Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Annual Report Review

Asian Paints Ltd

Upgrade to Buy; risk reward favourable

Consumer Goods	Sharekhan code: ASIANPAINT
Reco/View: Buy ↑	CMP: Rs. 2,936
Price Target: Rs. 3,385 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↑	

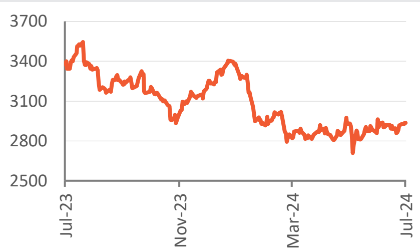
Company details

Market cap:	Rs. 2,81,596 cr
52-week high/low:	Rs.3,567 / 2,671
NSE volume: (No of shares)	12.8 lakh
BSE code:	500820
NSE code:	ASIANPAINT
Free float: (No of shares)	45.4 cr

Shareholding (%)

Promoters	52.6
FII	17.1
DII	11.7
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.9	1.8	-12.5	-13.0
Relative to Sensex	-8.4	-5.9	-23.6	-35.2

Sharekhan Research, Bloomberg

Summary

- We upgrade Asian Paints Ltd (APL) from Hold to Buy with a revised PT of Rs. 3,385. Stock trades at 51x/45x its FY2025E/26E EPS, which is a discount to its historical average, making risk reward favourable.
- Prudent capacity expansion plan, sustained innovation, backward integration and improving customer experience will help APL navigate through the tough times of heightened competition in the near term. OPM to remain flat over the next two years.
- Contribution from new launches came in at 11% in FY2024 (it added 24/16 products in decorative/ industrial paints in FY2024). In-house manufacturing capacity is expected to increase to 26.7 lakh KL/ annum from 18.5 lakh KL/annum at FY2024-end.
- Cash flow generation stayed strong with FCF of ~Rs. 2,400 crore. Working capital cycle improved by 10 days to 42 days in FY2024.

Asian Paints Limited's (APL's) decorative paint volume growth moderated to 9% in FY2024 due to weak demand environment in the rural market affecting growth in the bottom-of-pyramid paint segment, while luxury paints continued to do well during the year. The management expects volume growth to remain in double-digits aided by expected recovery in rural demand and a pick-up in demand at B2B business. Heightened competition is unlikely to have any significant impact on the volume growth aspiration of the market leader. However, APL has enhanced its investment behind brands from last two quarters, which we expect to continue in the near term. Hence, OPM is expected to remain at ~20% versus 21.4% achieved in FY2024 (largely driven by a correction in raw material prices). In-house manufacturing of VAM/VAE and various cost-saving projects along with change in mix will add 100-150 bps to margins in the long run. Return ratios improved y-o-y, with RoE rising to 32% and RoCE to 24%. APL maintained its strong cash flow generation with FCF at ~Rs. 2,400 crore. Working capital cycle improved by 10 days to 42 days in FY2024. APL's on-going capex plan is as per schedule and will help to mitigate the rising competition in the long run.

- **Eyeing double-digit volume growth in decorative paints:** The management expects volume growth to remain in double-digits in FY2025. While Q1 might see some impact of elections, APL expects strong demand revival from Q2 due to an expected comeback in rural demand, sustained demand for premium segment and a recovery in government demand due on higher government spends on various infrastructure projects. Further, with expected recovery in the rural market, the volume and value gap is expected to reduce to 5-6% in the quarters ahead (from 12% in Q4FY2024).
- **Continued focus on innovation and strengthening of manufacturing and distribution footprint:** Contribution from new launches came in at 11% in FY2024 (added 24/16 products in decorative/industrial paints in FY2024). Going ahead, as a market leader, APL plans to continue to add new products so as to penetrate in low-income segment and improve per capita consumption of paints. Post the planned capacity expansion, APL's in-house manufacturing capacity is expected to increase to 26.7 lakh KL/annum from 18.5 lakh kilolitres/annum at FY2024-end. The company plans to widen its presence in the domestic and international markets by entering new geographies, adding more retail touchpoints and expanding store network (Home décor).
- **Strong balance sheet with healthy cash flow generation:** During FY2024, APL's working capital cycle improved to 42 days from 52 days in FY2023. Free cash flows (FCF) stood at ~Rs. 2,400 crore in FY2024 against ~Rs. 2,600 crore in FY2023. Dividend payout ratio was maintained at 60%. RoE rose to 32.0% in FY2024 from 28.4% in FY2023 and RoCE rose to 24.4% in FY2024 from 22.5% in FY2023. Going ahead, we expect APL to generate an FCF of ~Rs. 5,500 over FY2025E-FY2026E, while RoE and RoCE are expected to fall to 28% and 23%, respectively in FY2026E (due to high capex plans).

Our Call

View – Upgrade to Buy with revised PT of Rs. 3,385; risk-reward favourable: APL's annual report gives confidence about the company's strategies on maintaining leadership position in the decorative paints business and making itself a formidable player in the home décor industry in India. Heightened competition will keep margins under check in the near term, but we expect APL to maintain its leadership position driven by innovation, distribution expansion and addressing customers' need in the coming years. The stock has underperformed compared to broader indices (down by 13% in last one year) and is trading at 51x/45x its FY2025E/26E EPS, which is at a discount to last five years average of 61x. Hence, in view of a favourable risk-reward ratio, we upgrade our rating on the stock to Buy with a revised price target of Rs. 3,385. With its defined strategies, APL will sail through the tough times and retain its strong position in the domestic decorative paints industry.

