



India

REDUCE (previously HOLD)

Consensus ratings*:	Buy 18 Hold 12 Sell 11
Current price:	Rs2,916
Target price:	Rs2,650
Previous target:	Rs3,150
Up/downside:	-9.1%
InCred Research / Consensus:	-20.1%
Reuters:	
Bloomberg:	APNT IN
Market cap:	US\$38,518m
	Rs2,796,973m
Average daily turnover:	US\$49.6m
	Rs3603.3m
Current shares o/s:	959.2m
Free float:	47.2%
*Source: Bloomberg	

Key changes in this note

- Downgrade to REDUCE from HOLD.
- Lower target price to Rs2,650 from Rs3,150.
- Reduce FY24F/25F EPS by 3.16%/11.2%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.9)	(10.2)	(17.7)
Relative (%)	(4.6)	(13.7)	(16.1)

Major shareholders	% held
Promoter and Promoter Group	52.8
Vanguard Group Inc	1.9
BlackRock Inc	1.7

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Asian Paints Limited

Sales growth tapers off

- APNT's 3Q standalone sales were flat yoy (3-year CAGR of 17.3% vs. c.20% in 1Q/2Q). Volume was flat while pricing was negated by an adverse mix.
- An adverse mix, higher growth in (low margin) projects business and likely higher rebates (due to rise in competitive intensity) will keep margins in check.
- With concerns over decelerating topline growth and margin expansion, we downgrade the stock to REDUCE with a lower target price of Rs2,650.

Sales growth momentum tapers off on a sequential basis

Asian Paints' (APNT) consolidated sales grew 1.3% yoy (3-year CAGR of 16.8% vs. 18.7% in 1Q/2Q) in 3QFY23, 6% below our estimate. Volume growth was flat yoy, resulting in a 3-year volume CAGR of 16.2% (vs. 20.5%/17.8% in 1Q/2Q, respectively). Price/mix growth was also flat yoy, pointing towards a much inferior product mix and perhaps downtrading. The pricing element will phase out while the mix is expected to remain adverse (4-6%) going ahead. Project demand (low margin) remains healthy. Given the double-digit growth in Dec 2022 (partly attributable to a low base), management remains optimistic of near-term demand and expects the double-digit volume growth to sustain going ahead. Despite the optimism, we expect the sales growth deceleration to continue sequentially.

Subsidiaries' business is a mixed bag

International business grew 2.1% yoy as growth in Middle East and Africa was offset by the decline in South Asia. Home décor witnessed a slowdown in both kitchen business (down 7% yoy) and bath business (down 10.9%) due to lower retail sales. Profitability continues to remain a cause of concern, despite achieving a decent scale. Automobile OEM and industrial coatings subsidiaries were the bright spots (both up 24% yoy).

Margin expansion to be modest

Consolidated gross margin expansion of 180bp yoy to 38.6% (up 280bp qoq) was in line with expectations. However, consolidated EBITDA at Rs16.1bn was up 4.5% yoy but below our estimate by 11%. EBITDA margin expansion was restricted to 60bp yoy at 18.7% (vs. our estimate of 19.8%) as employee cost and other expenses were up 50bp/80bp yoy, respectively. An adverse mix, higher growth in (low margin) projects business and likely higher rebates (due to rising competition) will, in our view, keep the margins in check.

Downgrade to REDUCE with a lower target price of Rs2,650

Asian Paints' 3-year volume/value CAGR of 16%/17%, respectively, has been decelerating on a sequential basis. Concerns around the entry of Grasim affecting industry dynamics (market share and profitability) remain. Investment in backward integration will only protect current margins, in our opinion. Given the concerns around decelerating topline growth and margin expansion, we downgraded our rating on the stock to REDUCE (from HOLD) with a lower target price of Rs2,650 (50x FY25F EPS, 1SD below mean) from Rs3,150 earlier. The upside risk is higher-than-estimated sales growth/EBITDA margin.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	217,128	291,013	342,607	376,364	408,982
Operating EBITDA (Rsm)	48,556	48,036	61,865	74,171	78,288
Net Profit (Rsm)	32,170	30,308	40,762	49,358	50,544
Core EPS (Rs)	33.5	32.5	42.5	51.5	52.7
Core EPS Growth	18.9%	(3.1%)	30.8%	21.1%	2.4%
FD Core P/E (x)	86.94	92.29	68.62	56.67	55.34
DPS (Rs)	17.9	19.1	23.0	27.5	27.8
Dividend Yield	0.61%	0.66%	0.79%	0.94%	0.95%
EV/EBITDA (x)	56.93	58.00	44.83	37.33	35.18
P/FCFE (x)	393.63	241.92	81.84	92.93	66.97
Net Gearing	(28.1%)	(10.0%)	(17.1%)	(17.7%)	(22.6%)
P/BV (x)	21.84	19.70	17.48	15.34	13.61
ROE	28.1%	23.1%	27.0%	28.8%	26.1%
% Change In Core EPS Estimates			(3.86%)	(3.16%)	(11.24%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sales growth tapers off

