

Retail Equity Research
Asian Paints Ltd.
Paint & Varnishes

BUY

BSE CODE : 500820 NSE CODE: ASIANPAINT
BLOOMBERG CODE: APNT:IN SENSEX : 63,875

12 Months Investment Period Rating as per Large Cap
CMP Rs.2,996 TARGET Rs.3,399 RETURN 13% ↑
(Closing: 31-10-23)

KEY CHANGES: TARGET ↓ RATING ↔ EARNINGS ↑

Margins improved amid competition...

Asian Paints Ltd. (APNT), is engaged in the business of manufacturing, selling and distribution of paints and related products for home décor. APNT is the market leader in the Indian paint manufacturing industry.

- Subdued volume growth of 6% YoY in Q1FY24 due to weak consumer sentiment led the top-line to grow flat.
- Erratic monsoons and the delayed festival season impacted rural demand, while the company witnessed high single-digit growth in urban areas.
- EBITDA margin expanded by 573bps YoY to 20.2%, supported by a fall in raw material prices and efficient sourcing of raw materials.
- We expect margins to impact H2FY24 due to inflationary pressure on raw material prices and higher competition intensity.
- A longer festival and upcoming marriage season are expected to drive growth in H2FY24.
- Superior product mix, increasing distribution network, and guidance of 18 to 20% margin bode well for profitability. The long-term outlook remains intact, and we therefore maintain BUY rating with a TP of Rs. 3,399, based on a P/E of 57x on FY25E EPS.

Subdued revenue growth...

APNT reported muted revenue growth of 0.2% YoY to Rs8,479cr during the quarter. Decorative volume grew by 6% YoY, impacted by an erratic monsoon and weak consumer demand. The company witnessed high single-digit volume growth across urban markets, while rural market demand was impacted. The management pointed out that economy paints performed better during the quarter; however, luxury paint demand witnessed traction in September 2023. The sustained growth in the industrial paint business is driven by Auto OEMs and the refinishing segment. However, the kitchen and bath fitting business reported de-growth of -18% YoY to Rs 97cr and -20% YoY to Rs81cr, respectively, due to weak consumer sentiment. We expect festival demand and the upcoming marriage season to drive demand for luxury paint in H2FY24.

Margins improved due to deflation in input prices...

Gross margin improved by 763bps YoY to 43.4% in Q2FY24 due to deflation in input prices by ~4% and efficient sourcing of raw materials. In Q2FY24, the average oil prices down by -12% YoY, but increased 11% on a sequential basis. The EBITDA margin expanded by 573bps YoY to 20.2% during the quarter. An increase in oil prices due to geopolitical tensions and higher competition intensity is likely to add pressure on margins. However, the management guides EBITDA margins in the range of 18% to 20% in the medium term. During the quarter, reported PAT increased by 53% YoY to Rs 1,232cr.

Key con-call highlights

- Work on capacity expansion is progressing well and the company has already infused Rs 1,500cr on brownfield expansion.
- A robust expansion of the distribution footprint, catering to almost 1.6 lakh retail touchpoints, added 2,500 retail touchpoints in Q2.
- International business witnessed a de-growth of 3.9%, while Middle East region did well with double digit growth.

Valuations

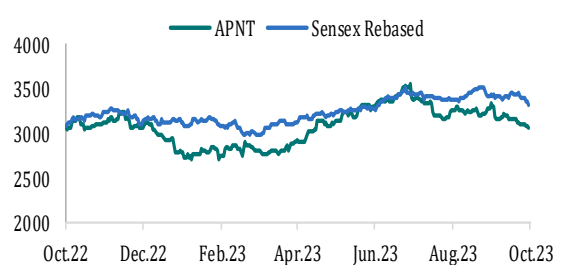
We expect a better product mix and festival-led demand to drive growth in H2FY24. The management indicated double-digit volume growth in FY24, supported by distribution expansion and innovation. The long-term outlook remains intact, and we therefore maintain BUY rating with a TP of Rs. 3,399, based on a P/E of 57x on FY25E EPS.