Key Risks

Any significant moderation in the sales volume due to sustained slowdown in the rural market or impact of heightened competition or substantial increase in the raw material prices impacting the profitability would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	34,489	35,495	38,039	42,487
OPM (%)	18.2	21.4	20.2	20.1
Adjusted PAT	4,231	5,558	5,528	6,243
% YoY growth	33.5	31.3	-0.5	12.9
Adjusted EPS (Rs.)	44.1	57.9	57.6	65.1
P/E (x)	66.5	50.7	50.9	45.1
P/B (x)	17.6	15.0	13.5	11.8
EV/EBIDTA (x)	42.1	33.8	33.2	29.9
RoNW (%)	28.4	32.0	27.9	27.9
RoCE (%)	22.5	24.4	22.4	23.0

Source: Company; Sharekhan estimates

Voice of Top management

Chairman's corner (R Seshasayee)

- FY2024 saw consumption demand moderating due to lingering impact of retail inflation, particularly in the rural markets, which lead to revenue growth trajectory tapering down to single-digits (revenue grew by 3% y-o-y) for FY2024.
- Despite subdued revenue growth, profit growth was strong (operating profit/PAT grew by 21%/31% y-o-y, respectively) supported by the correcting raw material prices as well as various internal cost optimisation initiatives.
- On a medium term basis, the company has maintained its double-digit revenue growth trajectory delivering a mid-teens compounded growth rate (FY2020-24 revenue CAGR at 15%).
- APL's foray in the home décor space has taken a quantum leap over the past few years catapulting APL into the position of being the leading integrated home décor player.
- Industrial business has grown exponentially over the past few years and APL has been able to expand its reach and capabilities backed by a sturdy technology base.
- Widening competitive landscape has given APL an added impetus to excel, further strengthening its growth ambitions.

MD & CEO's message (Amit Syngle)

- **Volume growth:** In a challenging demand environment, APL continued to drive volumes across all segments in FY2024 registering a near double-digit volume growth for the year. The company has grown at strong CAGR volume growth over four years.
- **Economy and premium segments:** APL's focused drive to expand the organised market and strengthen its foray into the bottom-of-the-pyramid segment delivered good results as seen in the increased portion of economy products in APL's mix. However, owing to price hikes taken in previous years to tackle the unprecedented raw material inflation, APL's premium products grew at a slower clip. As prices ease, this segment is likely to see some bounce back going forward.
- **Margins:** Moderating raw material prices and APL's diligent efforts in achieving sourcing and formulation efficiencies provided a healthy cushion to margins. The company also took this opportunity to pass on some of these benefits to its consumers and support consumption demand.
- **Home décor:** APL is now the leading decorative lighting and integrated kitchens brand and is also among the leading players in the wallpapers, textures, fabrics and furnishings businesses in India. In FY2024, revenue contribution from the home décor space was ~4% of decorative revenues. APL is committed to make this business about 8-10% of the overall decorative business in the next 3 years.
- **Industrial business:** Both industrial businesses have registered double-digit revenue growth and much-improved profit margins in FY2024. Growth in the automotive industrial coatings business was driven by the automotive segment as well as the refinish space. The non-automotive industrial coatings business has doubled in three years, driven by exceptional growth in the protective and powder coatings space.
- **International business:** Though the international business was supported by growth in the Middle East and parts of Africa, it remained constrained by macroeconomic challenges, inflation, and forex unavailability in key geographies of South Asia and Egypt.

- **Innovation:** Over the last four years, APL has introduced 120+ new products, with chemistries and features that are unique in the market. During this time, APL has filed for 85+ patents, of which, 60 have been granted and ~50% are commercialised. In FY2024, new products contributed to over 11% of APL's revenue.
- **Capex:** In FY2023, APL announced investments of ~Rs. 8,750 crore across the key areas of backward integration, futuristic technology, and capacity expansions through both greenfield and brownfield projects. In FY2024, APL made significant progress on these.

APL at a glance

Portrait of sustained growth	
No. 1 Paints company in India	No. 1 Integrated home décor player
No. 1 in Decorative lighting	No. 2 in Fabric and Furnishing
Stature	
No. 2 Paints company in Asia	No. 8 Paints company in the world
Scale	
27 in-house Paints manufacturing facilities globally	60+ countries served
18,50,000 KL/annum installed in-house decorative Paints manufacturing capacity in India (FY2024)	
Reach	
60 Beautiful Homes stores across India	160,000+ Retail touchpoints across India
90 lakh+ Beautifulhomes.com visitors during FY2024	
People	
12,000+ Employees globally	240+ Scientists driving innovation
Brand universe	

Source: Company; Sharekhan research

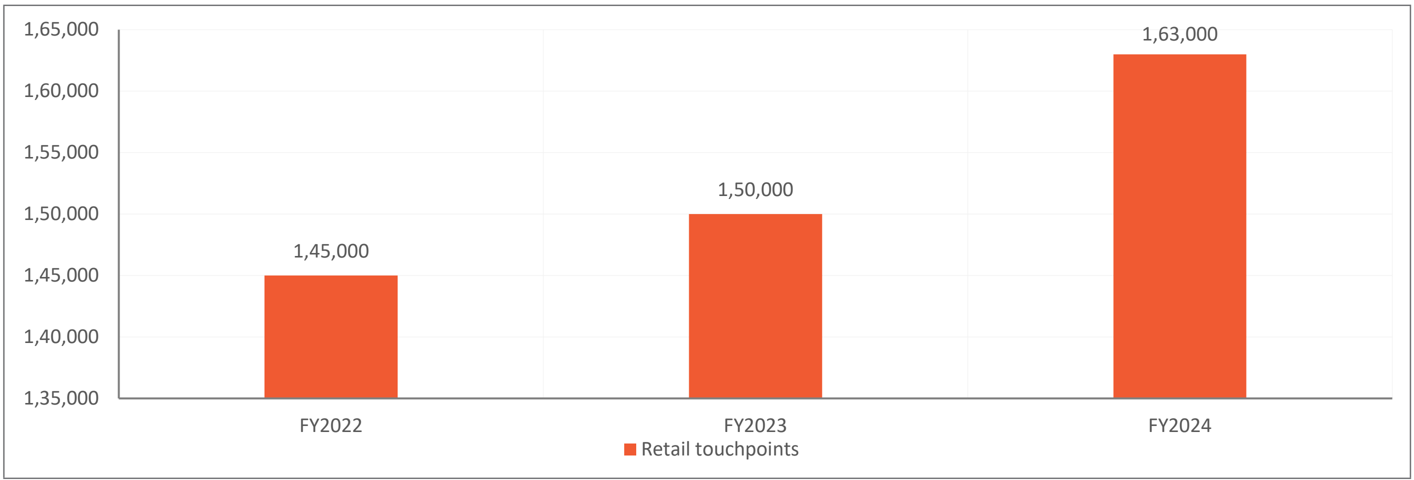
Nurturing relationships with influencers; expanding distribution network

