

ASIAN PAINTS LTD (APNT)

Better on margins; but path to recovery lengthens

Asian Paints' Q3FY25 reported numbers were a mixed bag. Volume growth improved compared to the dip seen in the preceding quarter, while value growth took a further hit. On the other hand, EBITDA margin and net profit performance were better than estimated. Management commentary regarding the outlook was more on the cautious side, with weakness expected to continue for a couple of quarters.

Volume growth improves, but remains in low single digits

The India decorative business volume growth of 1.6% YoY is a positive indication, as compared to a decline of 0.5% seen in the preceding quarter. Revenue declined by 6.0% YoY to Rs 85,494 mn, which was 2.2% lower than our estimate. While we were expecting the gap in volume/value to narrow, it has actually expanded due to an inferior product mix. International revenue (in INR terms) saw an improved growth of 5% YoY vs. flat in Q2FY25.

EBITDA margin in guided band, guidance maintained

Gross margins dipped by 116 bps YoY but improved sequentially by 167 bps. The quarter saw the benefit of ~2.1% material cost deflation and ~0.4% residual benefit of price hikes taken in Q2FY25. EBITDA margin contracted by 344 bps YoY to 19.1%. The impact on margins was lower than our anticipated contraction of almost 500 bps YoY. With this, the EBITDA for both Q3FY25 and 9MFY25 is close to the guided range of 18%-20%. Absolute EBITDA for the quarter was 6.5% higher than our estimate at Rs 16,367 mn. Management maintained its EBITDA margin guidance band at 18%-20%.

Growth to be muted for a couple of quarters

Management expects single-digit volume growth for the next couple of quarters, as urban demand revival may take some time. Growth will be driven by the rural demand and improved traction in the projects business. While the endeavor would be to improve product mix, Value growth could likely remain muted in the near term.

Valuation

Asian Paints, having a higher presence in urban compared to peers is likely to see a muted performance for Q4FY25E and Q1FY26E. Q4 and Q1 are generally good quarters due to favourable weather patterns, and an impact in these quarters would hurt the overall performance. On the other hand, improved rural performance, uptick in B2B, improvement in international business, and focus on maintaining EBITDA margins should give some respite. We continue to believe that Asian Paints' competitive advantages will help the company in the medium term, but we think the recovery period may be longer than initially anticipated.

Due to continued stress for atleast 2 more quarters and a likely longer recovery period, we reduce our FY25/26/27E Adj. EPS by 5.8%/14.9%/11.9%, respectively. This reduces our Revenue/EBITDA/Adj. PAT CAGR over FY24-27E to 4.9%/2.8%/1.0%, mainly due to the decline seen in FY25. CAGR would improve to 9.8%/15.4%/15.3% over FY25-27E.

We assign a lower P/E multiple of 48x (52x earlier) to factor in the delayed recovery and increased volatility on crude and FX. Accordingly, based on Dec-26E EPS of Rs 56.5 and P/E of 48x, we assign a target price of Rs 2,715. We have seen a sharp reduction in our target price but retain our 'Buy' rating considering the steep discount in valuation multiples and expectations of a recovery in the medium term. However, we remain cautious in the near term and prefer companies with better exposure to rural markets.

Y/E March (Rs In mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	3,44,886	3,54,947	3,40,155	3,66,102	4,10,035
Growth (%)	18.5	2.9	(4.2)	7.6	12.0
EBITDA	62,598	75,850	61,917	71,429	82,479
EBITDA (%)	18.2	21.4	18.2	19.5	20.1
Adj. PAT	41,423	54,602	42,245	49,272	56,195
Adj. EPS	43.2	56.9	44.0	51.4	58.6
Adj. EPS Growth (%)	33.0	31.8	(22.6)	16.6	14.1
ROE (%)	27.0	30.4	21.2	22.7	23.1
ROCE (%)	32.4	34.2	23.7	25.4	26.1
P/E (x)	54.5	41.4	53.5	45.8	40.2

Source: Company, ACMIIL Research

BUY

Target: ₹ 2,715

Key Data

Bloomberg code:	APNT IN
Target price (₹)	2,715
CMP (₹)	2,354
Upside/ (Downside)	15.3%
Rating:	BUY
Shares outstanding (mn):	959
Mcap (₹ bn) :	2,254
52-week H/L (Rs):	3,395/2,208

Price Performance (%)