Company Data	
Market Cap (cr)	₹ 2,87,410
Enterprise Value (cr)	₹ 2,86,821
Outstanding Shares (cr)	96
Free Float	47.20%
Dividend Yield	0.8%
52 week high	₹ 3,567
52 week low	₹ 2,686
6m average volume (cr)	0.14
Beta	0.43
Face value	₹ 1

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	52.6	52.6	52.6
FII's	17.0	17.5	17.7
MFs/Insti	10.0	10.0	10.0
Public	20.4	19.9	19.7
Total	100.0	100.0	100.0
Promoter Pledge%	7.4	7.3	6.5

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-12.7%	2.0%	-4.1%
Absolute Sensex	-4.6%	3.3%	6.1%
Relative Return*	-8.2%	-1.4%	-10.2%

*over- or underperformance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	34,489	37,131	41,457
Growth (%)	18.5	7.7	11.7
EBITDA	6,260	7,575	8,374
EBITDA Margin(%)	18.15	20.40	20.20
PAT Adj.	4,244	5,418	5,719
Growth (%)	32.6	27.7	5.6
Adj.EPS	44.2	56.5	59.6
Growth (%)	32.6	27.7	5.6
P/E	67.7	53.0	50.3
P/B	17.5	14.3	12.0
EV/EBITDA	45.6	37.5	33.7
ROE (%)	28.1	29.7	26.0
D/E	0.0	0.0	0.0

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Research Analyst



Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
Sales	8,479	8,458	0.2	9,182	-7.7	17,661	17,065	3.5
EBITDA	1,716	1,228	39.8	2,121	-19.1	3,838	2,784	37.9
EBITDA margins (%)	20.2	14.5	573bps	23.1	-286bps	21.7	16.3	542bps
Depreciation	209	216	-3.2	198	5.2	407	424	-4.0
EBIT	1,508	1,012	49.0	1,923	-21.6	3,430	2,360	45.4
Interest	51	35	43.8	46	11.3	97	64	50.7
Other Income	165	95	73.0	197	-16.2	362	194	86.3
Exceptional Items	-	-	-	-	-	-	24	-
PBT	1,622	1,072	51.3	2,074	-21.8	3,696	2,466	49.9
Tax	419	290	44.2	530	-21.0	949	661	43.5
Reported PAT	1,232	804	53.3	1,575	-21.7	2,807	1,840	52.6
Adjustments	-	-	-	-	-	-	-	-
Adj PAT	1,232	804	53.3	1,575	-21.7	2,807	1,840	52.6
No. of Shares	96	96	-	96	-	96	96	-
EPS (Rs)	13	8	53.3	16	-21.7	29	19	52.6

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	38,082	42,339	37,131	41,457	-2.5	-2.1
EBITDA	7,464	8,341	7,575	8,374	1.5	0.4
Margins (%)	19.6	19.7	20.4	20.2	80bps	50bps
Adj. PAT	5,069	5,802	5,418	5,719	6.9	-1.4
EPS	52.8	60.5	56.5	59.6	6.9	-1.4

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	21,713	29,101	34,489	37,131	41,457
% change	7.4	34.0	18.5	7.7	11.7
EBITDA	4,856	4,804	6,260	7,575	8,374
% change	16.7	-1.1	30.3	21.0	10.6
Depreciation	791	816	858	857	963
EBIT	4,064	3,987	5,402	6,718	7,412
Interest	92	95	144	162	128
Other Income	303.1	380.0	386.5	650.0	430.0
PBT	4,276	4,156	5,595	7,206	7,713
% change	19.3	-2.8	34.6	28.8	7.0
Tax	1,098	1,103	1,494	1,837	2,044
Tax Rate (%)	25.7	25.8	26.5	25.5	26.5
Reported PAT	3,208	3,085	4,195	5,418	5,719
Adj*	0.0	115.7	48.9	0.0	0.0
Adj PAT	3,208	3,201	4,244	5,418	5,719
% change	15.4	-0.2	32.6	27.7	5.6
No. of shares (cr)	96	96	96	96	96
Adj EPS (Rs.)	33.4	33.4	44.2	56.5	59.6
% change	15.4	-0.2	32.6	27.7	5.6
DPS (Rs.)	12.0	13.1	14.2	15.3	16.4