The FY2024 annual report emphasises benefits given and initiatives undertaken by APL to strengthen its relationship with the dealer and influencer community including contractors, painters, architects, interior designers. The company has guided that it currently has network of over 2.67 lakh influencers, who can drive consumption and behaviour. Few of the initiatives include:

- APL has guided that it is the only company to offer health insurance to contractors.
- Introduction of instant Direct Benefit Transfer (DBT) feature for its contractors that allows immediate, anytime redemption of loyalty points.
- Rewarding contractors for their long-term loyalty to the company through the 'Legends' programme.
- The company has also stepped up training and upskilling programs for the contractor community (over 6.8 lakh participants trained at Asian Paints Colour Academy).
- APL is collaborating with 150+ leading AIDs under its 'Category Expertise' programmes for its executive cadres in the top 11 cities, to understand market dynamics and deepen penetration.
- APL has highlighted that a majority of its connections have been maintained across generations of dealer families.

In terms of its distribution network, the company currently has 1.63 lakh retail touchpoints across India. Going ahead, APL plans to add ~10,000 retail touchpoints per annum. In the Home décor space, APL currently has 60 home décor stores. It is planning to take the store count to 85-90 home décor stores in FY2025 and 150-200 stores in the next five years.

Rise in retail touchpoints



Source: Company; Sharekhan Research

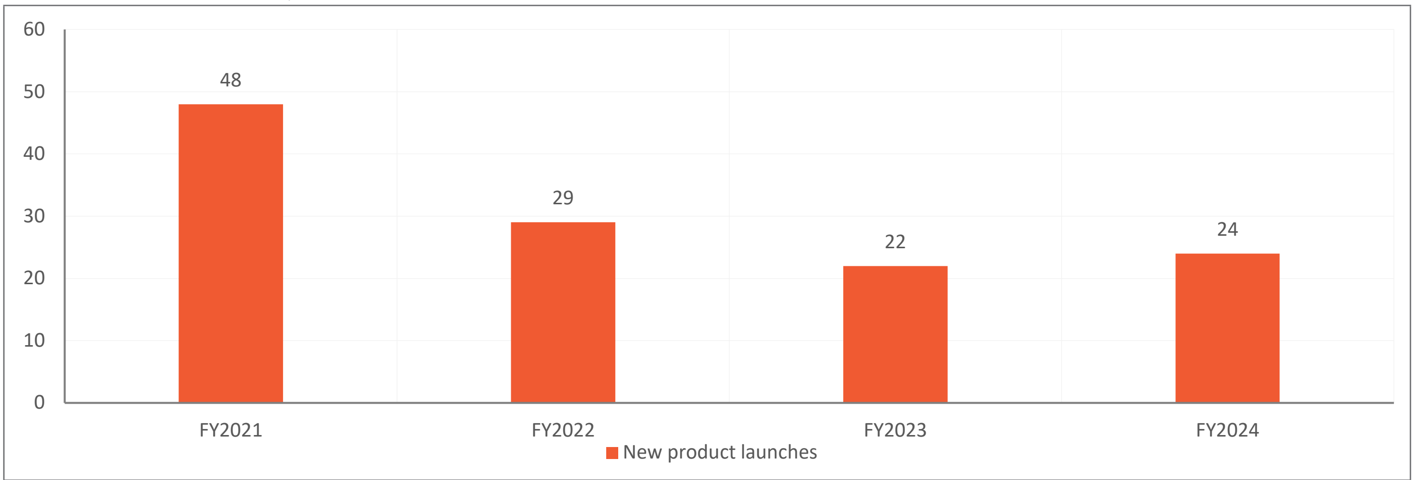
Strong focus on innovation

In FY2024, APL launched 24 new products in the decorative paints segment and 16 in the industrial products segment. The company initiated project 'Anveshan' in FY2024, with an aim to launch disruptive innovations in economical water-based interior paints, wood finishes, high-end exterior finishes and interior waterproofing. The project yielded the following product innovations:

- NeoBharat latex paint in the value-for-money interior category, to disrupt the economy segment and democratize paint adoption.
- Upgraded Damp Sheath Interior, the first waterproofing undercoat with a three-year warranty in the value-for-money category.
- Flash, a distinctive wood polish offering superior grain filling and gloss.

Contribution from new products stood at 11% in FY2024. Management has guided that APL is focused on growing the organised market in the bottom of the pyramid segment and increasing the per capita consumption of paints and its recent launches are aimed at these objectives.

Product launches over the years (Decorative Paints)



Source: Company; Sharekhan Research

Adding to its manufacturing strength

In FY2024, APL made significant progress with regards to the investments of ~Rs. 8,750 crore announced by the company in FY2023 across the key areas of backward integration, futuristic technology, and capacity expansions through both greenfield and brownfield projects. Update on the projects -

