

Q1FY25 Asian Paints Ltd.



Asian Paints Ltd.

Lack of pricing affects revenue and margins

CMP INR 2,946*	Target INR 2,989	Potential Upside 1.5%	Market Cap (INR Mn) 28,28,674	Recommendation HOLD	Sector Consumer
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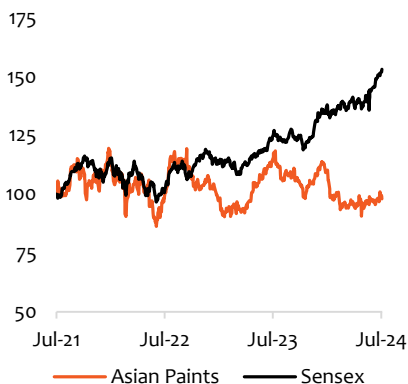
Result highlights

- Asian Paints revenue missed our estimates due to subdued demand environment, and significant decline in the pricing. The EBITDA missed our estimate due to the increase in operating expenses and unfavourable product mix.
- Increasing market share in the decorative segment will be challenging with the entry of new competitors. We have trimmed our FY25E/FY26E EPS estimates by 12.0%/1.0% respectively as we believe the margins are under pressure.
- The stock is currently trading at 59.3x/ 48.3x to our Adj. EPS estimate for FY25E/ FY26E, respectively. We assign a P/E multiple of 49.0x (maintained) on FY26E EPS of INR 61.0 (INR 61.4 earlier) to arrive at a target price of INR 2,989/share (INR 3,007/share previously). Given the 1.5% upside potential, we downgrade our rating to “HOLD” from ‘ACCUMULATE’ on the shares of Asian Paints.

MARKET DATA

Shares O/S (Mn)	959
Mkt Cap (INR Mn)	28,28,674
52 Wk H/L (INR)	3,568/ 2,670
Volume Avg (3m K)	1,425
Face Value (INR)	1
Bloomberg Code	APNT IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,605
NIFTY	24,531

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	291,013	344,886	354,947	360,715	403,116
EBITDA	48,036	62,598	75,850	68,203	81,640
PAT	30,306	41,065	54,602	47,686	58,519
Adj. PAT	31,463	41,553	54,602	47,686	58,519
EPS	31.6	42.8	56.9	49.7	61.0
Adj. EPS	32.8	43.3	56.9	49.7	61.0
EBITDA Margin (%)	16.5%	18.2%	21.4%	18.9%	20.3%
Adj. NPM (%)	10.8%	12.0%	15.4%	13.2%	14.5%

Source: Company, KRChoksey Research

Subdued growth in decorative business impacted top-line

- In Q1FY25, the revenue declined 2.3% YoY (+2.7% QoQ) to INR 89,697 Mn. This was due to subdued demand environment including factors like the general election, severe heatwaves which impacted consumption and the price cuts implemented in the previous quarter.
- The decorative business (India) had revenue decline of 3.0% YoY due to decline in price realization which was partially offset by volume growth of 7.0% YoY.
- Home décor business increased 5.0% YoY due to growth across segments such as kitchen business, bath business, White teak and Weatherseal.
- International business had a revenue decline of 2.0% YoY due to weak performance in key Asian markets, Egypt, and Middle East which was partially offset by growth in Ethiopia and Sri Lanka.
- Industrial business had double digit growth of 10.0% YoY which was driven by the Automotive and general industrial segments.

Multiple headwinds affected profitability margins

- The gross margin contracted 40 bps YoY (-117 bps QoQ) to 42.5%. This was due to an increase in raw material costs, and unfavourable product mix.
- EBITDA declined 20.2% YoY (+0.1% QoQ) to INR 16,938 Mn. The EBITDA margin contracted 422 bps YoY (-49 bps QoQ) to 18.9%. This was due to an increase in employee costs as the Company sought to increase its distribution channel.
- The management has given guidance for an EBITDA margin of about 18.0% to 20.0% going forward.

