Investing Activities	-3,217	-12,746	-31,246	-19,085	-18,444
Net Cash Flow from Financing Activities	-18,076	-21,401	-26,057	-29,603	-32,430
Net Inc/Dec in cash equivalents	-11,428	7,787	3,505	9,667	15,532
Opening Balance	34,212	22,833	30,543	34,083	43,786
Effect of exchange differences on cash and cash equivalents	49	-77	35	35	35
Closing Balance Cash and Cash Equivalents	22,833	30,543	34,083	43,786	59,353
Liquid investments	16,616	25,312	25,312	25,312	25,312
Cash and Cash equivalents as per balance sheet	6,217	5,231	8,771	18,473	34,040

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	16.5%	18.2%	22.0%	20.6%	20.6%
Tax rate (%)	26.5%	26.7%	25.7%	25.7%	25.7%
Net Profit Margin (%)	10.4%	11.9%	15.5%	14.1%	13.9%
RoE (%)	21.3%	25.0%	28.5%	25.5%	24.5%
RoCE (%)	26.6%	31.0%	34.4%	31.0%	29.8%
EPS (INR)	31.6	42.8	58.5	60.4	66.5
PE	96.5x	73.0x	54.4x	52.4x	47.5x

Source: Company, KRChoksey Research



## Asian Paints Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Property, plant and equipment	41,845	41,457	37,075	50,655	62,254
Right-to-use assets	9,058	12,089	12,089	12,089	12,089
Capital work-in-progress	4,264	10,196	39,888	35,213	29,960
Goodwill (Net)	2,429	2,285	2,285	2,285	2,285
Other intangible assets	1,860	1,874	2,131	2,131	2,131
Investment in Associate	5,155	7,817	8,226	8,634	9,042
Investments	5,514	7,830	7,830	9,830	11,830
Trade receivables	24	22	22	22	22
Other financial assets	4,861	3,632	3,632	3,632	3,632
Deferred tax assets (Net)	260	187	196	222	248
Non-current tax assets (Net)	1,725	1,895	1,990	2,255	2,520
Other non-current assets	1,329	3,345	3,512	3,981	4,448
<b>Total non-current assets</b>	<b>78,321</b>	<b>92,628</b>	<b>1,18,875</b>	<b>1,30,949</b>	<b>1,40,461</b>
Inventories	61,530	62,106	60,165	68,907	77,165
Investments	21,807	26,970	28,970	30,970	32,970
Trade receivables	38,714	46,369	48,684	55,178	61,657
Cash and cash equivalents	6,217	5,231	8,771	18,473	34,040
Other Balances with Banks	2,426	3,207	3,207	3,207	3,207
Other financial assets	15,335	15,928	15,928	15,928	15,928
Assets classified as Held for Sale	81	0	0	0	0
Other current assets	5,413	5,540	5,816	6,592	7,366
<b>Total current assets</b>	<b>1,51,523</b>	<b>1,65,352</b>	<b>1,71,541</b>	<b>1,99,255</b>	<b>2,32,334</b>
<b>TOTAL ASSETS</b>	<b>2,29,845</b>	<b>2,57,980</b>	<b>2,90,416</b>	<b>3,30,204</b>	<b>3,72,796</b>
Equity share capital	959	959	959	959	959
Other equity	1,37,156	1,58,963	1,89,823	2,18,776	2,50,691
Equity attributable to the equity shareholders	1,38,116	1,59,922	1,90,782	2,19,735	2,51,650
Non-controlling interests	3,875	4,537	5,686	7,015	8,480
<b>Total equity</b>	<b>1,41,991</b>	<b>1,64,459</b>	<b>1,96,468</b>	<b>2,26,751</b>	<b>2,60,130</b>
Borrowings	445	762	762	762	762
Other financial liabilities	5,984	7,289	7,289	7,289	7,289
Lease liabilities	22	464	464	464	464
Provisions	2,183	2,307	2,307	2,307	2,307
Deferred tax liabilities (Net)	3,489	3,348	3,348	3,348	3,348
Other non-current liabilities	21	392	392	392	392
<b>Total non-current liabilities</b>	<b>12,144</b>	<b>14,562</b>	<b>14,562</b>	<b>14,562</b>	<b>14,562</b>
Borrowings	7,311	8,961	8,961	8,961	8,961
Trade payables	41,643	36,354	35,218	40,335	45,169
Other financial liabilities	18,868	24,360	25,576	28,988	32,392
Other current liabilities	3,761	4,590	4,820	5,462	6,104
Provisions	697	742	779	883	987
Current tax liabilities (Net)	1,301	1,637	1,719	1,948	2,177
<b>Total current liabilities</b>	<b>75,710</b>	<b>78,959</b>	<b>79,387</b>	<b>88,891</b>	<b>98,103</b>
<b>Total liabilities</b>	<b>87,854</b>	<b>93,521</b>	<b>93,949</b>	<b>103,453</b>	<b>112,665</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,29,845</b>	<b>2,57,980</b>	<b>2,90,416</b>	<b>3,30,204</b>	<b>3,72,796</b>

Source: Company, KRChoksey Research

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Asian Paints Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
19-Jan-24	3,164	3,460	ACCUMULATE	Buy	More than 15%
31-Oct-23	2,996	3,365	ACCUMULATE	Accumulate	5% – 15%
28-Jul-23	3,377	3,629	ACCUMULATE	Hold	0 – 5%
16-May 23	3,133	3,564	ACCUMULATE	Reduce	-5% – 0
20-Jan 23	2,785	3,564	BUY	Sell	Less than – 5%
25-Oct 22	3,120	3,743	BUY		

ANALYST CERTIFICATION:

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