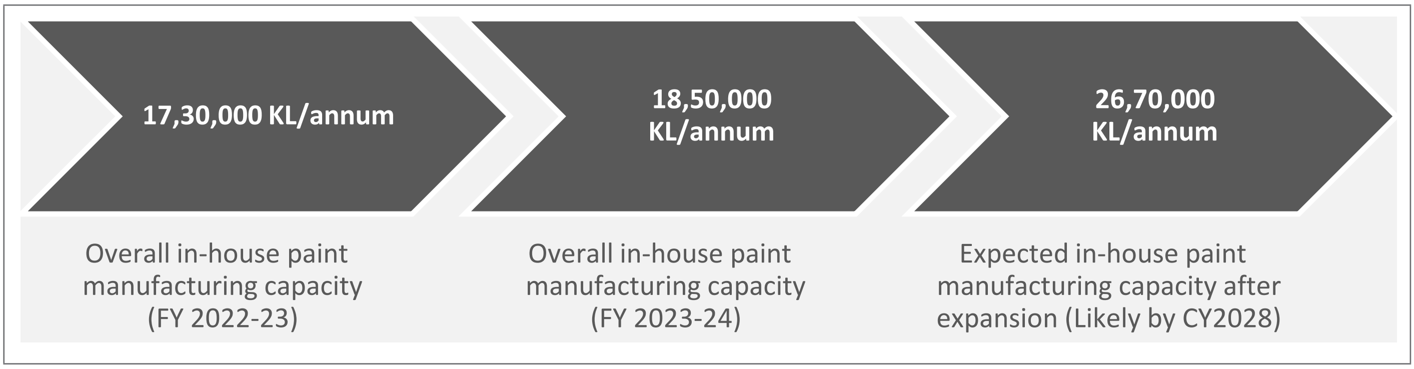
- Khandala (Maharashtra) and Kasna (Uttar Pradesh) brownfield expansions were completed in FY2024, augmenting capacity by 120,000 kilolitres/annum, taking the total in-house paints manufacturing capacity to 18,50,000 kilolitres/annum at FY2024-end.
- Brownfield expansions at both, Ankleshwar (Gujarat) and Mysuru (Karnataka), adding capacity of 4,20,000 KL/annum will also come on stream shortly (expected in FY2025).
- Land for greenfield water-based plant in Madhya Pradesh with 4,00,000 KL/annum capacity has been allotted at Pithampur. APL is now progressing towards the next phase of setup and construction and targets to complete the project by CY2028.
- The overall in-house paints manufacturing capacity after the above expansions is expected to be at 26,70,000 KL/annum (likely by CY2028).
- APL has received all statutory approvals for the Vinyl Acetate Ethylene Emulsion (VAE) and VAM (Vinyl Acetate Monomer) project and is progressing as per schedule. APL is targeting to complete this project by CY2026.
- The backward integration project in white cement being set up in the UAE is also moving as per schedule, with a target to commission the plant in CY2025.
- The management has guided that the benefit of backward integration would come in the subsequent years with the addition of 1-1.5% in the margins.

Existing manufacturing locations in India

Segment/Location	Capacity
Decorative coatings	**in '000 KL**
Rohtak, Haryana	400
Kasna, Uttar Pradesh	100
Ankleshwar, Gujarat	130
Khandala, Maharashtra	400
Patancheru, Telangana	80
Visakhapatnam, Andhra Pradesh	300
Mysuru, Karnataka	300
Sriperumbudur, Tamil Nadu	140
Existing capacity	**1,850**
Chemical	**in MT**
Cuddalore, Tamil Nadu	8,760
Industrial Coatings	
Sarigam, Gujarat*	7,200 MT
Taloja, Maharashtra	14,000 KL
* Facility of subsidiary company	
Note: Over and above, APL has also tied up with outside processing centres (OPCs) for manufacture and purchase of certain products, where APL does not have operational control.	

Source: Company; Sharekhan Research

Building manufacturing strength by adding capacities



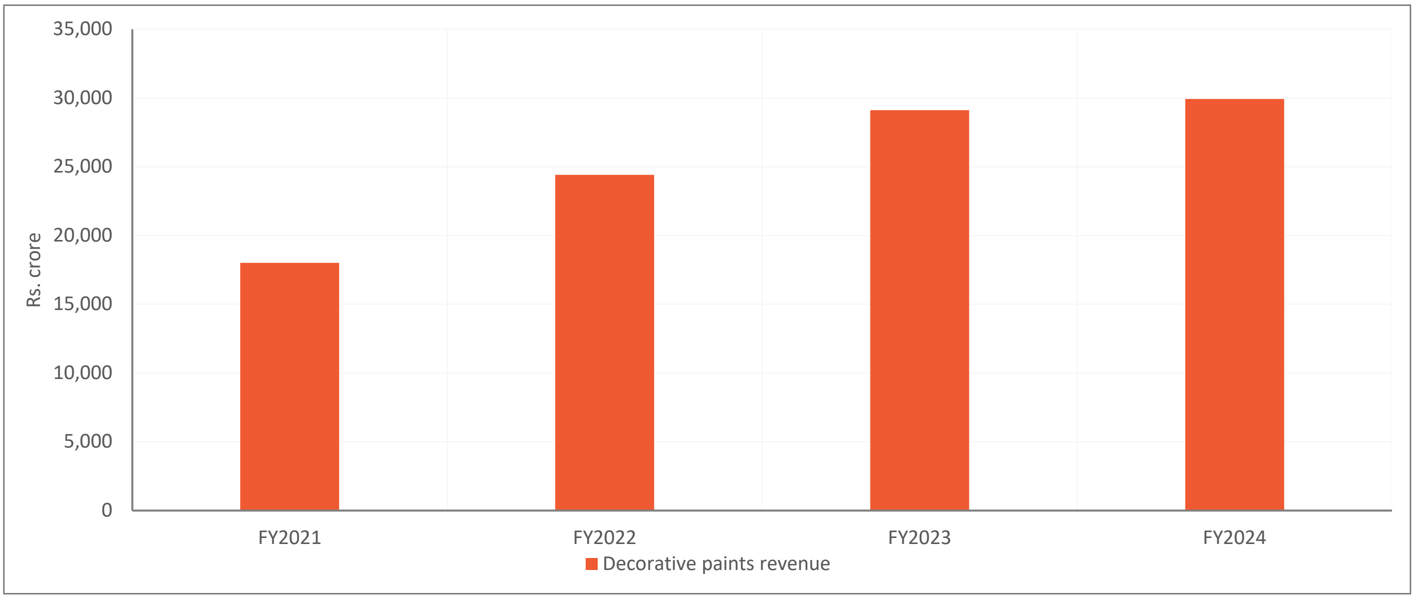
Source: Company; Sharekhan Research

Segment-wise FY2024 performance

Decorative and Home décor business (FY2024 revenue - Rs. 31,205 crore; contribution to revenue - 88.2%)

- **Decorative business**
  - APL delivered volume growth of 9% with a value growth of 3%. Price cuts implemented in H2FY2024 had an impact on the value growth.
  - 24 products were launched in the decorative coatings space in FY2024.
  - In an industry first, APL launched limited-edition festive packaging in FY2024 to celebrate the rich culture and heritage of West Bengal, Tamil Nadu and Kerala during the Durga Puja, Pongal, and Onam festivals respectively.
  - In the areas of projects and large user segments, APL sustained its leadership position amongst builders, government and cooperative housing societies.

