

Asian Paints Ltd

Analyst Recommendation: BUY

BSE Code: 500820 NSE: ASIANPAINT Reuters Code: ASPN.NS Bloomberg Code: APNT:IN

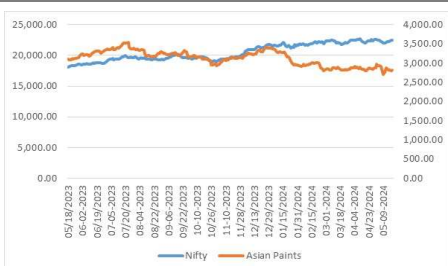
CMP: Rs 2,711
2 Year Target - Rs3,105

Face Value	1.0
Market Cap (Rs Bill)	2,853.1
52 week high/low	3568/2670
Beta	1.2
Shares O/S (Cr)	95.92
Book Value per Share (Rs)	121
Sensex	80,717
Nifty	22,502

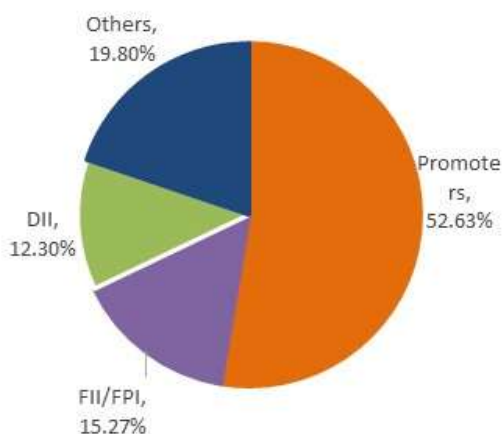
Investor's Rationale

- APNT's domestic decorative paint volume grew 7% while sales declined by 3% due to weak demand and price reductions passed on to consumers. Volume growth was led by the economy range. During the quarter, industrial paints delivered 5.8% sales growth owing to auto OEM and powder coatings segment. Notably, there are early signs of green shoots in the rural markets with Tier 3 and 4 cities performing better than Tier 1 and 2 cities in June. During the quarter, Smartcare waterproofing, distempers, and wood finishes performed better. On a five-year CAGR basis, decorative volume growth of 15.3% is impressive, which may witness moderation going ahead with a step-up in the competitive intensity. Home décor witnessed recovery in performance with kitchen growing 4.6% and bath growing 10.3%. International business declined ~2% in INR term due to macroeconomic challenges in key geographies (Nepal, Bangladesh). The growth in CC terms was 1.8%. Management expects demand to improve on the back of good monsoon and the upcoming festive season.
- Gross margin contracted by 40 bps YoY to 42.5% due to inferior product mix and raw material inflation. EBITDA declined 20% YoY amounting to INR 16.9 bn with margin contraction of 422 bps YoY due to higher overheads. Other expenses and employee costs increased 13.5% and 23.6% YoY, respectively. During the quarter, raw material price inflation was 1.8% and the company expects it to continue in coming quarters. To mitigate inflation, the company has taken a price hike of 1% in Jul'24. We expect EBITDA margin to remain under pressure due to higher overheads as the company would increase its marketing spends and promotions to fight competition.

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st March 2024



Valuation: Asian Paint's (APNT) 1QFY25 performance was below expectations with revenue/earnings declining by 2%/ 25% YoY. Notably, there are early signs of recovery in rural markets in the month of June, which could further accelerate with good monsoon, increase in government spending post- election, and the festive season. International business was impacted by macroeconomic challenges in key geographies, resulting in 2% decline in INR terms (revenue grew 2% in CC terms). In our view, demand should witness recovery in coming quarter and APNT would be able to deliver double-digit volume growth in FY25. However, value growth and profitability would be restricted due to higher promotions and marketing spends. We maintain our estimates and BUY recommendation with a target price of INR 3,105 based on 50x PER on 1HFY27E earnings.