Key takeaways from the earnings call

Decorative business

- Overall volume was muted owing to high price hikes taken in the base period (10% taken in Nov and 5% in Dec 2022), which advanced the volume last year. The monsoons prolonging into Oct 2022 impacted volume, which bounced back in Nov-Dec 2022 leading to double-digit volume growth in Dec 2022.
- Seasonal markets like north, central and western India markets were impacted in Oct 2022 owing to the monsoons. The Diwali festival season was shorter this year, which had an impact in Oct 2022.
- Not seeing much difference in growth across regions.
- The mix last year was better as price hikes were higher in the premium/luxury range and hence, the company witnessed higher stocking. Now, some downtrading is visible.
- Project business (c.15-20% of decorative sales) performance has been strong. It continues to grow higher than the retail business aided by government, co-operative housing and builder segments.
- The business of extending its presence across the country continues. The company added 10k new retail touchpoints in 9MFY23 (10k added last year).
- Services business did well. Both safe painting and trusted contractor services are performing well.
- **New launches:** Dynam (adhesives), PuraFin (Woodtech), Sparc Wall primers, etc. Almost 45-48 new products are now in the areas where its competitors lag. The company launched two new cutting-edge waterproofing products - Hydro Loc Xtreme and Damproof Xtreme.

Margin and input cost

- Raw material deflation of 7% was partly realized (owing to higher inventory) but it aided margin expansion.
- Raw material deflation is expected to continue. Management will go for price reduction once things cool off (Russia-Ukraine war still a threat) post 4QFY23F.
- Overall, no aberrations expected in other expenses owing to investment in capacity expansion in the near term. Capex funding comes from company reserves and hence, there may be no implications.
- Gross margin is expected to be marginally higher (c.40% level). Management maintains its 38-40% target.

Outlook

- Management is positive about the near-term outlook. It believes the base correction has taken place in 3QFY23.
- Asian Paints expects T-3/4 towns to bounce back gradually. The sales mix is expected to improve with a larger focus on growth from high-end products, which will aid volume/value growth (the gap is expected to be c.4-6%).
- 4QFY23F and 1QFY24F are expected to be sequentially better off.
- Two price hikes last year increased the stock in trade channels. Monsoons extending till 15 Oct 2022 impacted the volume. By Dec 2022, volume was back to double digits and hence, management is optimistic about growth in 4QFY23F. The cold weather in North India is expected to impact the exterior segment in 4QFY23F.
- Management is also optimistic about the home decor business in 4QFY23F.

- Management expects EBITDA margin to be in the 18-20% range. Product mix should improve in 4QFY23 (the mix should be a negative 4-5%).
- Volume growth is expected to continue (at a lower level) and management does not expect explosive growth in the near term.

Home improvement business

- 38 Beautiful Home Stores across metro cities and T-1/2 regions. Beautiful Home Services are now offered in 11 cities.
- **White teak:** The focus is on increasing the distribution footprint. Garnered Rs290m revenue in 3Q.
- **Weather seal** - Registered Rs70m revenue in 3Q.
- **Kitchen business:** Faced a slowdown in 3Q owing to lower retailing and price hikes. Sales down 7% in 3Q. Components and sanitaryware business showed muted growth.
- **Bath:** Revenue down 11% in 3Q. Subdued sales and raw material inflation impacted profitability.