Trend in decorative business revenue



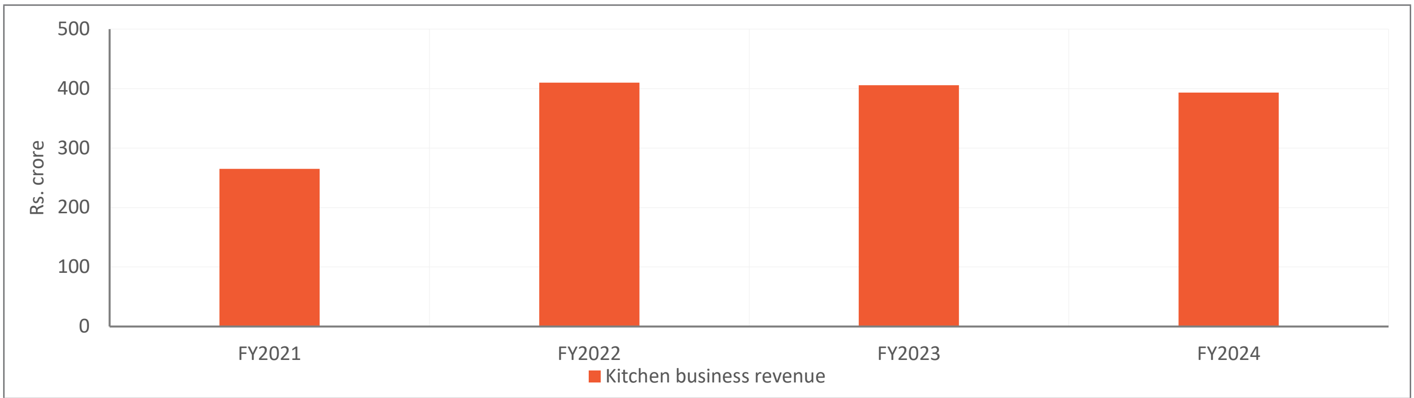
Source: Company; Sharekhan Research

Home décor (Beautiful Homes stores, White Teak, Weatherseal, Décor and consumer services, kitchen business, bath fittings and sanitaryware)

Home décor contributed ~4% to revenues in FY2024. Management reiterated its goal of home décor contributing 8-10% of overall decorative business sales in the next 3 years.

- **Kitchen business**
  - During the year, the Board of Directors of Asian Paints and Sleek approved the Scheme of Amalgamation of Sleek with Asian Paints to generate revenue synergies and optimise back-end operations.
  - During FY2024, Sleek registered sales of Rs. 394 crore (a 3% y-o-y decline), with luxury kitchens contributing to about one-third of sales, further strengthening Sleek's brand positioning as a premium player in the market.
  - Overall business performed in line with industry growth rates, supported by the launch of new products and expansion of the portfolio beyond kitchen hardware and accessories.
  - During the year, APL continued to focus on expansion in underdeveloped markets in order to expand its geographical reach, market penetration of products and achieve a greater distribution depth.
  - An additional manufacturing set-up at Wada in Maharashtra, commissioned in FY2024 will drive further cost efficiencies for the business in the coming years.

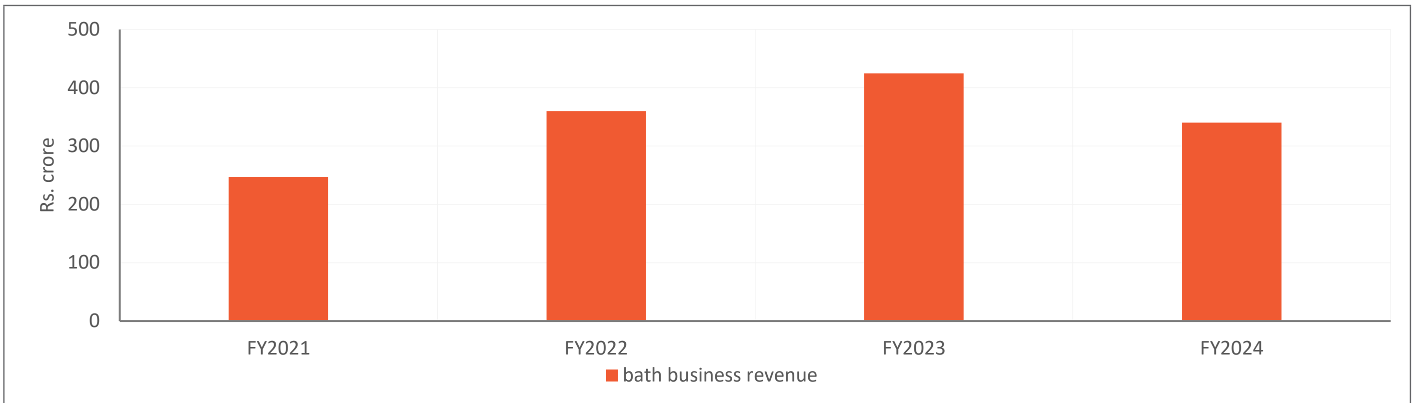
Trend in kitchen business revenue



Source: Company; Sharekhan Research

- **Bath fittings and sanitaryware**
  - The bathware industry had a challenging year with price reductions, a strong base effect, competition from new entrants in the business and rapid commoditisation in some product segments. Furthermore, sales from exports saw a substantial decrease.
  - The business recorded revenues of Rs. 340 crores in FY2024, registering a decline of 20% y-o-y.
  - APL's commitment to strong after-sales service standards remains a significant factor that sets it apart in both project-based and retail channels.