	FY19	FY20E	FY21E	FY22E
Revenue (Rs.Cr)	19,350.0	21,768.8	24,446.3	27,135.4
EBITDA (Rs. cr)	3,530.0	4,092.5	4,913.7	5,481.4
Adj. profit (Rs.Cr)	2,171.0	2,852.9	3,400.0	3,741.3
Adj. EPS (Rs.)	22.5	29.6	35.3	38.9
P/E (x)	76.5	58.1	48.7	44.3
P/BV (x)	17.3	14.2	11.6	9.6
EV/EBITDA (x)	47.3	44.0	37.1	30.9
ROE (%)	24.4	24.2	27.0	26.3
ROCE (%)	35.1	34.9	34.4	33.7

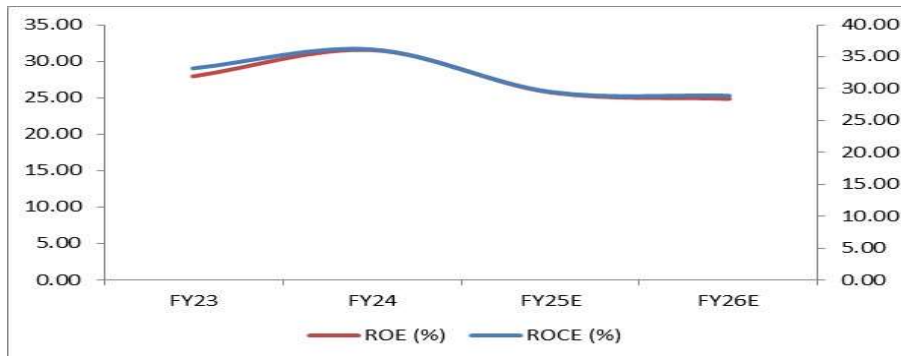
Revenue growth slows down

- During the quarter, demand conditions for the paint industry were tough, impacted by the severe heat wave and general elections. In the near term, demand conditions are expected to improve on the back of improving rural sentiment and monsoon picking up gradually.
- Notably, June witnessed good recovery and there are early signs of green shoots in rural demand. T3 and T4 cities growth was ahead of T1 and T2 cities.
- The company remains optimistic of double-digit volume growth for FY25 and negative pricing of 5%-6%.
- Domestic decorative volume grew 7%, aided by some movement in rural markets. Value declined by 3% impacted by price decrease taken earlier in the year and shift in product mix (higher growth in the economy range).
- Industrial business revenue grew 5.8% backed by good growth in auto OEM and powder coatings segment.
- The economy segment saw good offtake aided by the launch of latex paint NeoBharat, with higher focus on the 'bottom of the pyramid' segment.
- Project/ institutional business witnessed some moderation due to the election, which is expected to improve. Builders & factories segment performance was better.
- APNT has continued with distribution expansion and is now reaching 165k touch points.
- New products contributed to 12% of overall revenue during the quarter.
- In international business, geographies like Ethiopia and Sri Lanka grew well in 1Q on the back of a gradual recovery. However, key macroeconomic issues persisted in markets like Nepal, Bangladesh, and Egypt impacting the overall performance.
- Capacity expansion, backward integration initiatives progressing well. Installed capacity at the Mysuru plant has increased from 300,000 to 600,000 KL p.a.
- In the home decor segment, the company is not a big player in the project business.
- There was inflation of 1.8% in raw material prices in 1QFY25 and the company expects further inflation of 1.5% in

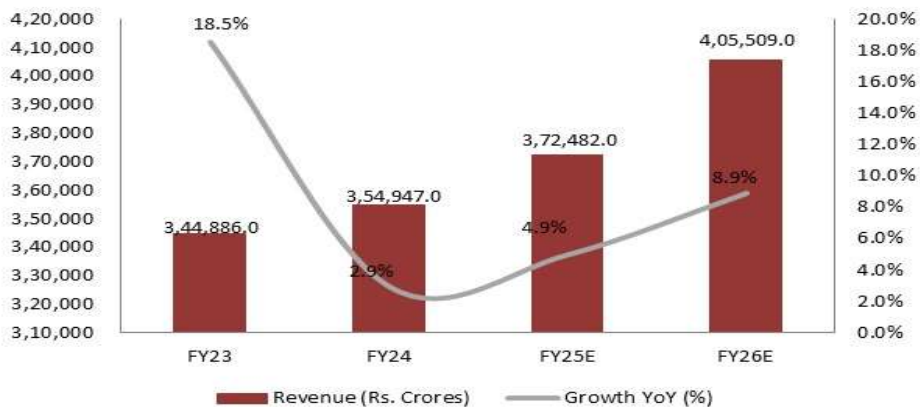
2Q. The company has taken a 1% price hike in Jul'24.

