

# Q2 FY25 Asian Paints Ltd.



## Asian Paints Ltd.

Weakness continues due to subdued demand

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 2,475	INR 2,566	3.7%	24,07,586	HOLD	Consumer

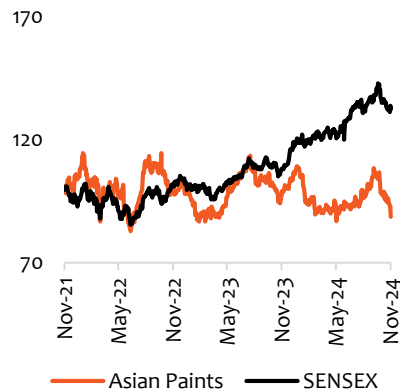
### Result highlights

- For Q2FY25, APNT recorded revenue of INR 80,275 Mn, declined by 5.3% YoY (-10.5% QoQ), which missed our estimates.
- In Q2FY25, EBITDA declined by 26.8% YoY (27.8% QoQ) to INR 12,395 Mn, which missed our estimates.
- For Q2FY25, the Adj. PAT stood at INR 8,748 Mn, declined by 27.4% YoY (-25.2% QoQ), which underperformed our estimates on the back of poor operating performance.
- We lower our FY25E/FY26E EPS estimates by 9.1%/14.2% respectively, mainly due to the Q2FY25 miss and margin headwinds from heightened competitive intensity, which are expected to pressurize earnings despite revenue growth. We assign a maintain P/E multiple of 49.0x on FY26E EPS of INR 52.4 (INR 61.0 earlier) to arrive at a target price of INR 2,566/share (INR 2,989/share previously). Given the 3.7% upside potential, we maintain our “HOLD” on the shares of Asian Paints Ltd.

### MARKET DATA

Shares O/S (Mn)	959
Mkt Cap (INR Mn)	24,07,586
52 Wk H/L (INR)	3,423/ 2,492
Volume Avg (3m K)	1,148
Face Value (INR)	1
Bloomberg Code	APNT IN

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	78,675
NIFTY	23,883

### KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	344,886	354,947	345,618	362,894	388,284
EBITDA	62,598	75,850	61,751	70,420	74,892
PAT	41,065	54,602	41,553	50,222	54,240
Adj. PAT	41,553	54,602	43,355	50,222	54,240
EPS	42.8	56.9	43.3	52.4	56.5
Adj. EPS	43.3	56.9	45.2	52.4	56.5
EBITDA Margin (%)	18.2%	21.4%	17.9%	19.4%	19.3%
Adj. NPM (%)	12.0%	15.4%	12.5%	13.8%	14.0%

Source: Company, KRChoksey Research

### Fall in decorative business impacted overall revenue

- In Q2FY25, the revenue declined 5.3% YoY (-10.5% QoQ) to INR 80,275 Mn. The revenue was affected by price reductions, shifts in mix, and higher rebates.
- The Decorative business in India reported a 6.7% YoY decline in revenue, driven by a 0.6% YoY decrease in volume, impacted by subdued demand conditions.
- The Home Décor business saw healthy growth, with the Kitchen segment up 8.6% YoY, the Bath segment growing 2.6% YoY, and Weatherseal/White teak increasing 4.8%/19.2% YoY, respectively.
- The International business showed a marginal degrowth of 0.71% YoY, due to macroeconomic factors and currency devaluation in Ethiopia, Egypt, and Bangladesh.
- The Industrial business grew 5.9% YoY, driven by PPG-AP, which rose 5.9% YoY due to the general industrial and refinish segments, and AP-PPG, which increased 5.8% YoY, led by the protective and powder coating segments.
- Management remains cautious on overall demand recovery in 3QFY25E due to muted demand during the festive period.

### Material price inflation impacted margins

- Gross margin declined 259 bps YoY (-176 bps QoQ) to 40.8%, led by material price inflation and a weaker product mix.
- EBITDA declined 27.8% YoY (-26.8% QoQ) to INR 12,395 Mn, with the EBITDA margin contracting 480 bps YoY (-344 bps QoQ) to 15.4%, primarily due to higher overheads.
- During the quarter, raw material price inflation was 1.5%. To offset this, the company implemented a 1.2% price hike in 2QFY25.
- The company expects EBITDA margin to stabilize at 18.0-20.0% for FY25E.

### SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	52.6	52.6	52.6
FIIIs	15.3	15.3	15.9
DIIIs	13.1	12.4	11.6
Others	19.0	19.7	19.9
Total	100	100	100

\*Based on the Today's closing

\*Note: All the market data is as of Today' closing.

1.1%

Revenue CAGR between FY24 and FY26E

-4.1%

Adj. PAT CAGR between FY24 and FY26E

## Asian Paints Ltd.

### Conference Call Highlights

#### Management Outlook

- The company expects **single-digit volume growth** driven by rural demand, improving monsoon conditions, the upcoming wedding season, and increased government infrastructure spending.
- Management remains cautious about **demand recovery in Q3FY25E** due to continued pressure in urban areas but is optimistic about improving rural demand and infrastructure spending supporting growth in the H2FY25E.
- Management expects EBITDA margin to stabilize at **18.0-20.0% for FY25E**.
- To offset inflation, the company implemented a ~1.2% price increase in Q2FY25, with the full **impact expected to be realized in H2FY25E**.

#### Segment-wise Performance:

- **Decorative business (India)** saw a 0.5% YoY volume decline and a 6.7% YoY revenue drop, impacted by price cuts taken last year, a shift in product mix, intense competition, and increased rebates. Additionally, weak consumer sentiment, heavy rains, and floods contributed to subdued demand.
- **Kitchen/Bath** business grew by 8.8% (Kitchen) and 2.1% (Bath) YoY but posted an EBITDA loss in Q2FY25. The company expects growth through premiumization, new designs, and synergies with the Beautiful Homes (BH) network.
- **White Teak/Weatherseal** saw 19.2% YoY and 4.8% YoY revenue growth, driven by extended product offerings and expanded distribution through BH synergies.
- **International business** remained flat in INR terms but grew 8.7% in constant currency terms. Performance was hindered by currency devaluation in Ethiopia and political unrest in Bangladesh, though the Middle East and Sri Lanka showed strong growth.
- **Industrial Business:**
- **PPG-AP (Auto segment)** grew 6.0% YoY due to demand from the general industrial and refinish segments, though auto OEM growth declined in line with industry trends.
- **AP-PPG (industrial coatings)** grew 6.0% YoY, but PBT declined by 35.0%, driven by pricing pressure. Sales in the B2B segment were subdued due to delayed government infrastructure spending.

#### Distribution and Product Innovation:

- New product contribution was around 12.0% of overall revenues, with innovations such as premium products featuring graphene and nano-block technology. A major campaign for Ultima Protek with extended warranties is planned to launch in November.
- The company **continues to focus on corporate branding**, including the launch of regional packs and revamped product packaging across all segments.

#### Expansion and Investments:

- Most brownfield expansion projects are completed, with ongoing progress in backward integration initiatives, **such as VAM-VAE at Dahej in Gujarat and white cement in Fujairah in Dubai**.
- The company has recorded an impairment of ~INR 2,000 Mn in Q2FY25, including losses on derivative contracts and an impairment of INR 1,240 Mn related to goodwill on White Teak consolidation.

#### Employee Costs:

- Employee costs rose due to the company's strategy of expanding its direct-to-retail model, **adding 5,000-8,000 new retailers annually, requiring a larger workforce**.

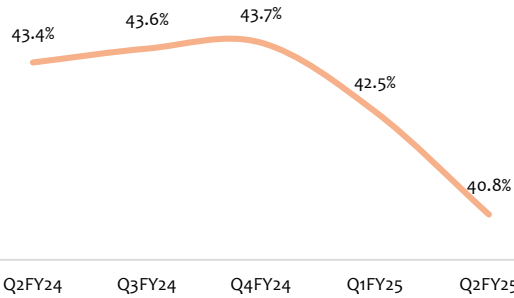
#### Valuation and view

In Q2FY25, Asian Paints faced challenges with a decline in revenue, impacted by price reductions, material inflation, and subdued demand in the decorative business. However, growth in the home décor and industrial segments, along with strong performance in international markets such as Middle East, helped offset some pressures. Despite higher costs and margin contraction, the company's focus on innovation, rural demand, and infrastructure spending provides optimism for recovery in the latter half of FY25.