Trend in bath business revenue



Source: Company; Sharekhan Research

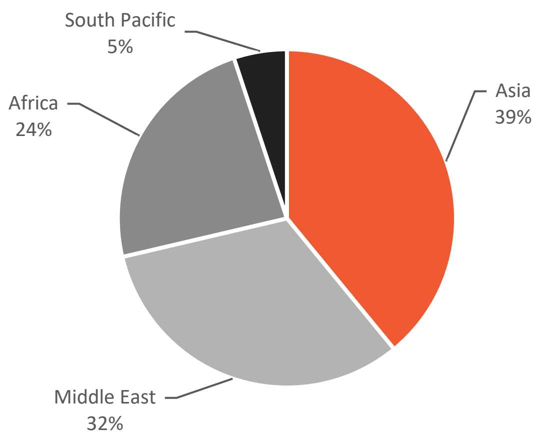
- **White Teak**
  - During the year, APL consolidated its position as the market leader in decorative lights, achieving a revenue of Rs. 133 crore, reporting a y-o-y growth of 23%.
  - APL introduced innovative retail formats, transitioning from a Company Owned, Company Operated (COCO) model to a Franchise Owned, Company Operated (FOCO) model, together with ramping up the establishment of Beautiful Homes Stores and Beautiful Home Studios.
  - The company opened nine full format stores of White Teak during the year, with additional five stores in the pipeline.
- **Weatherseal**
  - APL positioned itself as a dominant player in uPVC windows and doors category, doubling its topline from Rs. 25 crore in FY2023 to Rs. 52 crore in FY2024 and solidifying its position as the second-largest organised player in this category in the domestic market.
  - Concerted efforts in network expansion resulted in increased Weatherseal touchpoints in 20+ new cities.
  - APL also undertook significant backend scale-up initiatives enhancing operational efficiency and capacity in a complex made-to-measure category.
- **Beautiful Homes stores**
  - In FY2024, APL expanded its Beautiful Homes stores network to 60 stores across 45 towns.
  - Wall coverings saw the launch of 50+ collections, almost doubling APL's range.
  - In FY2024, APL launched the latest collection in wallcoverings and fabrics from the master designer Sabyasachi Mukherjee called Paris-Calcutta.
  - The company also launched economy wall coverings range to further expand its offerings into the economy segment.
- **Décor and consumer services**
  - Beautiful Homes Service, APL's flagship interior design service is now available in 13+ cities.
  - With the addition of newer categories such as wall panels and false ceilings, the Beautiful Homes Service will become the most sought-after brand in interior design.
  - During FY2024, APL solidified its position as the largest painting service brand in the country.

International business (FY2024 revenue - Rs. 3,062 crore; contribution to revenue - 8.7%)

- International business revenue stood largely flat y-o-y in FY2024.
- In all markets, APL's strategy was to capture new network counters, enrol new contractors and improve consumer mind share.
- Nepal, one of APL's largest international subsidiaries, continued to be impacted in both the paints and sanitary business by the lack of liquidity and overall slowdown.
- Uncertainty in Bangladesh's economy due to elections, concerns over forex availability and inflation pressurised the business across all segments. The top line faced challenges in FY2024, however, profitability improved due to reduction in material prices.
- In Sri Lanka, APL achieved a much better than expected performance in FY2024.
- In Indonesia, APL made extensive efforts to grow the waterproofing business and promote premium products, along with seeding products in the 'Value for Money' segment.

- Egypt remained uncertain and volatile. Unprecedented inflation and US Dollar shortage created panic several times during the year. However, a series of price increases were taken in line with competition to ensure that margins are protected.
- In Ethiopia, civil unrest continued in parts of the country, creating supply chain bottlenecks. APL took sufficient measures to ensure the supply of raw material, which resulted in a performance exceeding expectations at all fronts.
- The Middle East, untouched by currency issues, has been a strong contributor in the overall success of the company's operations. A deflationary environment aided overall profitability in the region.
- Operations in South Pacific were impacted by the increased movement of manpower to nearby regions. Recovery in tourism has been good and aided overall growth.

International business region-wise mix



Source: Company; Sharekhan Research

Industrial business (FY2024 revenue - Rs. 1,116 crore; contribution to revenue – 3.1%)

- **PPG-AP**
  - During FY2024, PPG-AP registered 10% y-o-y revenue growth, with a significant improvement in profitability across all businesses aided by softer raw material costs and stable currency.
  - All plants delivered higher y-o-y volumes.
  - Innovation in formulation, sourcing efficiency and other cost optimisation efforts helped further improve profitability.
- **AP-PPG**
  - AP-PPG recorded a 13% y-o-y revenue growth in FY2024, with notable rise in profitability.
  - The strategy of offering better value to customers through superior quality and wide product range, top-notch service standards, and improved delivery capabilities led to enhanced customer confidence and trust in the brand.
  - Further, expansion of network and partner loyalty programs and digitisation initiatives elevated AP-PPG's share in certain key segments and improved its industry standing.

FY24 financial performance

Muted revenue growth; sharp margin expansion aided double-digit PAT growth

- Consolidated revenues from operations grew by 2.9% y-o-y to Rs. 35,495 crore impacted by subdued demand and downtrading in the premium segment.
- Correction in prices of raw materials aided a 375 bps and 320 bps y-o-y expansion in gross margin and OPM to 42.5% and 21.4%, respectively.
- Operating profit grew by 21.2% y-o-y to Rs. 7,585 crore.
- Other income came in higher at Rs. 688 crore in FY2024, against Rs. 387 crore in FY2023, mainly on account of a sharp rise in other non-operating income.
- Interest expenses increased by 42% y-o-y to Rs. 205 crore.
- Double-digit operating profit growth, higher other income and stable depreciation charges aided 31.3% y-o-y growth in the adjusted PAT (after minority interest) to Rs. 5,558 crore.
- On a four-year CAGR basis, revenue and PAT grew by 15.1% and 18.9%, respectively.

Key balance sheet highlights

Improvement in working capital cycle; rise in return ratios

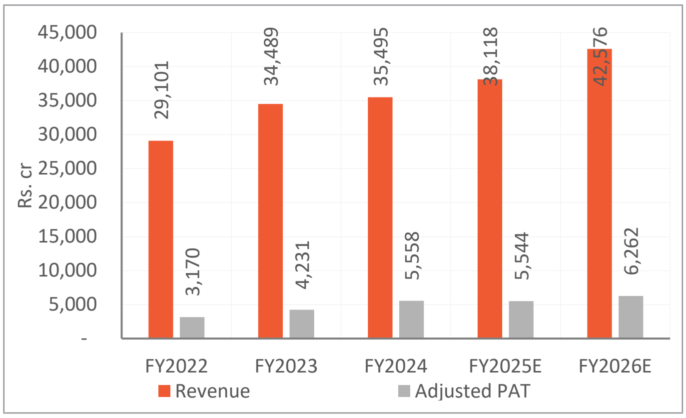
- Cash from operations improved to Rs. 7,939 crore in FY2024 versus Rs. 5,688 crore in FY2023.
- FCF stood at Rs. 2,398 crore in FY2024 against Rs. 2,595 crore in FY2023.
- Working capital cycle shrunk to 42 days versus 52 days in FY2023.
- Current investment increased to Rs. 3,203 crore from Rs. 2,697 crore in FY2023 and mainly comprised of investment in mutual funds.
- RoE improved to 32% in FY2024 from 28.4% in FY2023 and RoCE rose to 24.4% in FY2024 from 22.5% in FY2023.
- Total dividend for FY2024 is Rs. 33.30 (dividend payout of 60%) against Rs. 25.65 per share paid in FY2023, an increase of ~30%. Total dividend includes interim dividend of Rs. 5.15 per share and final dividend of Rs. 28.15 per share.

