

Strong Q3FY24 numbers; Maintain Buy

Q3FY24 Result Update | Sector: Paints | January 18, 2024

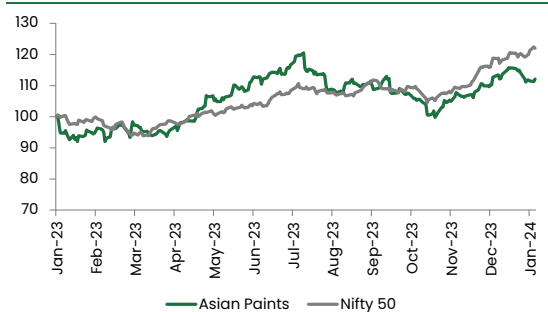
BUY

CMP (Rs)	3,242
Target Price (Rs)	3,939
Potential Upside	21.5%
Sensex	71,501
Nifty	21,572

Key Stock data	
BSE Code	500820
NSE Code	ASIANPAINT
Bloomberg	APNT:IN
Shares o/s, Cr (FV 1)	95.9
Market Cap (Rs Cr)	311,000
3M Avg Volume	821,761
52 week H/L	3,568/2,686

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	52.6	52.6	52.6
FII	17.5	17.7	17.3
DII	10.1	10.1	10.6
Others	19.8	19.6	19.5

1 year relative price performance

1 year P/E Forward (x)

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Revenue growth driven by double digit volume growth in decorative segment: Asian Paints posted revenue of Rs 9,103.1cr, higher by 5.4% YoY and 7.4% QoQ in Q3FY24. The growth was largely driven by strong volume growth of 12% YoY and value growth of 5.5% from the decorative segment (82% of revenue) on the back of festive demand. Further, its automotive and industrial business (9.5% of revenue) continued to witness decent growth for Q3FY24 while its international business (8.5% of revenue) topline growth remained mixed with decent growth in Middle-East & Africa while subdued performance from Asian markets.

Strong improvement in YoY margins: Asian paints gross profit grew at a healthy pace of 19.2% YoY and 8% QoQ to Rs 3,969.5cr and margins improved by 504bps YoY and 24bps QoQ to 43.6%. Its EBITDA improved by 27.6% YoY and 19.8% QoQ to Rs 2,056.1cr and margins improved by 393bps YoY and 234bps QoQ to 22.6%. Additionally PAT too saw improvement of 34.5% YoY and 19.7% QoQ to Rs 1,475.2cr and margin improved by 350bps YoY and 167bps QoQ to 16.2%. The overall healthy improvement in margin can be attributed to moderation in raw material prices as compared to last year, better operating efficiency, improved product mix and robust profitability in industrial business.

Decorative Business witnessed steady growth: Overall decorative business steady growth with 12% YoY volume growth driven by urban market while early sign of recovery seen in rural markets. Further, improved product mix was because of double digit growth in luxury & economy range however premium range of products grew at a slower pace. Moreover, amongst decorative innovation continued through differentiated products, growth in waterproofing segment as well as institutional business such as builder segment, factories and government contracts seeing good traction contributed to the topline. Besides, the company is focusing on building brand by reinforcing digital & media presence as well as focusing on social marketing. Additionally, the Home décor business White Teak & Weatherseal is growing well, so also the portfolio is expanding as it is benefiting from synergies led by dealer network pan India. On the flip side, its Kitchen & bath segment growth is muted but the company is working towards improving it.

Performance by other segments: a) The company's PPGAP/APPPG business continue to report double digit revenue growth of 12%/10% YoY to Rs 576cr/288cr driven by demand for refinish & Auto OEM segment as well as strong growth in Protective & Powder coating segments. Further, its PBT margins came at 22.2%/11.5% and grew strong by 40%/30% YoY to Rs 128cr/33cr in Q3FY24 led by sales mix and moderating raw material prices. b) For International business, its revenue was flat at Rs 779cr while it grew by 5.2% YoY in constant currency led by Middle East and Africa however, Asian markets performance remained muted on the back of uncertainties in Bangladesh, liquidity crunch in Nepal while some recovery was seen in Sri-lanka. Further, its profitability saw a healthy improvement of 58% YoY to Rs 58cr driven by operating efficiencies & moderating raw material prices.