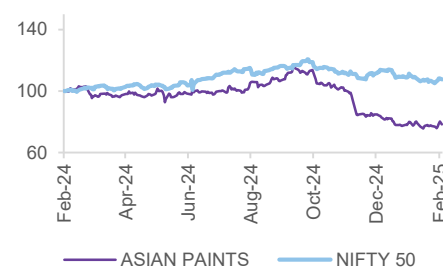
1 month	3.7
3 months	(18.6)
12 months	(19.4)

Shareholding Pattern (%)

	Jun'24	Sep'24	Dec'24
Promoter	52.6	52.6	52.6
FII's	15.3	15.3	13.6
DII's	12.4	13.2	14.1
Public/other	19.7	18.9	19.7
Pledge	3.8	4.1	4.8

Sources: BSE

APNT performance vs. Nifty 50



Sources: BSE

Analyst

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Quarterly Performance – Consolidated

Y/E March (Rs in mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	ACMIIL Est.	Var (%)	9MFY25	9MFY24	YoY (%)
Net Revenue from operations	85,494	91,031	(6.1)	80,275	6.5	87,390	(2.2)	255,467	267,640	(4.5)
Expenses:										
Total Raw Material Cost	49,204	51,336	(4.2)	47,543	3.5			148,293	151,755	(2.3)
Employee Cost	6,151	5,702	7.9	6,765	(9.1)			19,658	17,120	14.8
Other Expenses (net of capitalised expenses)	13,773	13,432	2.5	13,572	1.5			41,817	39,829	5.0
Total Operating Cost	69,127	70,470	(1.9)	67,880	1.8			209,767	208,704	0.5
EBITDA	16,367	20,561	(20.4)	12,395	32.0	15,375	6.5	45,700	58,936	(22.5)
EBITDA (%)	19.1	22.6	-344bps	15.4	370bps	17.6	155bps	17.9	22.0	-413bps
Depreciation	2,556	2,204	16.0	2,420	5.6			7,252	6,274	15.6
EBIT	13,812	18,357	(24.8)	9,975	38.5			38,448	52,662	(27.0)
Other income	1,430	1,386	3.2	1,736	(17.6)			4,728	5,009	(5.6)
Interest expense	558	544	2.6	630	(11.4)			1,742	1,511	15.3
Extraordinary Items	0	0	NA	1,801	(100.0)			1,801	0	NA
PBT	14,683	19,199	(23.5)	9,279	58.2			39,632	56,160	(29.4)
Tax	3,897	4,926	(20.9)	2,654	46.9			10,719	14,413	(25.6)
Effective Tax Rate (%)	26.5	25.7	88bps	28.6	-206bps			27.0	25.7	138bps
Share of associates and JV profits	498	479	4.1	311	60.1			1,177	1,077	9.3
Minority interest	180	274	(34.6)	(10)	1,931.6			338	789	(57.2)
RPAT	11,105	14,477	(23.3)	6,946	59.9			29,751	42,035	(29.2)
APAT	11,105	14,477	(23.3)	8,233	34.9	10,603	4.7	31,037	42,035	(26.2)
APAT (%)	13.0	15.9	-291bps	10.3	273bps			12.1	15.7	-356bps
REPS	11.6	15.1	(23.3)	7.2	59.9			31.0	43.8	(29.2)
Adj. EPS (diluted) (Rs)	11.6	15.1	(23.3)	8.6	34.9			32.4	43.8	(26.2)