Investments

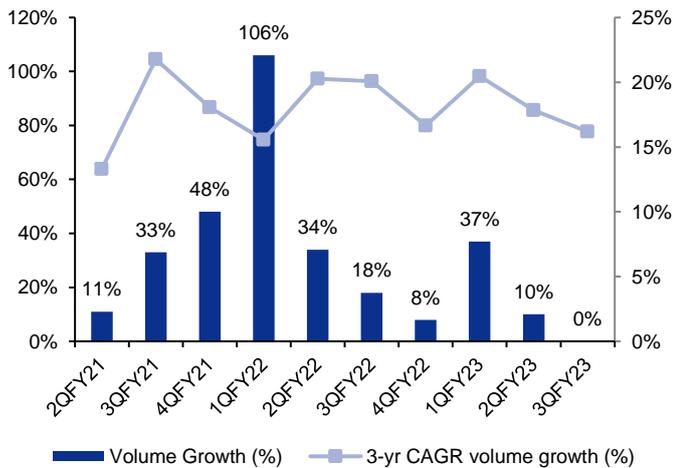
- Total investments currently are at Rs87.5bn. Out of this, Rs20bn is towards the greenfield expansion in Madhya Pradesh, brownfield expansion worth Rs34bn, backward integration costing Rs25.5bn and acquisitions (already announced) worth Rs8bn.
- In-house capacity for paints will expand by 30% to 2.27m kL per annum over three years.
- Capex announcements are not in proportion to sales. The capacity is in anticipation of overall volume growth (based on the last decade).

Figure 1: Quarterly summary - Consolidated

Y/E, Mar (Rs m)	3QFY22	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	(%)
Revenue	85,272	84,576	86,367	1.3	2.1	2,12,086	2,57,013	21.2
Expenditure	69,850	72,299	70,253	0.6	-2.8	1,78,484	2,13,062	19.4
Consumption of RM	53,934	54,356	53,058	-1.6	-2.4	1,34,628	1,61,033	19.6
as % of sales	63.2	64.3	61.4			63.5	62.7	
Employee Cost	4,557	5,126	5,038	10.6	-1.7	13,293	15,060	13.3
as % of sales	5.3	6.1	5.8			6.3	5.9	
Other expenditure	11,359	12,816	12,158	7.0	-5.1	30,563	36,969	21.0
as % of sales	13.3	15.2	14.1			14.4	14.4	
EBITDA	15,422	12,277	16,114	4.5	31.3	33,602	43,951	30.8
Depreciation	2,079	2,157	2,141	3.0	-0.8	6,113	6,379	4.4
EBIT	13,343	10,120	13,974	4.7	38.1	27,490	37,572	36.7
Other Income	718	955	866	20.5	-9.3	2,996	2,810	-6.2
Interest	275	354	414	50.8	16.9	728	1,055	45.0
PBT	13,787	10,721	14,426	4.6	34.6	29,758	39,327	32.2
Total Tax	3,624	2,903	3,811	5.2	31.3	7,878	10,421	32.3
PAT	10,162	7,817	10,614	4.4	35.8	21,880	28,906	32.1
Minority Interest	6	-10	-113	-1,859.4	1060.8	80	-59	-173.9
Adjusted Net Profit	10,156	7,827	10,727	5.6	37.0	21,801	28,965	32.9
Extraordinary Items	0	0	0	NA	NA	0	242	NA
Reported Net Profit	10,156	7,827	10,727	5.6	37.0	21,801	28,723	31.8
Adjusted EPS	10.6	8.2	11.2	5.6	37.0	22.7	30.2	32.9
Margins (%)	3QFY22	2QFY23	3QFY23	YoY (bp)	QoQ (bp)	9MFY22	9MFY23	(bp)
Gross Margin	36.8	35.7	38.6	180	280	36.5	37.3	80
EBIDTA	18.1	14.5	18.7	60	410	15.8	17.1	130
EBIT	15.6	12.0	16.2	50	420	13.0	14.6	170
EBT	16.2	12.7	16.7	50	400	14.0	15.3	130
PAT	11.9	9.2	12.3	40	300	10.3	11.2	90
Effective Tax rate	26.3	27.1	26.4	10	-70	26.5	26.5	0