SHARE HOLDING PATTERN (%)

Particulars	Jun-24	Mar-24	Dec-23
Promoters	52.6	52.6	52.6
FIIIs	15.3	15.9	17.3
DIIIs	12.4	11.6	10.6
Others	19.7	19.9	19.5
Total	100.0	100.0	100.0

*Based on previous closing

6.6%

Revenue CAGR between FY24
and FY26E

3.5%

Adj. PAT CAGR between FY24
and FY26E

Asian Paints Ltd.

Conference Call Highlights

Business Segment and Financials:

- **The quarter was adversely affected by a heat wave, concurrent general elections, an unfavorable product mix, and inflationary pressures.**
- April and May showed signs of slowdown, there was noticeable recovery in June following the elections, along with signs of improvement in rural demand. The Emulsion product line underperformed, causing the Company to struggle in achieving its targets.
- On the other hand, the PreLux category showed significant improvement in performance.
- Asian Paints has expanded its distribution network, now reaching 165,000 retail touchpoints.
- **The new products continue to contribute to about 12.0% of the topline.**
- Asian Paint's newly launched Neo BHARAT latex paint, positioned at the entry level of the market to convert unorganized distemper consumers into organized brand users, has performed exceptionally well.
- The Company has **also introduced WoodTech Emporio for their wood finishes, positioned as a premium luxury brand.**
- This initiative focuses strongly on catering to architects, emphasizing aesthetic enhancement and brand appeal.
- APNT has opened its second BH studio in Guwahati, following the first one in Anna Nagar, Chennai. Spanning over 16,000 square feet, the store offers a premium selection of decor products including lighting, fabric, wallpaper, and furniture.
- In other home decor categories, both acquired brands, White Teak and Weatherseal, have shown strong performance with double-digit growth.
- The Company **is planning on expanding White Teak stores**, both franchise-operated and company-operated, while BH stores are actively promoting Weatherseal and White Teak products.
- The management highlighted **that Tier-3 and Tier 4 cities grew faster than Tier-1 and Tier-2 cities.**
- Going forward, **the Company expects an inflation rate of 1.4% - 1.5%**, therefore expecting further price rise.

International Business:

- The Company is witnessing challenges in the global market with a decline in topline of 2.0% and a growth of 1.8% in constant currency.
- In brighter spots, Ethiopia and Sri Lanka have shown strong performance recently. However, there has been a slowdown in the Middle East.
- Nepal has been a challenging market in Asia due to unfavorable economic conditions over the past seven to eight quarters.
- **Both Egypt and Bangladesh experienced currency devaluation, which contributed to overall growth challenges** in those markets.
- On a global scale, the Company **anticipate ongoing challenges in certain Asian markets.** However, expect improvements in the **Middle East and African markets moving forward.**

Industrial Business:

- Industrial business performed strongly, particularly in the auto refinishes and original equipment (OE) sectors.
- The business saw double-digit revenue growth in the first quarter, driven by robust activity in the auto sector.

Capex:

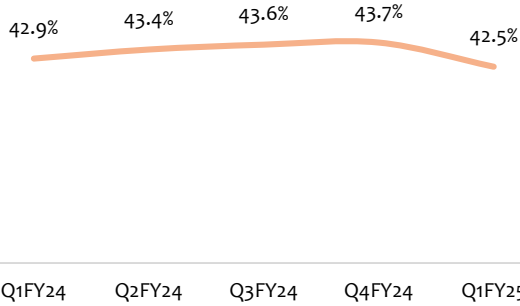
- APNT has completed the brownfield expansion of its Mysore facility, **doubling the installed capacity to 600,000 KLPA from 300,000 KLPA.** This expansion increases APNT's overall capacity to 2.2 Mn KLPA.

Valuation and view

In Q1FY25, the Company's revenue declined due to lack of pricing, intense competition and subdued demand environment. The major revenue contributing segment decorative business experienced a significant price decline, while the international business suffered from currency devaluation and weak demand. The profitability was affected due to rising raw material costs, and unfavourable product mix. Increasing market share in the decorative segment will be challenging going forward with the entry of new competitors. **We have trimmed our FY25E/FY26E EPS estimates by 12.0%/1.0% respectively as we believe the margins are under pressure. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR 6.6%/3.7%/3.5%, respectively, over FY24-FY26E. The stock is currently trading at 59.3x/ 48.3x to our Adj. EPS estimate for FY25E/ FY26E, respectively. We assign a P/E multiple of 49.0x (maintained) on FY26E EPS of INR 61.0 (INR 61.4 earlier) to arrive at a target price of INR 2,989/share (INR 3,007/share previously). Given the 1.5% upside potential, we downgrade our rating to "HOLD" from 'ACCUMULATE' on the shares of Asian Paints. The stock has appreciated by 6.3% since our last update.**