Sources: Company, ACMIIL Research

Con-Call Key Take Away

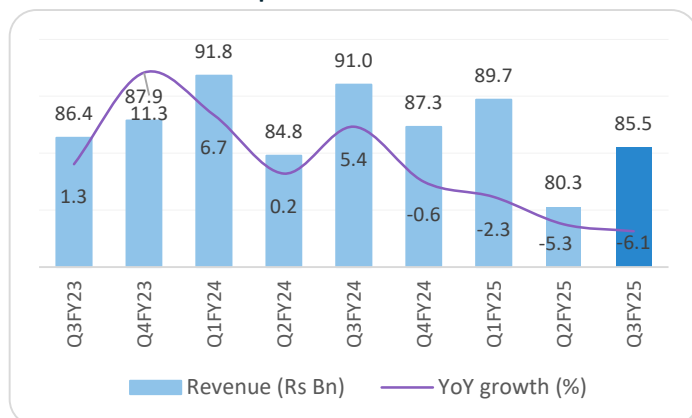
- **Decorative paints:** Industry is likely to have seen a decline of 4-5% YoY in the quarter due to smaller festive season and tepid consumer sentiment.
- **Projects business:** It saw good pickup in demand, driven by factories and builders' segment. Additionally, government segment witnessed traction post three subdued quarters.
- **Industrial business:** In general, industrial business outperformed decorative. The auto coatings JV, PPG-AP saw revenue growth of 6% YoY and PBT increase of 5% YoY, with PBT margins at an all-time high. Lower maintenance expenditures and investments contributed to AP-PPG's (general industrial business) flat revenue growth YoY, while a tight pricing environment caused a 27% YoY fall in PBT.
- **International business:** The Middle East led the international business' remarkable 17% rise in constant currency terms (5% INR terms), but Asian markets also displayed signs of strengthening, with Bangladesh stabilizing and Sri Lanka and Nepal continuing their recoveries. Currency devaluation continues to affect Ethiopia and Egypt in Africa.
- **New launches:** With the introduction of "Smartcare Infinia" and "Suprema: air-o-clean", new additions were made to the waterproofing and industrial portfolios respectively. Regional pack innovation and package change persisted across all the offerings. Neo Bharat Latex is chipping off about 8-9% of the 5 lakh KL potential unorganised market.
- **Updates on capex:** Backward integration projects of VAM-VAE and white cement are on track.
- **Rural vs urban:** Urban demand is anticipated to remain under stress for another quarter or two, while rural continues to do better on the back of adequate monsoons and government spending.

APNT is seeing buoyant rural market with strong projects and industrial business while urban slowdown persists.

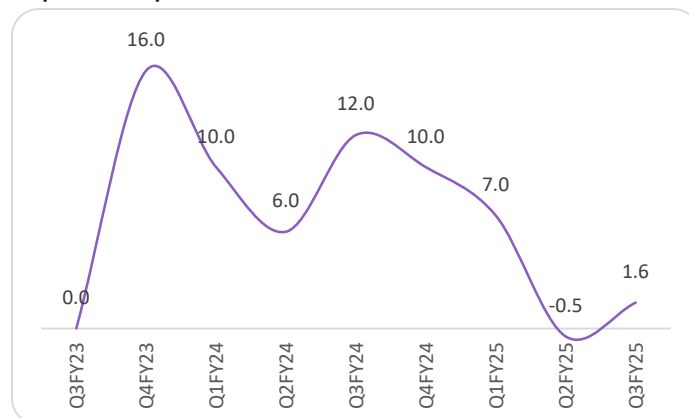
Con-Call Key Take Away

RM price deflation and price hike led to enhanced gross margins. Management reaffirms its 18-20% EBITDA margin band guidance

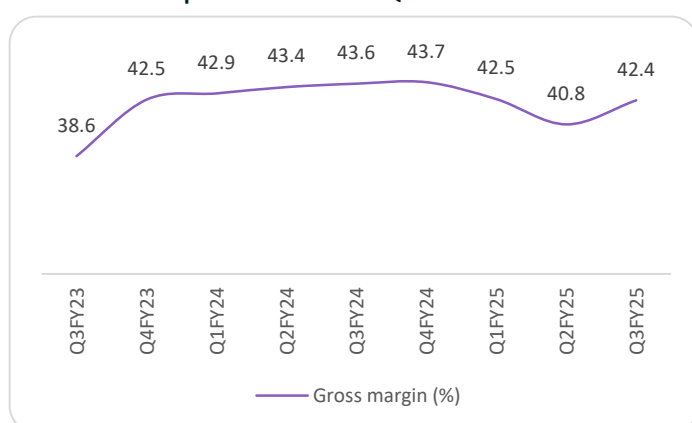
- **Home decor foray:** This segment was relatively stronger than the decorative business in terms of topline. The company will continue to focus on growing this business strongly over next 2-3 years.
- **Kitchen and bath business:** Both, the kitchen and bath business saw marginal improvement in terms of revenue (+3% YoY). Profitability continues to remain under pressure.
- **White Teak and Weatherseal:** Both these businesses faced adverse demand scenario this quarter but remained flat on 9M basis. Going forward in Q4, demand is likely to recover.
- **Input pricing:** Standalone gross margins improved by 210 bps sequentially, majorly aided by RM price deflation of 2.1% and 0.4% of price hike.
- **Outlook:** While being wary of the urban market, management is still hopeful about the rural market, B2B, and industrial businesses. They expect to achieve single-digit volume growth for the next few quarters. However value growth will continue to be negative in the coming quarters. The volume of B2B trade is expected to grow in double digits, and its share will rise from the present 16% contribution. Even though RM prices have somewhat decreased, rupee devaluation is still a concern.
- **Margin guidance:** For the entire year FY25E, management has reaffirmed its targeted EBITDA margin range of 18–20%. Trade schemes and discounts are anticipated to prevail within the competitive market, although they will focus on streamlining operations to save costs.