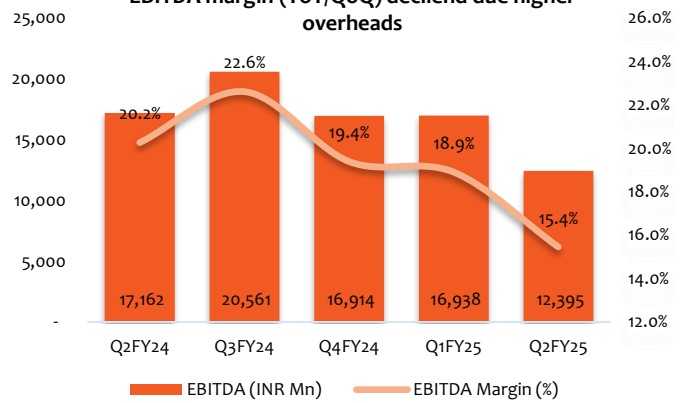
**We lower our FY25E/FY26E EPS estimates by 9.1%/14.2%, respectively, mainly due to the Q2FY25 miss and margin headwinds from heightened competitive intensity, which are expected to pressurize earnings despite revenue growth. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 1.1%/-3.6%/-4.1%, respectively, over FY24-FY26E. The stock is currently trading at 56.3x/ 48.6x to our Adj. EPS estimate for FY25E/ FY26E, respectively. We assign a maintain P/E multiple of 49.0x on FY26E EPS of INR 52.4 (INR 61.0 earlier) to arrive at a target price of INR 2,566/share (INR 2,989/share previously). Given the 3.7% upside potential, we maintain our "HOLD" on the shares of Asian Paints.**

## Asian Paints Ltd.

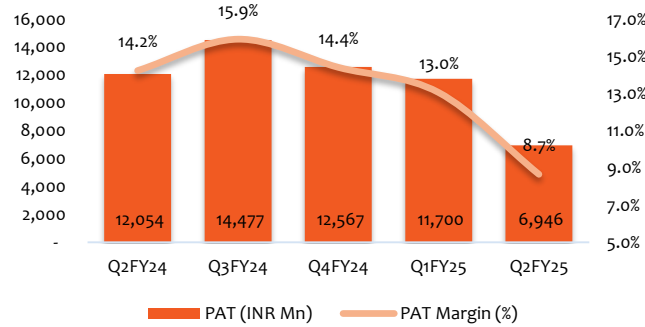
Gross Profit Margin (YoY/QoQ) contracted due to increase in RM costs and unfavourable product mix



EBITDA margin (YoY/QoQ) declined due to higher overheads



PAT margin impacted due to weak operating performance



Source: Company, KRChoksey Research

### RESULT SNAPSHOT

Particulars (INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Sales	80,275	89,697	84,786	(10.5%)	(5.3%)
Total Expenditure	67,880	72,760	67,623	(6.7%)	0.4%
Cost of Raw Materials	40,815	40,794	39,183	0.0%	4.2%
Purchase of Stock	10,075	9,543	10,360	5.6%	(2.8%)
Changes in Inventories	(3,346)	1,209	(1,528)	376.8%	119.0%
Employee Cost	6,765	6,742	5,961	0.3%	13.5%
Other Expenses	13,572	14,472	13,648	(6.2%)	(0.6%)
EBITDA	12,395	16,938	17,162	(26.8%)	(27.8%)
EBITDA Margin (%)	15.4%	18.9%	20.2%	(344 bps)	(480 bps)
Depreciation	2,420	2,277	2,087	6.3%	15.9%
EBIT	9,975	14,661	15,075	(32.0%)	(33.8%)
Interest Expense	630	554	509	13.8%	23.8%
Other income	1,736	1,562	1,652	11.1%	5.1%
PBT	11,081	15,669	16,218	(29.3%)	(31.7%)
Exceptional items	1,801	0	0	NA	NA
Tax	2,654	4,168	4,186	(36.3%)	(36.6%)
Minority interest/ Share of associates	321	199	22	61.2%	NA
PAT	6,946	11,700	12,054	(40.6%)	(42.4%)
PAT Margin (%)	8.7%	13.0%	14.2%	(439 bps)	(556 bps)
EPS	7.2	12.2	12.6	(40.6%)	(42.4%)
Adj PAT	8,748	11,700	12,054	(25.2%)	(27.4%)
Adj. PAT Margin (%)	10.9%	13.0%	14.2%	(215 bps)	(332 bps)
Adj. EPS	9.1	12.2	12.6	(25.2%)	(27.4%)