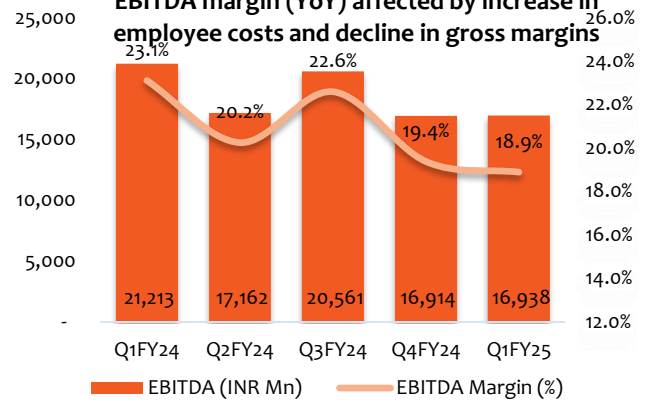
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Gross Profit Margin (YoY) contracted due to increase in RM costs and unfavourable product mix



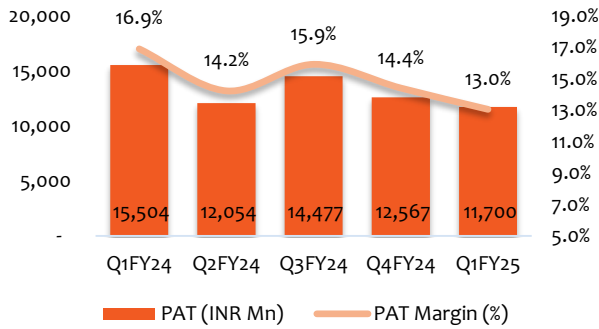
Source: Company, KRChoksey Research

EBITDA margin (YoY) affected by increase in employee costs and decline in gross margins



Source: Company, KRChoksey Research

PAT margin impacted due to weak operating performance



Source: Company, KRChoksey Research

Asian Paints Ltd.

KEY FINANCIALS

Income Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	291,013	344,886	354,947	360,715	403,116
COGS	183,008	211,565	200,902	208,528	232,790
Gross profit	108,005	133,321	154,045	152,187	170,326
Employee cost	17,867	20,281	23,262	27,069	26,203
Other expenses	42,103	50,442	54,934	56,916	62,483
EBITDA	48,036	62,598	75,850	68,203	81,640
EBITDA Margin	16.5%	18.2%	21.4%	18.9%	20.3%
Depreciation & amortization	8,164	8,580	8,530	10,283	12,871
EBIT	39,873	54,018	67,320	57,919	68,769
Interest expense	954	1,445	2,052	2,044	1,790
Other income	3,800	3,865	6,880	7,388	10,815
Exceptional items	1,157	489	0	0	0
PBT	41,562	55,950	72,148	63,263	77,795
Tax	11,029	14,935	17,901	16,067	19,060
Share of associates/ Minority / Disc. operations	-227	50	355	490	-216
PAT	30,306	41,065	54,602	47,686	58,519
Adj. PAT	31,463	41,553	54,602	47,686	58,519
EPS (INR)	31.6	42.8	56.9	49.7	61.0
Adj. EPS	32.8	43.3	56.9	49.7	61.0

Cashflow Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	9,865	41,934	61,036	52,925	58,184
Net Cash Flow from/(used in) Investing Activities	-3,217	-12,746	-25,176	-25,853	-27,307
Net Cash Flow from Financing Activities	-18,076	-21,401	-29,825	-29,173	-30,938
Net Inc/Dec in cash equivalents	-11,428	7,787	6,035	-2,101	-60
Opening Balance	34,212	22,833	30,543	36,270	34,203
Effect of exchange differences on cash and cash equivalents	49	-77	-309	35	36
Closing Balance Cash and Cash Equivalents	22,833	30,543	36,270	34,203	34,178
Liquid investments	16,616	25,312	27,855	27,855	27,855
Cash and Cash equivalents as per balance sheet	6,217	5,231	8,293	6,227	6,202