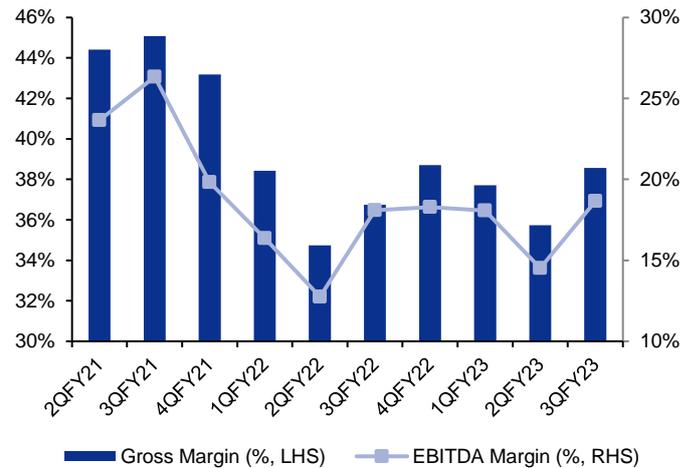
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Decorative segment's volume was flat in 3QFY23



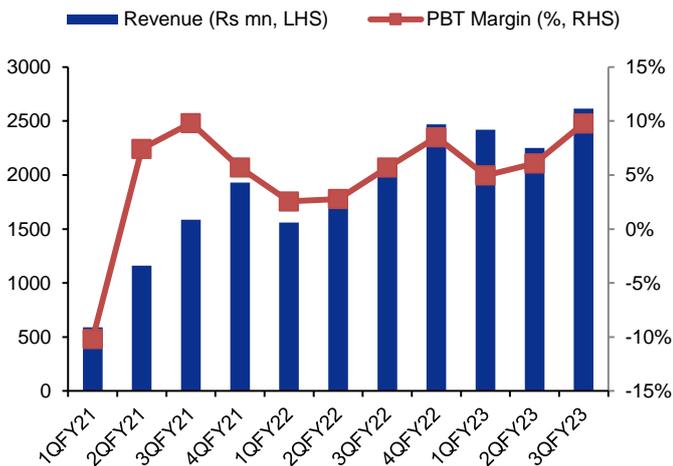
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated gross margin and EBITDA margin improved in 3QFY23



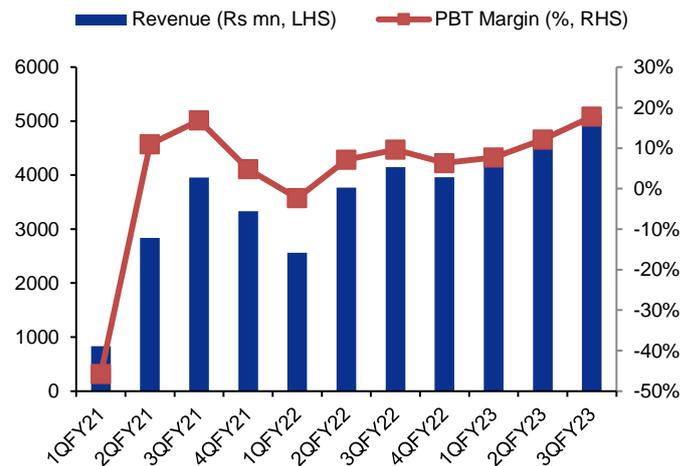
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: AP-PPG (industrial) business PBT expanded 410bp yoy to 10% in 3QFY23



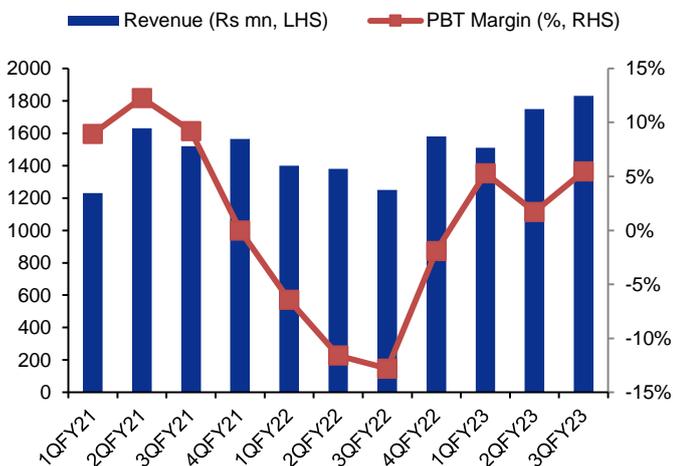
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PPG-AP (auto OEM) business PBT expanded by 816bp yoy to 18% in 3QFY23