Source: Company, KRChoksey Research



## Asian Paints Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	344,886	354,947	345,618	362,894	388,284
COGS	211,565	200,902	200,288	207,193	226,968
Gross profit	133,321	154,045	145,329	155,700	161,315
Employee cost	20,281	23,262	28,309	29,031	26,239
Other expenses	50,442	54,934	55,269	56,248	60,184
EBITDA	62,598	75,850	61,751	70,420	74,892
EBITDA Margin	18.2%	21.4%	17.9%	19.4%	19.3%
Depreciation & amortization	8,580	8,530	10,655	12,818	15,032
EBIT	54,018	67,320	51,096	57,602	59,860
Interest expense	1,445	2,052	1,987	1,790	1,790
Other income	3,865	6,880	7,768	10,815	13,620
Exceptional items	489	0	1,801	0	0
PBT	55,950	72,148	55,075	66,627	71,690
Tax	14,935	17,901	14,354	16,657	17,567
PAT	41,065	54,602	41,553	50,222	54,240
Adj. PAT	41,553	54,602	43,355	50,222	54,240
EPS (INR)	42.8	56.9	43.3	52.4	56.5
Adj. EPS	43.3	56.9	45.2	52.4	56.5

#### Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	41,934	61,036	47,100	52,162	53,716
CFFI	(12,746)	(25,176)	(29,911)	(26,985)	(24,306)
CFFF	(21,401)	(29,825)	(24,237)	(26,136)	(27,940)
Net Inc/Dec in cash	7,787	6,035	(7,048)	(960)	1,470
Opening Cash	22,833	30,543	36,270	29,222	28,262
Closing Cash	5,231	8,293	1,246	286	1,756

#### Exhibit 4: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	18.2%	21.4%	17.9%	19.4%	19.3%
Tax rate (%)	26.7%	24.8%	26.1%	25.0%	24.5%
Net Profit Margin (%)	11.9%	15.4%	12.0%	13.8%	14.0%
RoE (%)	25.0%	28.1%	19.3%	20.8%	20.1%
RoCE (%)	31.0%	32.8%	22.7%	23.0%	21.5%
EPS (INR)	42.8	56.9	43.3	52.4	56.5
PE	58.7x	44.7x	56.3x	48.6x	45.0x

Source: Company, KRChoksey Research

#### Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	959	959	959	959	959
Other Equity	163,500	193,278	214,581	240,457	268,548
Total Equity	164,459	194,237	215,541	241,416	269,507
Non-Current Liabilities					
Borrowings	762	544	544	544	544
Lease liabilities	464	2,406	2,406	2,406	2,406
Other Current Liabilities	13,337	17,045	17,045	17,045	17,045
Total Non-Current Liabilities	14,562	19,995	19,995	19,995	19,995
Current Liabilities					
Borrowings	8,961	10,528	8,528	8,528	8,528
Trade Paybles	36,354	38,313	38,196	39,513	43,284
Lease liabilities	2,315	2,720	2,720	2,720	2,720
Other current liabilities	31,330	33,449	32,570	34,198	36,591
Total Current Liabilities	78,959	85,010	82,013	84,958	91,122
Total Liabilities	93,521	105,004	102,008	104,953	111,117
Non-Current Assets					
PPE	41,457	44,462	57,484	68,714	78,217
Investments	7,830	8,014	23,014	24,014	25,014
Other current assets	43,342	71,395	68,393	65,145	61,537
Total Non-Current Assets	92,628	123,870	148,890	157,873	164,767
Current Assets					
Inventories	62,106	59,234	59,053	61,089	66,920
Trade Receivables	46,369	48,891	47,605	49,985	53,482
Investments	26,970	32,034	34,034	50,034	66,034
Cash and Bank	5,231	8,293	1,246	286	1,756
Oher current assets	24,675	26,919	26,720	27,102	27,665
Total Current Assets	165,352	175,371	168,658	188,496	215,857
Total Assets	257,980	299,241	317,548	346,369	380,624

## Asian Paints Ltd.

Asian Paints Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
12-Nov-24	2,475	2,566	HOLD
20-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

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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