- The increase in employee cost is due to an increase in retail outlets.

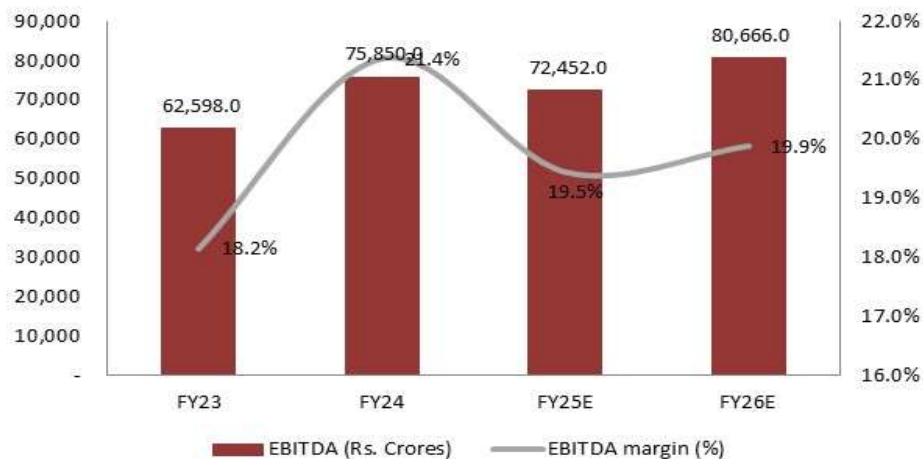
Return ratios to taper down with expanding business



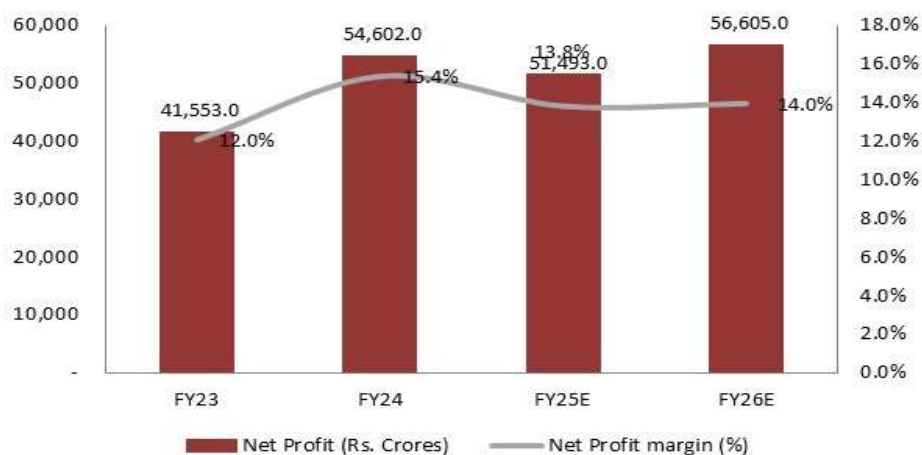
Revenue growth to be steady



EBITDA will maintain



Net profit will maintain



Outlook and Valuation

Asian Paint's (APNT) 1QFY25 performance was below expectations with revenue/ earnings declining by 2%/ 25% YoY. Notably, there are early signs of recovery in rural markets in the month of June, which could further accelerate with good monsoon, increase in government spending post- election, and the festive season. International business was impacted by macroeconomic challenges in key geographies, resulting in 2% decline in INR terms (revenue grew 2% in CC terms). In our view, demand should witness recovery in coming quarter and APNT would be able to deliver double-digit volume growth in FY25. However, value growth and profitability would be restricted due to higher promotions and marketing spends. We maintain our estimates and BUY recommendation with a target price of INR 3,105 based on 50x PER on 1HFY27E earnings.