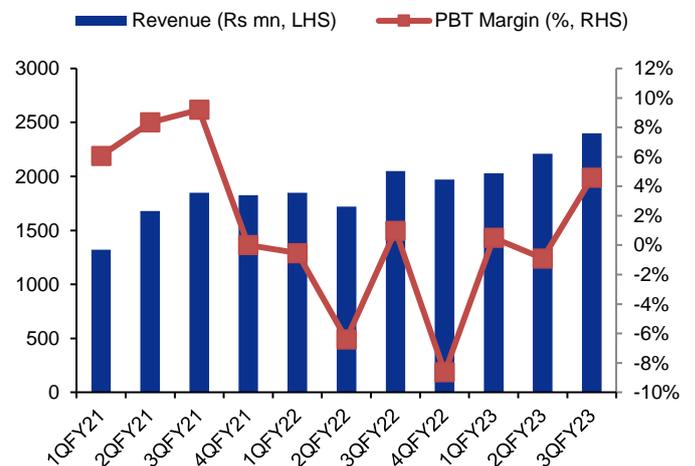
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Africa business sales grew 46% yoy to Rs1830m in 3QFY23



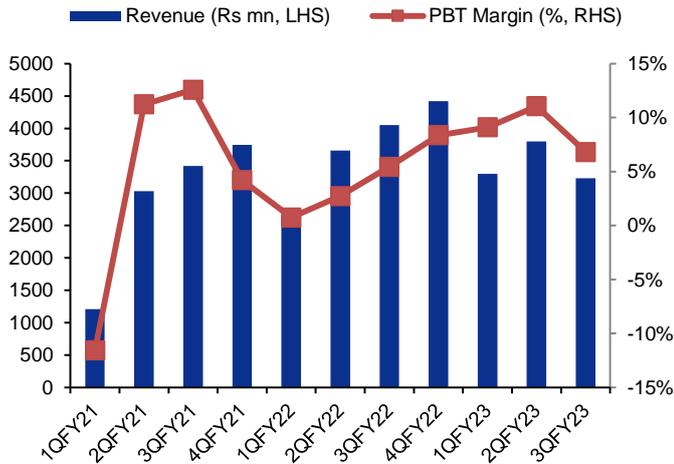
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Middle East sales grew 17.1% yoy to Rs2400m in 3QFY23

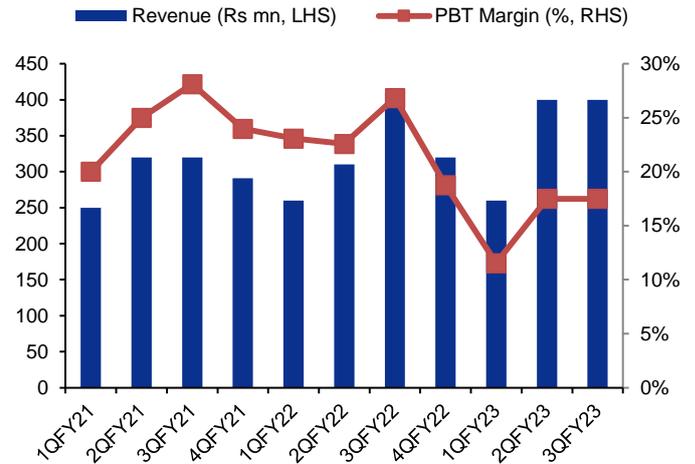


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asia business revenue declined 20% yoy to Rs3,230m in 3QFY23 **Figure 9: South Pacific revenue declined 2.4% yoy to Rs400m in 3QFY23**