Outlook & Valuation: Asian Paints posted strong numbers for Q3FY24 and going ahead government spending towards infrastructure & housing and demand from real-estate will continue to aid growth. Besides, a normal monsoon and moderating inflation will help the performance of the rural economy. Besides, the company's focus remains on innovating differentiated products, growing the decorative segment along with scaling its Home décor as well as strong growth is expected from industrial, automotive and coating businesses. Further, improved product mix, efficiency measures and further easing of raw material prices will aid in margin improvement. On a financial front, we estimate its revenue/EBITDA/PAT to grow at 10.2%/21.3%/25% CAGR over FY23-26E and maintain a **Buy** rating with a target price of **Rs 3,939**.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net revenue	34,489	36,606	40,266	46,306
EBITDA	6,260	8,128	9,354	11,173
EBITDAM (%)	18.2	22.2	23.2	24.1
APAT	4,195	5,775	6,779	8,194
APATM (%)	12.2	15.8	16.8	17.7
EPS (Rs)	42.8	59.8	70.2	84.9
PE (x)	75.8	54.2	46.2	38.2
RoE (%)	26.2	29.2	27.5	26.6

Source : RBL Research

Concall Highlights: 1) Distribution footprint expanded to 1.62 lakh retail touchpoints and ~2,000 touch points added in Q3FY24. 2) New products contributed to ~12% of overall revenues. 3) Home Décor is ~4% of decorative revenue and the company plans to take it to 8-10% of decorative business by FY26. 4) Currently, it has 54 beautiful homes and stores across 11 cities. 5) Launched products – a) wood flash instant polish, b) Damp Sheath – Asian paints launch first product that can be applied on the 70% damp walls. 6) The company has 120 patents and ~30 are commercialized. 7) It saw ~6.1% revenue growth for the Coatings business. 8) Brownfield expansions at both its Khandala and Kasna have been completed with installed production capacity increasing from 300,000 KL p.a. to 400,000 KL p.a. and 80,000 KL p.a. to 100,000 KL p.a. respectively. 9) Management remains positive on the overall growth prospects of the company as well as the sector because of up-tick in government spending and further expect decorative volume momentum to continue, inflation to moderate and rural economy to pick-up pace. Going ahead, their focus will be on advertisements & brand building activities.

Strong growth in decorative volume of ~12% led the growth in topline

Moderation in Raw material cost aided margin improvement

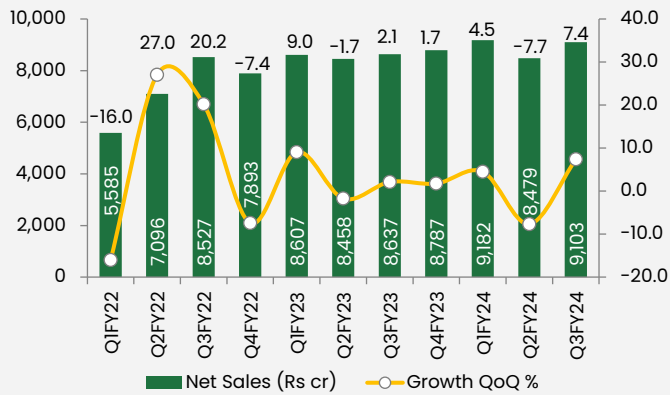
P&L Account Quarterly – consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
Net Sales	9,103.1	8,636.7	5.4	8,478.6	7.4
Cost of Raw Materials	3,837.0	3,815.9	0.6	3,918.3	(2.1)
Purchase of Finished Goods	1,017.1	1,031.5	(1.4)	1,036.0	(1.8)
(Increase) / Decrease In Stocks	279.5	458.3	-	(152.8)	-
Total Raw material cost	5,133.6	5,305.8	(3.2)	4,801.5	6.9
Gross Profit	3,969.5	3,331.0	19.2	3,677.1	8.0
Gross Margins (%)	43.6	38.6	504bps	43.4	24bps
Employee Cost	570.2	503.8	13.2	596.1	(4.3)
Other Expense	1,343.2	1,215.8	10.5	1,364.8	(1.6)
Total Expenditure	7,047.0	7,025.3	0.3	6,762.3	4.2
EBITDA	2,056.1	1,611.4	27.6	1,716.2	19.8
EBITDA Margins (%)	22.6	18.7	393bps	20.2	234bps
Depreciation	220.4	214.1	2.9	208.7	5.6
EBIT	1,835.7	1,397.4	31.4	1,507.5	21.8
Other Income	138.6	86.6	60.1	165.2	(16.1)
Interest	54.4	41.4	31.5	50.9	6.9
PBT	1,919.9	1,442.6	33.1	1,621.8	18.4
Shares of profits	47.9	35.7	34.3	29.1	64.4
PBT	1,967.8	1,478.2	33.1	1,650.9	19.2
Tax	492.6	381.1	29.2	418.6	17.7
PAT	1,475.2	1,097.1	34.5	1,232.4	19.7
PAT Margin (%)	16.2	12.7	350bps	14.5	167bps
EPS (Rs)	15.4	11.4	34.5	12.8	19.7