Exhibit 1: Revenue (Rs bn) growth deteriorated due to urban slowdown and adverse product mix


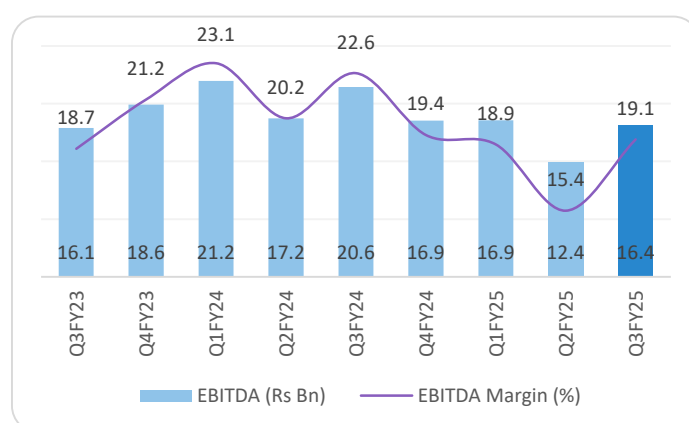
Source: Company, ACMIIL Research

Exhibit 2: Volume growth (YoY %) remains muted but sees sequential improvement


Source: Company, ACMIIL Research

Exhibit 3: Gross margins improves on account of lower RM costs and residual effect of price hikes taken in Q2FY25


Source: Company, ACMIIL Research

Exhibit 4: EBITDA margin reverts back to guided range on 18.0%-20.0%


Source: Company, ACMIIL Research

Valuation and View

Asian Paints, having a higher presence in urban compared to peers is likely to see a muted performance for Q4FY25E and Q1FY26E. Q4 and Q1 are generally good quarters due to favourable weather patterns, and an impact in these quarters would hurt the overall performance. On the other hand, improved rural performance, uptick in B2B, improvement in international business, and focus on maintaining EBITDA margins should give some respite. We continue to believe that Asian Paints' competitive advantages will help the company in the medium term, but we think the recovery period may be longer than initially anticipated.

Due to continued stress for atleast 2 more quarters and a likely longer recovery period, we reduce our FY25/26/27E Adj. EPS by 5.8%/14.9%/11.9%, respectively. This reduces our Revenue/EBITDA/Adj. PAT CAGR over FY24-27E to 4.9%/2.8%/1.0%, mainly due to the decline seen in FY25. CAGR would improve to 9.8%/15.4%/15.3% over FY25-27E.

We assign a lower P/E multiple of 48x (52x earlier) to factor in the delayed recovery and increased volatility on crude and FX. Accordingly, based on Dec-26E EPS of Rs 56.5 and P/E of 48x, we assign a target price of Rs 2,715. We have seen a sharp reduction in our target price but retain our 'Buy' rating considering the steep discount in valuation multiples and expectations of a recovery in the medium term. However, we remain cautious in the near term and prefer companies with better exposure to rural markets.

Exhibit 8: Valuation Summary

Valuation	
4 quarter ending Dec-26E EPS (Rs)	56.5
PE multiple (x)	48
Target Price (Rs)	2,715
CMP (Rs)	2,354
Upside (%)	15.3%