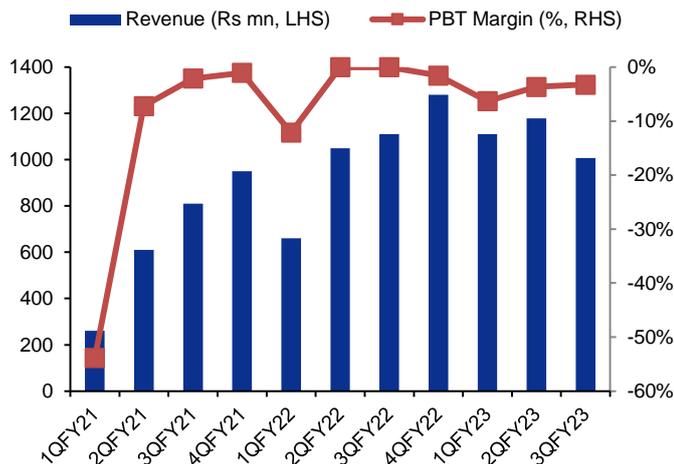


SOURCE: INCRED RESEARCH, COMPANY REPORTS



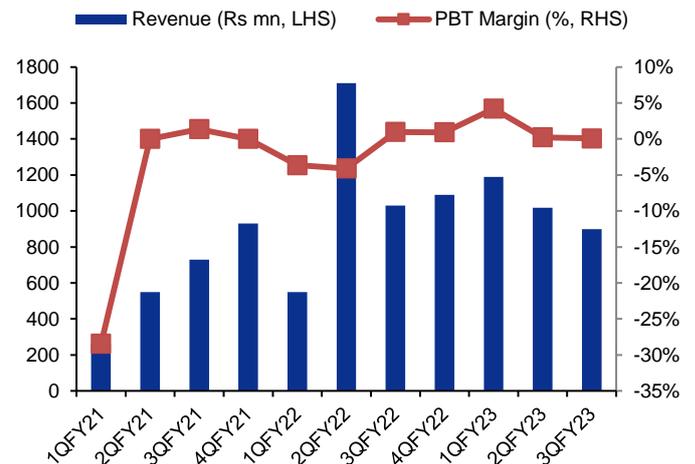
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Kitchen business registered a PBT loss of 3% in 3QFY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Bath business revenue declined 12% yoy to Rs898m in 3QFY23



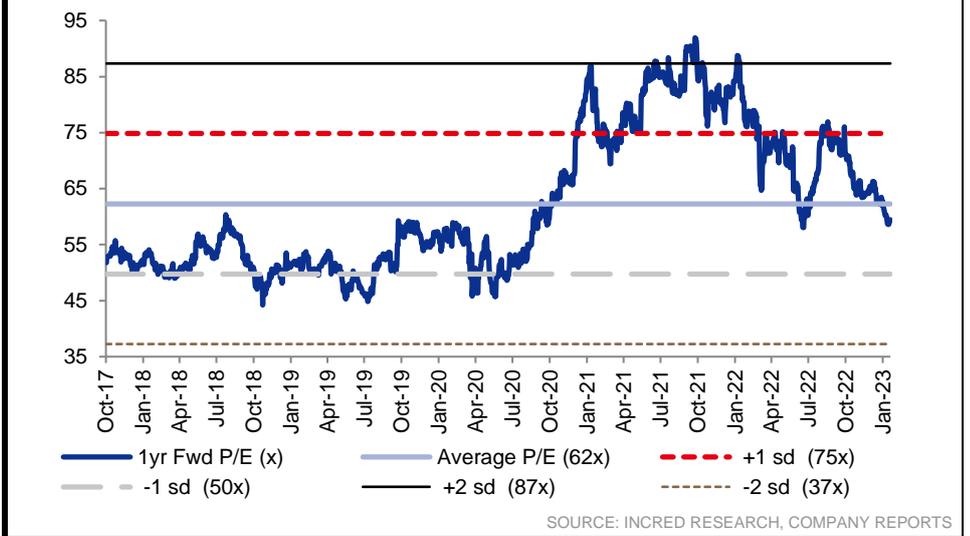
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