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Deprn.	5,097	5,004	6,547	8,112	8,726
Non-cash adj.	-1108	-1163	-1375	-1978	-1660
Changes in W.C	-206	-2,659	-558	-1,468	-1,159
C.F. Operation	3,684	1,183	4,614	4,667	5,907
Capital exp.	-254	-456	-97	-847	-812
Change in inv.	-294	1566	-968	-581	-1233
Other invest.CF	0	0	0	0	0
C.F - Investment	-548	1,110	-1065	-1427	-2045
Issue of equity	0	0	0	0	0
Issue/repay debt	-64	340	-324	-272	-238
Dividends paid	-499	-1,499	-1,625	-1,751	-1,877
Other finance.CF	-203	-35	20	20	20
C.F - Finance	-3,461	-2,039	-2,016	-2,004	-2,095
Chg. in cash	-325	254	1,533	1,236	1,766
Closing cash	611	864	2,397	3,633	5,399

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	611	864	2,397	3,633	5,399
Accounts Receivable	2,605	3,874	4,535	4,883	5,111
Inventories	3,799	6,153	5,796	6,820	7,772
Other Cur. Assets	2,563	2,874	3,912	4,212	4,702
Investments	4,737	3,248	4,222	5,066	6,079
Gross Fixed Assets	7,618	7,903	8,103	8,903	9,703
Net Fixed Assets	5,322	5,090	4,472	4,455	4,333
CWIP	183	426	300	300	300
Intangible Assets	537	429	498	505	477
Def. Tax (Net)	-	-	-	-	-
Other Assets	-	-	-	-	-
Total Assets	20,355	22,958	26,133	29,875	34,173
Current Liabilities	6,085	7,373	8,115	8,303	8,785
Provisions	300	288	331	346	375
Debt Funds	340	776	596	486	376
Other Liabilities	824	710	710	692	747
Equity Capital	96	96	96	96	96
Reserves & Surplus	12,710	13,716	16,286	19,952	23,795
Shareholder's Fund	12,806	13,812	16,382	20,048	23,891
Total Liabilities	20,355	22,958	26,133	29,875	34,173
BVPS (Rs.)	134	144	171	209	249

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	22.4	16.5	18.2	20.4	20.2
EBIT margin (%)	18.7	13.7	15.7	18.1	17.9
Net profit mgn.(%)	14.8	11.0	12.3	14.6	13.8
ROE (%)	28.0	24.0	28.1	29.7	26.0
ROCE (%)	20.6	17.1	20.3	22.0	19.3
W.C & Liquidity					
Receivables (days)	37.0	40.6	44.5	46.3	44.0
Inventory (days)	60.4	62.4	63.2	62.0	64.2
Payables (days)	6.9	5.1	4.2	4.1	3.9
Current ratio (x)	1.5	1.8	2.0	2.3	2.5
Quick ratio (x)	0.5	0.6	0.9	1.0	1.2
Turnover & Leverage					
Gross asset T.O (x)	2.9	3.8	4.3	4.4	4.5
Total asset T.O (x)	1.2	1.3	1.4	1.3	1.3
Int. coverage ratio (x)	44.4	41.8	37.4	41.4	57.8
Adj. debt/equity (x)	0.0	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	13.2	9.9	8.3	7.7	6.8
EV/EBITDA (x)	59.1	59.8	45.6	37.5	33.7
P/E (x)	89.6	89.8	67.7	53.0	50.3
P/BV (x)	22.4	20.8	17.5	14.3	12.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
23-Oct-2020	Hold	2,186
25-Jan-2021	Hold	2,653
17-May-2021	Reduce	2,470
23-Jul-2021	Buy	3,438
27-Oct-2021	Buy	3,285
31-Jan-2022	Buy	3,663
26-Jun-2022	Buy	3,025
28-Jul-2022	Buy	3,502
1-Nov-2022	Buy	3,416
24-Jan-2023	Buy	3,115
26-Jun-2023	Hold	3,448
08-Aug-2023	Buy	3,691
31-Oct-2023	Buy	3,399

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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