Asian Paints Ltd - Company Overview

Over the course of 25 years, Asian Paints became a corporate force and India's leading paints company. Driven by its strong consumer-focus and innovative spirit, the company has been the market leader in paints since 1967. Asian Paints is India's leading paint company with a group turnover of Rs 193.50 billion. The group has an enviable reputation in the corporate world for professionalism, fast track growth, and building shareholder equity. Asian Paints manufactures wide range of paints for Decorative and Industrial use. In Decorative paints, Asian Paints is present in all the four segments v.i.z Interior Wall Finishes, Exterior Wall Finishes, Enamels and Wood Finishes. It also offers Water proofing, wall coverings and adhesives in its product Portfolio.

Balance sheet (Consolidated)

(Rs Million)	FY23	FY24	FY25E	FY26E
Liabilities				
Paid up capital	959	959	959	959
Reserves and Surplus	158963	186324	212483	242612
Net worth	159922	187283	213442	243571
Total Loans	19,326.00	24,744.00	24,594.00	24,444.00
Other non- current liabilities	7,885	10,476	11,806	13,136
Total Liabilities	187133	222503	249842	281151
Assets				
Total fixed assets	65616	94258	99390	104441
Intangibles	2,285	4,192	4,192	4,192
Other non- current assets	42,617	45,879	45,879	45,879
Net Current Assets	76615	78174	100381	126639
Total Assets	187133	222503	249842	281151

Profit & Loss Account (Consolidated)

(Rs Million)	FY23	FY24	FY25E	FY26E
Total operating Income	344886	354947	372482	405509
Operating Expenses	282288	279097	300030	324843
EBITDA	62598	75850	72452	80666
Depreciation	8580	8530	9768	11169
EBIT	54018	67320	62684	69497
Interest cost	1445	2052	2257	2483
Other Income & Extraordinary Items	3376	6880	7086	7299
Profit before tax	55950	72148	67514	74313
Tax	14935	17901	16751	18438
Profit after tax	41015	54247	50763	55875
Minority Interests	-50.00	-355.00	-730.00	-730.00
P/L from Associates				
Other			1460	1460
Adjusted PAT	41553	54602	51493	56605

Cash Flow (Consolidated)

Y.E March (Rs Million)	FY23	FY24	FY25E	FY26E
PBT	55950	72148	67514	74313
Depreciation & amortization	8580	8530	9768	11169
Interest expense	1445	2052	2257	2483
(Inc)/Dec in working capital	-7403	845	-9102	-7552
Other	4477	-6395	3346	1583
Cash flow from operating activities	63049	77180	73783	81996
Capex	-14898	-20103	-14899	-16220
Other Investment (Net of Exp)	3865	6880	7086	7299
Cash flow from investing activities	-11033	-13223	-7813	-8921
Inc/(Dec) in debt	3457	5418	-150	-150
Dividend Paid	-18369	-24603	-24603	-25746
Others	-37309	-42368	-28109	-28473
Cash flow from financing activities	-52220	-61554	-52863	-54369
Net chg in cash	-204	2,403	13,107	18,706
Opening Cash	8643	8439	10842	23949
Closing Cash	8439	10842	23949	42655

Key Ratios & Valuations (Consolidated)

Y.E March (Rs Million)	FY23	FY24	FY25E	FY26E
Asset/T.O (x)	2.6	2.3	2	1.9
Net Debt/Equity (x)	0.1	0.1	0	-0.1
EBIT/Interest (x)	40.1	36.2	30.9	30.9
Margin (%)				
EBITDA	18.15%	21.37%	19.45%	19.89%
NPM	12.05%	15.38%	13.82%	13.96%
Return Ratios (%)				
RoE	27.9	31.5	25.7	24.8
ROCE	33.2	36.2	29.5	28.9
Valuation(x)				
P/E	62.6	47.6	50.5	45.9
P/Book Value	16.3	13.9	12.2	10.7
EV/EBITDA (x)	41.7	34.5	35.9	32
EV/Sales (x)	7.6	7.4	7	6.4

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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