Major takeaways from AGM

- **Value growth declines in FY2024:** Value growth was low in FY2024 due to a combination of multiple factors like subdued demand, especially in H2FY2024 as well as impact of downtrading in the premium segment.
- **Market share:** Within the organized space in the industry, APL will have a 50% plus market share, but there's a vast unorganized market as well.
- **Competitive landscape:** The paints industry potential is very large. The per capita consumption of Paints in India is still very low and there's plenty of headroom for everybody to come in. APL aims to continue to maintain and improve its market share through diligent working, innovation and customer focus.
- **Global expansion:** At this stage, APL plans to focus on strengthening its presence in its existing global geographies rather than increasing footprint. But at the same time, if there is a good opportunity in any new market, the management will evaluate it.

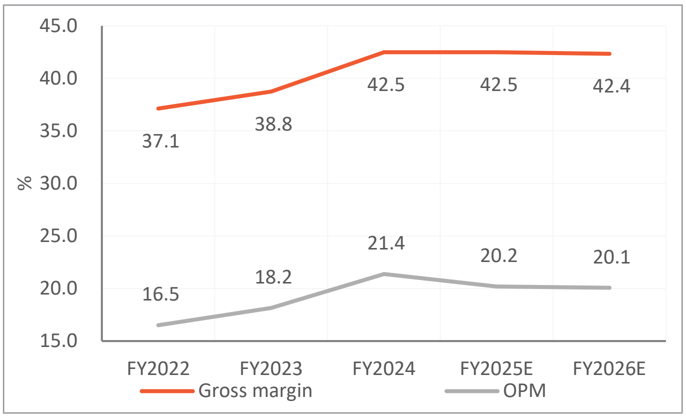
Financials in charts

Steady growth in revenue & PAT



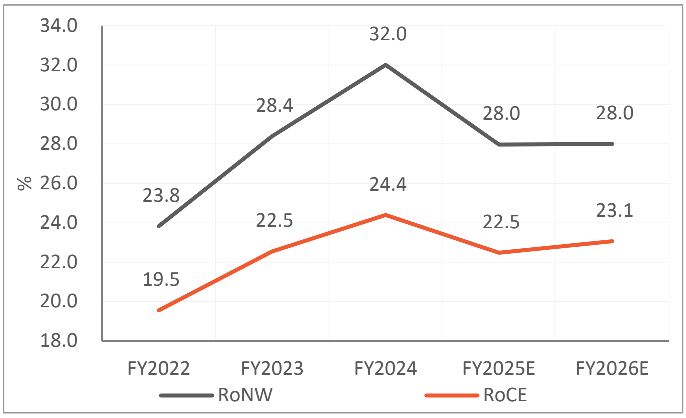
Source: Company, Sharekhan Research

Margins to moderate



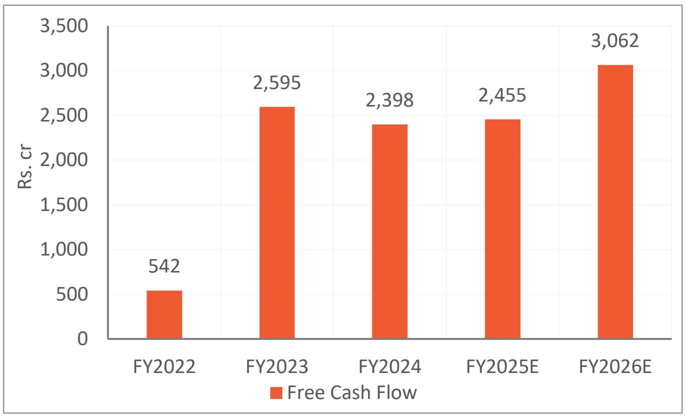
Source: Company, Sharekhan Research

Return ratios to see a decline



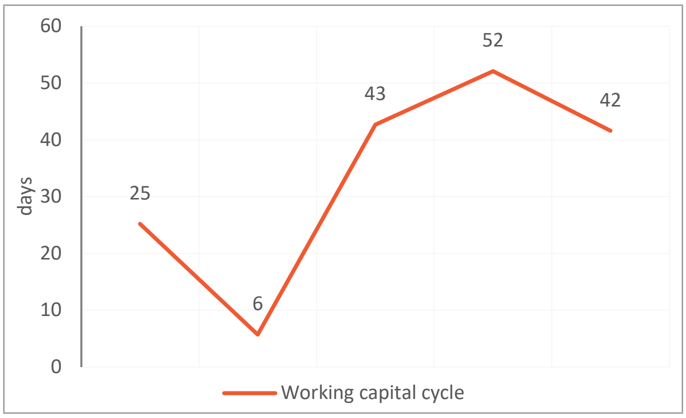
Source: Company, Sharekhan Research

Strong free cash flow generation



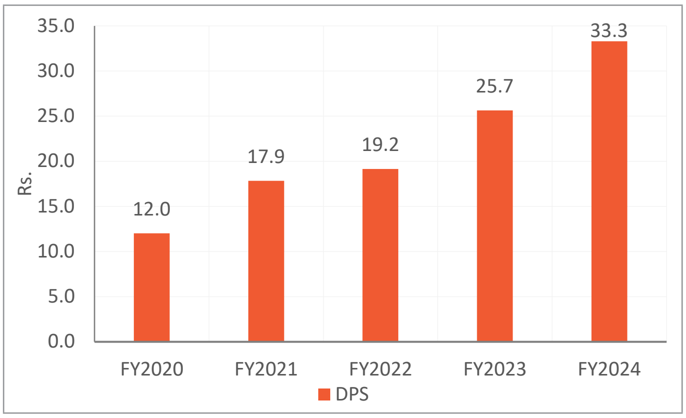
Source: Company, Sharekhan Research

Trend in working capital days



Source: Company, Sharekhan Research

Historical dividend per share



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Structural growth of the Paints industry is intact