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	16.5%	18.2%	21.4%	18.9%	20.3%
Tax rate (%)	26.5%	26.7%	24.8%	25.4%	24.5%
Net Profit Margin (%)	10.4%	11.9%	15.4%	13.2%	14.5%
RoE (%)	21.3%	25.0%	28.1%	21.8%	23.4%
RoCE (%)	26.6%	31.0%	32.8%	25.4%	26.6%
EPS (INR)	31.6	42.8	56.9	49.7	61.0
PE	89.8x	68.0x	51.8x	59.3x	48.3x

Source: Company, KRChoksey Research

Asian Paints Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Property, plant and equipment	41,845	41,457	44,462	58,776	70,617
Right-to-use assets	9,058	12,089	18,563	18,563	18,563
Capital work-in-progress	4,264	10,196	26,984	22,905	18,318
Goodwill (Net)	2,429	2,285	4,192	4,192	4,192
Other intangible assets	1,860	1,874	4,250	224	224
Investment in Associate	5,155	7,817	5,831	6,240	6,648
Investments	5,514	7,830	8,014	23,014	24,014
Trade receivables	24	22	18	22	22
Other financial assets	4,861	3,632	6,065	6,065	6,065
Deferred tax assets (Net)	260	187	233	237	265
Non-current tax assets (Net)	1,725	1,895	1,981	2,013	2,250
Other non-current assets	1,329	3,345	3,278	3,331	3,723
Total non-current assets	78,321	92,628	123,870	145,586	154,904
Inventories	61,530	62,106	59,234	61,483	68,636
Investments	21,807	26,970	32,034	34,034	50,034
Trade receivables	38,714	46,369	48,891	49,685	55,525
Cash and cash equivalents	6,217	5,231	8,293	6,227	6,202
Other Balances with Banks	2,426	3,207	2,547	2,547	2,547
Other financial assets	15,335	15,928	16,514	16,514	16,514
Assets classified as Held for Sale	81	0	0	4	4
Other current assets	5,413	5,540	7,858	7,986	8,925
Total current assets	151,523	165,352	175,371	178,483	208,391
TOTAL ASSETS	229,845	257,980	299,241	324,069	363,295
Equity share capital	959	959	959	959	959
Other equity	137,156	158,963	186,324	210,167	239,426
Equity attributable to the equity shareholders	138,116	159,922	187,283	211,126	240,386
Non-controlling interests	3,875	4,537	6,954	7,941	9,285
Total equity	141,991	164,459	194,237	219,067	249,671
Borrowings	445	762	544	544	544
Other financial liabilities	5,984	7,289	10,953	10,953	10,953
Lease liabilities	22	464	2,406	2,406	2,406
Provisions	2,183	2,307	2,226	2,226	2,226
Deferred tax liabilities (Net)	3,489	3,348	3,522	3,522	3,522
Other non-current liabilities	21	392	345	345	345
Total non-current liabilities	12,144	14,562	19,995	19,995	19,995
Borrowings	7,311	8,961	10,528	8,528	8,528
Trade payables	41,643	36,354	38,313	39,768	44,395
Other financial liabilities	18,868	24,360	26,754	27,189	30,385
Other current liabilities	3,761	4,590	4,845	4,924	5,502
Provisions	697	742	625	635	710
Current tax liabilities (Net)	1,301	1,637	1,225	1,245	1,391
Total current liabilities	75,710	78,959	85,010	85,007	93,630
Total liabilities	87,854	93,521	105,004	105,002	113,625
TOTAL EQUITY AND LIABILITIES	229,845	257,980	299,241	324,069	363,295

Source: Company, KRChoksey Research

Asian Paints Ltd.

Asian Paints Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
22-Jul-24	2,946	2,989	HOLD
11-May-24	2,771	3,007	ACCUMULATE
19-Jan-24	3,164	3,460	ACCUMULATE
31-Oct-23	2,996	3,365	ACCUMULATE
28-Jul-23	3,377	3,629	ACCUMULATE
16-May 23	3,133	3,564	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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