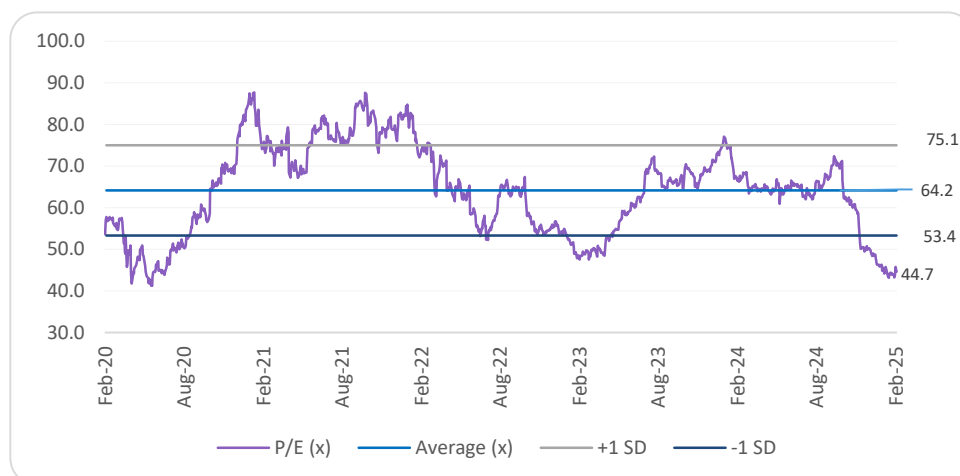
Source: Company, ACMIIL Research

Exhibit 9: Change in Estimates

Rs. in mn	FY25E			FY26E			FY27E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	3,58,788	3,40,155	(5.2)	4,12,606	3,66,102	(11.3)	4,51,696	4,10,035	(9.2)
EBITDA	65,039	61,917	(4.8)	82,850	71,429	(13.8)	92,564	82,479	(10.9)
Adj. PAT	44,846	42,245	(5.8)	57,908	49,272	(14.9)	63,784	56,195	(11.9)

Source: Company, ACMIIL Research

Exhibit 10: 1-year forward P/E



Sources: Company, ACMIIL research

Financial (Consolidated)

Income Statement

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	3,44,886	3,54,947	3,40,155	3,66,102	4,10,035
Growth (%)	18.5	2.9	(4.2)	7.6	12.0
RM cost	2,11,565	2,00,902	1,96,394	2,11,055	2,36,382
Employee cost	20,281	23,262	26,054	28,011	30,138
Other expenses	50,442	54,934	55,790	55,607	61,036
Total expenses	2,82,288	2,79,098	2,78,238	2,94,673	3,27,555
EBITDA	62,598	75,850	61,917	71,429	82,479
Growth (%)	30.3	21.2	(18.4)	15.4	15.5
EBITDA margin (%)	18.2	21.4	18.2	19.5	20.1
Depreciation	8,580	8,530	9,846	11,162	13,706
EBIT	54,018	67,320	52,071	60,267	68,773
EBIT margin (%)	15.7	19.0	15.3	16.5	16.8
Interest expense	1,445	2,052	2,325	2,104	2,104
Other income	3,865	6,880	6,602	7,262	7,988
PBT before exceptional items	56,438	72,148	56,348	65,426	74,658
Exceptional items	489	0	1,801	0	0
PBT	55,950	72,148	54,547	65,426	74,658
Tax	14,935	17,901	14,478	16,487	18,814
Effective tax rate (%)	26.7	24.8	26.5	25.2	25.2
Share of profit of associate/ Minority Interest	50	355	890	333	351
Rep. PAT	41,064	54,602	40,959	49,272	56,195
Rep. PAT Growth (%)	35.5	33.0	(25.0)	20.3	14.1
Rep. PAT Margin (%)	11.9	15.4	12.0	13.5	13.7
Adj. PAT	41,423	54,602	42,245	49,272	56,195
Adj. PAT Growth (%)	33.0	31.8	(22.6)	16.6	14.1
Adj. PAT Margin (%)	12.0	15.4	12.4	13.5	13.7

Source: Company, ACMIIL Research

Cash Flow

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	56,888	73,478	54,547	65,426	74,658
Add: Depreciation	8,580	8,530	9,846	11,162	13,706
Add: Interest	1,445	2,052	2,325	2,104	2,104
Other adjustments	(2,315)	(4,773)	(5,712)	(6,929)	(7,637)
Chg in working cap	(7,721)	101	1,440	(3,230)	(5,521)
Tax	(14,943)	(18,351)	(14,478)	(16,487)	(18,814)
Operating Cash flow	41,934	61,036	47,968	52,046	58,495
Capex	(12,475)	(21,939)	(16,546)	(17,872)	(19,926)
Free Cash Flow	29,460	39,097	31,422	34,173	38,570
Investments	16	(2,907)	(4,413)	(4,813)	(5,254)
Interest/ dividend income/ miscellaneous	(288)	(330)	6,831	6,861	7,308
Investing Cash flow	(12,746)	(25,176)	(14,129)	(15,825)	(17,871)
Equity Capital					
Debt	(1,617)	(2,797)	0	0	0
Dividend paid	(19,361)	(25,509)	(31,078)	(25,347)	(29,563)
Interest paid	(1,420)	(1,906)	(2,325)	(2,104)	(2,104)
Others	997	387	625	1,131	1,289
Financing Cash flow	(21,401)	(29,825)	(32,778)	(26,320)	(30,378)
Net chg in cash	7,787	6,035	1,062	9,901	10,246
Opening cash position	22,833	30,543	36,270	37,331	47,232
Closing cash position	30,543	36,270	37,331	47,232	57,479