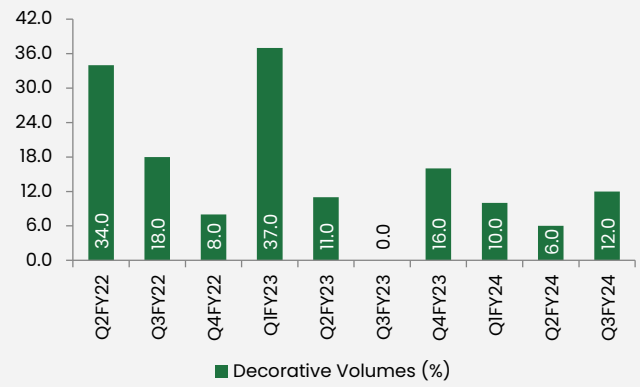
Source : RBL Research

Story in charts

Net Sales grew by 5.4% YoY & 7.4% QoQ

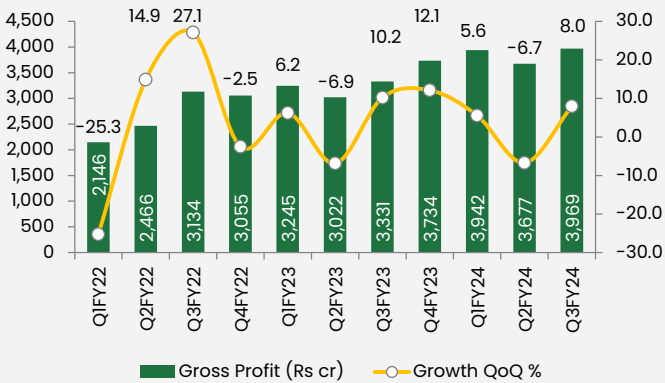


Decorative Business volume came in at ~12% in Q3FY24

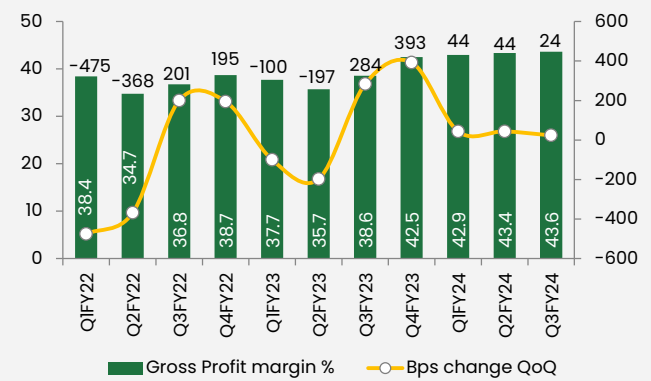


Source : RBL Research

Gross Profit grew by 19.2% YoY and 8% QoQ

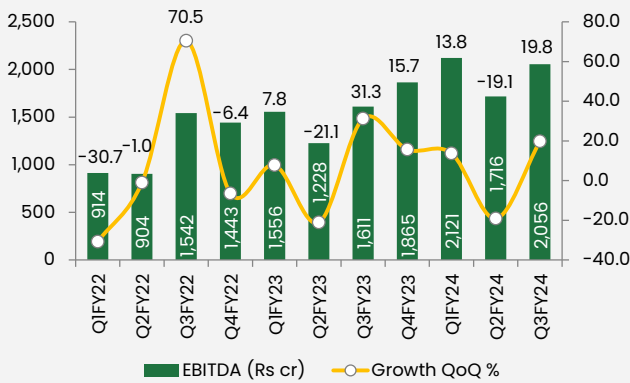


Gross Margins improved by 504bps YoY and 24bps QoQ

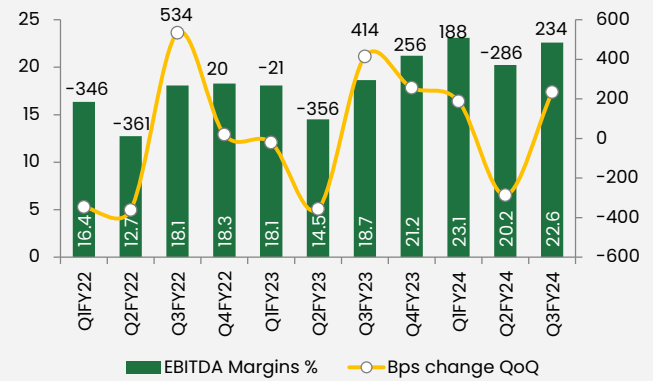


Source : RBL Research

EBITDA grew by 27.6% YoY and 19.8% QoQ

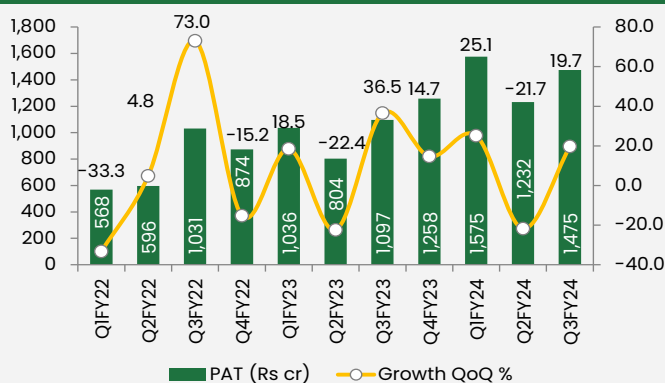


EBITDA Margins improved by 393bps YoY and 234bps QoQ

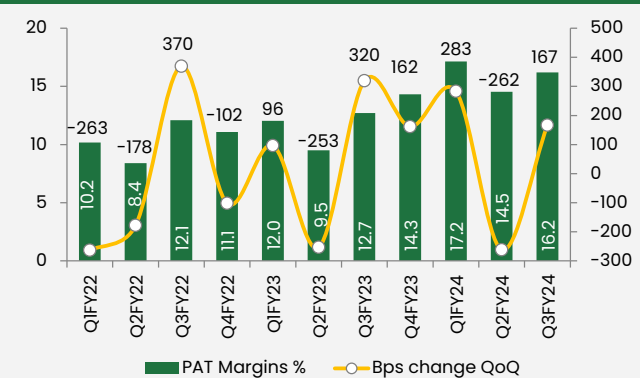


Source : RBL Research

PAT grew by 34.5% YoY and 19.7% QoQ



PAT Margins improved by 350bps YoY and 167bps QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Net sales	34,489	36,606	40,266	46,306
Expenditure				
Cost of materials	17,331	15,980	17,516	19,912