The paints industry is expected to grow at a steady rate with strong demand in the luxury segment, while we expect recovery in the demand in tier-3 and tier-4 towns. Entry of large players in the decorative Paints 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 register a 12% CAGR over FY2023-FY2027 to Rs. 1,00,000 crore, led by a reduction in the re-painting cycle to 4-5 years (from 8-10 years earlier), increased construction activities of new real estate projects, acceptance of better Paints products in smaller towns, and upgradation of premium brands in cities and large towns. A better product mix and efficiencies would help Paints companies post higher margins in the long run.

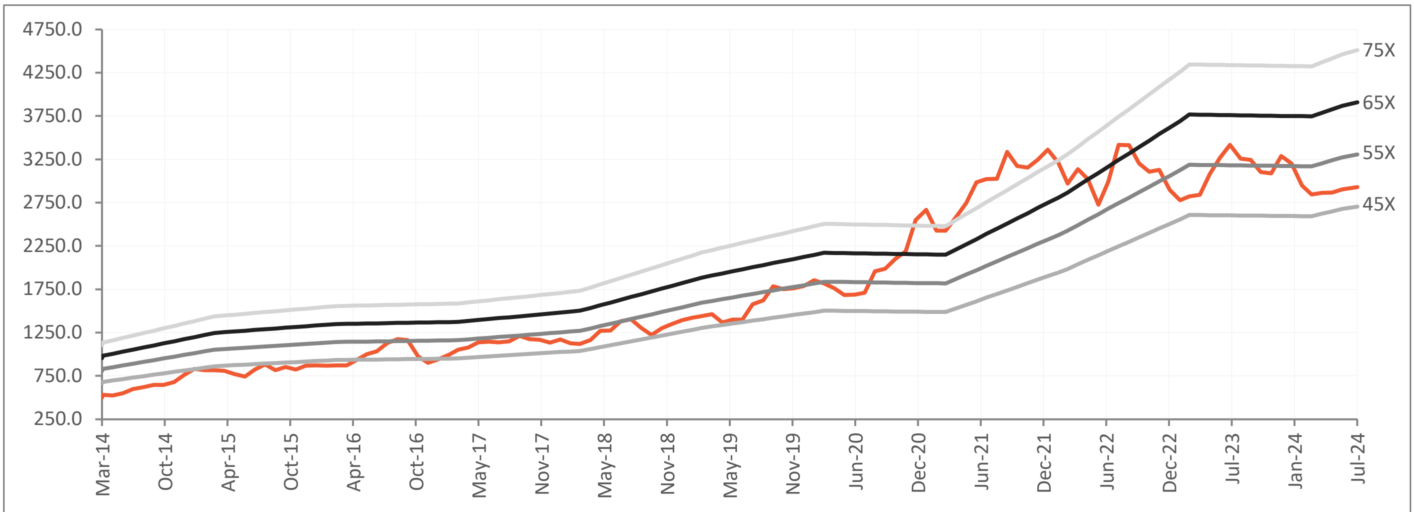
■ Company Outlook – Volumes to grow in double-digits; value growth to remain in single-digits

APL registered 9% volume growth in FY2024 and management expects to achieve double-digit volume growth in FY2025. High growth in the economy segment and price cuts would aid in a greater shift from unorganised players, which would lead to single-digit value growth in the near term. Value growth will remain in single-digits due to the change in mix. 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. The company is banking on planned initiatives (of differentiated formulations and cost efficiencies) along with a better mix to achieve improved margins. However, higher ad-spends will keep margins under check in the range of 18-20%.

■ Valuation – Upgrade to Buy with revised PT of Rs. 3,385; risk-reward favorable

APL's annual report gives confidence about the company's strategies on maintaining leadership position in the decorative paints business and making itself a formidable player in the home décor industry in India. Heightened competition will keep margins under check in the near term, but we expect APL to maintain its leadership position driven by innovation, distribution expansion and addressing customers' need in the coming years. The stock has underperformed compared to broader indices (down by 13% in last one year) and is trading at 51x/45x its FY2025E/26E EPS, which is at a discount to last five years average of 61x. Hence, in view of a favourable risk-reward ratio, we upgrade our rating on the stock to Buy with a revised price target of Rs. 3,385. With its defined strategies, APL will sail through the tough times and retain its strong position in the domestic decorative paints industry.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Indigo Paints	44.7	36.9	30.1	27.3	21.0	17.3	22.6	24.8	28.1
Asian Paints	50.7	50.9	45.1	33.8	33.2	29.9	24.4	22.4	23.0

Source: Company, Sharekhan estimates

About company

APL is the largest paints company in India with market leadership of over 50 years and stands among the top 10 paints companies in the world. The company has 27 Paints 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 ~88% of the company's total revenue, whereas the industrial coatings space, including automotive and non-automotive, constitutes ~3%, through two 50:50 JVs with PPG Industries Inc., USA (AP-PPG). The international business contributes ~9% 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 Paints companies in the near to medium term. APL, with a leadership position in the decorative Paints 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, the expected built-in competition from new large players in the domestic Paints 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 Paints demand.
- **Increased competition from new players:** Any significant competition from large players entering the market would act as a key risk to the pricing power and profitability of the company.

Additional Data

Key management personnel

R Seshasayee	Chairman
Amit Syngle	Chief Executive Officer and Managing Director
R. J. Jeyamurugan	Chief Financial Officer, Company Secretary, and 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.	1.96
4	Blackrock Inc.	1.95
5	SBI Funds Management	1.74
6	UTI AMC Ltd.	0.75
7	ICICI Prudential AMC	0.49
8	JP Morgan and Chase	0.44
9	Norges Bank	0.37
10	Sands Capital Management LLC	0.35

Source: Bloomberg (Old data)

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 detoriating 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

Sharekhan
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