Source: Company, ACMIIL Research

Balance Sheet

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity share capital	959	959	959	959	959
Reserves & surplus	1,58,963	1,86,324	1,96,205	2,20,130	2,46,762
Non-controlling interests	4,537	6,954	7,579	8,710	9,999
Net Worth	1,64,459	1,94,237	2,04,743	2,29,799	2,57,720
Non-current borrowings (incl. lease liabilities)	1,225	2,950	2,950	2,950	2,950
Other financial liabilities	7,289	10,953	10,953	10,953	10,953
Other non-current liabilities	6,047	6,092	6,092	6,092	6,092
Non current liabilities	14,562	19,995	19,995	19,995	19,995
Borrowings	8,961	10,528	10,528	10,528	10,528
Trade payables	36,354	38,313	37,454	40,250	45,080
Lease liabilities	2,315	2,720	2,720	2,720	2,720
Other current financial liabilities	24,360	26,754	25,639	27,595	30,907
Other current liabilities	6,969	6,695	6,416	6,905	7,734
Current liabilities	78,959	85,010	82,756	87,997	96,967
Equity & liabilities	2,57,980	2,99,241	3,07,493	3,37,790	3,74,682
Net PPE	41,457	44,462	58,419	60,079	75,574
CWIP	10,196	26,984	19,727	24,777	15,502
Intangible assets	4,159	8,442	8,442	8,442	8,442
RoU assets	12,089	18,563	18,563	18,563	18,563
Financial assets	11,483	14,097	14,898	15,780	16,749
Other non current assets	13,245	11,324	11,503	12,313	13,401
Non current assets	92,628	1,23,870	1,31,552	1,39,953	1,48,230
Inventories	62,106	59,234	57,905	62,228	69,695
Investments	26,970	32,034	35,238	38,761	42,637
Trade receivables	46,369	48,891	46,853	50,427	56,478
Cash	5,231	8,293	9,355	19,256	29,502
Bank balances	3,207	2,547	2,547	2,547	2,547
Other financial assets	15,928	16,514	16,514	16,514	16,514
Other current assets	5,540	7,858	7,531	8,105	9,078
Current assets	1,65,352	1,75,371	1,75,942	1,97,837	2,26,451
Total assets	2,57,980	2,99,241	3,07,493	3,37,790	3,74,682

Source: Company, ACMIIL Research

Key Ratios

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Adj. EPS	43.2	56.9	44.0	51.4	58.6
CEPS	43.7	63.6	50.0	54.3	61.0
BVPS	171.5	202.5	213.5	239.6	268.7
DPS declared	25.7	33.3	26.4	30.8	35.2
Valuations (x)					
P/E	54.5	41.4	53.5	45.8	40.2
P/BV	13.7	11.6	11.0	9.8	8.8
EV/Sales	6.5	6.3	6.6	6.1	5.4
EV/EBITDA	35.6	29.4	36.0	31.2	27.0
Dividend Yield (%)	0.8	1.1	1.4	1.1	1.3
Return Ratio (%)					
RoCE	32.4	34.2	23.7	25.4	26.1
RoE	27.0	30.4	21.2	22.7	23.1
Gearing Ratio (x)					
Net Debt/Equity	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt/EBITDA	(0.0)	(0.0)	(0.5)	(0.3)	(0.3)
Working Cap Cycle (days)	94	88	88	88	88
Profitability (%)					
EBITDA Margin	18.2	21.4	18.2	19.5	20.1
EBIT Margin	15.7	19.0	15.3	16.5	16.8
Adj. PAT Margin	12.0	15.4	12.4	13.5	13.7

Source: Company, ACMIIL Research

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
SELL	$< -10\%$
HOLD	$> -10\%$ to 15%

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