Purchase of stock in trade	4,136	4,012	4,309	4,862
(Increase) / Decrease In Stocks	(310)	695	604	695
Total raw materials	21,157	20,687	22,428	25,468
Gross Profit	13,332	15,919	17,838	20,838
Gross Margins %	38.7	43.5	44.3	45.0
Employee cost	2,028	2,332	2,565	2,950
Advertisements cost	-	-	-	-
Other expenses	5,044	5,459	5,919	6,714
Total expenditure	28,229	28,478	30,913	35,133
EBITDA	6,260	8,128	9,354	11,173
EBITDAM (%)	18.2	22.2	23.2	24.1
Depreciation	858	857	846	880
PBIT	5,402	7,270	8,508	10,294
Other income	386	648	713	820
Interest expenses	144	205	162	161
PBT	5,644	7,714	9,059	10,953
Tax	1,494	1,978	2,323	2,809
Reported PAT	4,150	5,735	6,736	8,144
Exceptional Income / Expenses	(49)	-	-	-
PAT (after Exceptional)	4,101	5,735	6,736	8,144
PAT Margin %	11.9	15.7	16.7	17.6
Share of associates	94	40	44	50
Reported Net Profit	4,195	5,775	6,779	8,194
PAT Margin %	12.2	15.8	16.8	17.7
EPS (Rs)	42.8	59.8	70.2	84.9

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share Capital	96	96	96	96
Reserves & Surplus	15,896	19,705	24,518	30,746
Total Shareholder's Fund	15,992	19,801	24,614	30,842
Minority Interest	454	454	454	454
Long term borrowings	76	81	89	79
Short term borrowing	896	915	926	926
Total Debt	972	996	1,015	1,005
Deferred tax liabilities	499	529	582	669
Long term provision	231	245	269	310
Other long term liabilities	814	864	951	1,094
Total liabilities	1,544	1,638	1,802	2,073
Total	18,962	22,889	27,885	34,373
Current Liabilities				
Trade payables	3,635	3,859	4,192	4,313
Short term provisions	74	79	87	100
Other current liabilities	3,127	3,318	3,503	4,029
Total	6,836	7,256	7,782	8,442
Total liabilities	25,798	30,145	35,667	42,815
Application of Assets				
Net Block	5,770	6,174	6,792	7,471
Current work in process	1,020	1,020	1,020	1,020
Non current investment	1,566	1,663	2,215	3,010
Tax assets	208	221	243	280
Long term loans and advances	363	385	424	488
Other non-current assets	335	355	391	449
Total	9,262	9,818	11,084	12,717
Current Assets				
Current investments	2,697	2,863	4,027	4,631
Inventories	6,211	6,519	6,619	7,612
Trade receivables	4,638	4,923	5,075	5,836
Cash balance	523	2,886	5,192	7,467
Bank balance	321	352	608	1,031
Short term loans and advances	1,592	2,196	2,416	2,778
Other current assets	554	588	647	744
Total	16,536	20,327	24,584	30,098
Total assets	25,798	30,145	35,667	42,815

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Profit before tax	5,689	7,753	9,103	11,003
Add: Depreciation	858	857	846	880
Add: Interest cost	144	205	162	161
Less: Other Income /Interest Rec	(134)	(195)	(200)	(230)
Others	(97)	-	-	-
Operating profit before working capital changes	6,460	8,621	9,911	11,814
Changes in working capital	(772)	(773)	64	(1,442)
Cash from Operations	5,688	7,849	9,975	10,372
Less: Taxes	(1,494)	(1,978)	(2,323)	(2,809)
Cash flow from Operations	4,193	5,870	7,651	7,563
Net cash used in Investing				
(Purchase)/ Sales of fixed assets	(1,419.7)	(1,261.3)	(1,463.0)	(1,559.0)
Purchase of investments	2	(262)	(1,716)	(1,399)
Dividend/other inc./Interest Rec.	143	195	200	230
Cash flow from investing	(1,275)	(1,329)	(2,979)	(2,729)
Cash flow from Financing				
Proceeds of borrowings	254	24	19	(10)
Sales of borrowings	(271)	-	-	-
Dividend (Incl dividend tax)	(1,936)	(1,966)	(1,966)	(1,966)
Interest cost	(142)	(205)	(162)	(161)
Others	(45)	-	-	-
Cash flow from Financing	(2,140)	(2,148)	(2,110)	(2,137)
Net cash Inflow/Outflow	779	2,394	2,562	2,697
Opening Cash	2,283	3,054	5,449	8,011
Exchange gain/loss	(8)	-	-	-
Cash in hand	3,054	5,449	8,011	10,708
Other Investments	(2,647)	2,562	2,819	3,241
Overdraft	116	-	-	-
Cash Transferred to B/S	523	2,886	5,192	7,467

Source : RBL Research

Key ratios – consolidated

Particulars	FY23	FY24E	FY25E	FY26E
Per share Data				
EPS (Rs)	42.8	59.8	70.2	84.9
Book value per share (Rs)	166.7	206.4	256.6	321.5
Dividend per share (Rs)	20.2	20.5	20.5	20.5
Dividend Yield (%)	0.6	0.6	0.6	0.6
Dividend Payout (%)	46.1	34.0	29.0	24.0
Profitability Ratios				
EBITDAM(%)	18.2	22.2	23.2	24.1
PBTM (%)	16.4	21.1	22.5	23.7
NPM (%)	11.9	15.7	16.7	17.6
RoE (%)	26.2	29.2	27.5	26.6
RoCE (%)	31.8	35.0	33.2	32.3
Efficiency Data				
Debt–Equity Ratio	0.1	0.1	0.0	0.0
Interest Cover Ratio	37.4	35.5	52.4	64.0
Fixed Asset Ratio	0.2	0.2	0.2	0.2
Debtors (Days)	49.1	49.1	46.0	46.0
Inventory (Days)	65.7	65.0	60.0	60.0
Payable (Days)	38.5	38.5	38.0	34.0
WC (Days)	76.3	75.6	68.0	72.0
Valuation				
P/E (x)	75.8	54.2	46.2	38.2
P/BV	19.4	15.7	12.6	10.1
EV/EBITDA	49.7	38.0	32.8	27.3
EV/Sales	9.0	8.4	7.6	6.6

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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