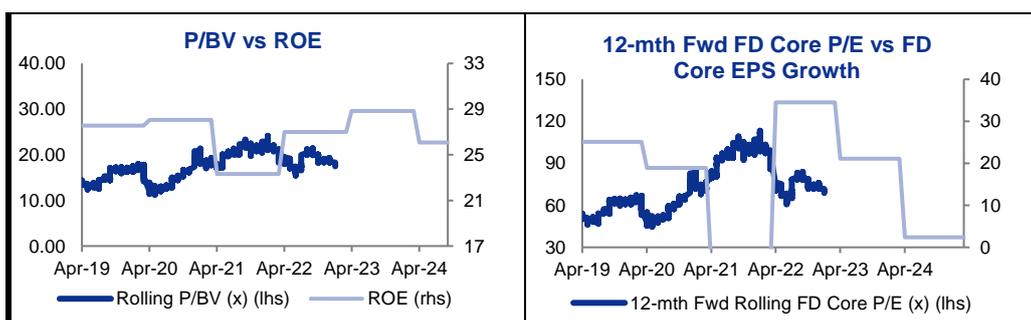
Y/E, Mar (Rs M)	FY23F			FY24F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	3,56,330	3,42,607	(3.9)	4,01,835	3,76,364	(6.3)	4,48,079	4,08,982	(8.7)
EBITDA	63,518	61,865	(2.6)	77,768	74,171	(4.6)	88,885	78,288	(11.9)
EBITDA Margin (%)	17.8	18.1	26bp	19.4	19.7	31bp	19.8	19.1	-66bp
Net Profit	42,398	40,762	(3.9)	50,968	49,358	(3.2)	56,943	50,544	(11.2)
EPS	44.2	42.5	(3.9)	53.1	51.5	(3.2)	59.4	52.7	(11.2)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Asian Paints' one-year forward P/E trades below its five-year average P/E



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	217,128	291,013	342,607	376,364	408,982
Gross Profit	96,156	108,005	130,314	150,471	162,597
Operating EBITDA	48,556	48,036	61,865	74,171	78,288
Depreciation And Amortisation	(7,913)	(8,164)	(9,990)	(11,068)	(13,929)
Operating EBIT	40,643	39,873	51,875	63,103	64,359
Financial Income/(Expense)	2,114	2,846	2,950	3,198	3,461
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	42,758	42,719	54,825	66,300	67,820
Exceptional Items		(1,157)			
Pre-tax Profit	42,758	41,562	54,825	66,300	67,820
Taxation	(10,976)	(11,029)	(13,763)	(16,642)	(16,976)
Exceptional Income - post-tax					
Profit After Tax	31,782	30,532	41,062	49,658	50,844
Minority Interests	389	(225)	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	32,170	30,308	40,762	49,358	50,544
Recurring Net Profit	32,170	31,157	40,762	49,358	50,544
Fully Diluted Recurring Net Profit	32,170	31,157	40,762	49,358	50,544

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	48,556	48,036	61,865	74,171	78,288
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(325)	(40,321)	15,925	2,073	2,694
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(600)				
Other Operating Cashflow					
Net Interest (Paid)/Received	(916)	(954)	(1,077)	(1,065)	(1,051)
Tax Paid	(10,976)	(11,029)	(13,763)	(16,642)	(16,976)
Cashflow From Operations	35,738	(4,268)	62,950	58,536	62,955
Capex	(4,376)	(7,801)	(30,800)	(30,700)	(25,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(24,149)	18,693	4,026	4,263	4,512
Cash Flow From Investing	(28,525)	10,892	(26,774)	(26,437)	(21,188)
Debt Raised/(repaid)	(108)	4,938	(2,000)	(2,000)	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(17,122)	(18,369)	(22,038)	(26,424)	(26,649)
Preferred Dividends					
Other Financing Cashflow	12,815	626	(682)	(682)	(682)
Cash Flow From Financing	(4,415)	(12,805)	(28,442)	(34,242)	(34,124)
Total Cash Generated	2,799	(6,181)	34,525	27,017	32,480
Free Cashflow To Equity	7,106	11,561	34,176	30,099	41,767
Free Cashflow To Firm	8,130	7,578	37,253	33,164	42,818

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	48,056	30,450	41,907	44,899	59,336
Total Debtors	26,051	38,738	35,489	37,369	38,990
Inventories	37,986	61,530	54,449	57,188	59,364
Total Other Current Assets	15,815	28,743	28,743	28,743	28,743
Total Current Assets	127,907	159,461	160,588	168,199	186,432
Fixed Assets	57,389	57,026	77,837	97,469	109,239
Total Investments	14,697	10,668	10,668	10,668	10,668
Intangible Assets	3,026	2,429	2,429	2,429	2,429
Total Other Non-Current Assets	795		483	528	570
Total Non-current Assets	75,907	70,123	91,416	111,094	122,907
Short-term Debt	5,172	9,440	7,440	5,440	5,440
Current Portion of Long-Term Debt					
Total Creditors	53,405	61,741	67,351	73,849	80,161
Other Current Liabilities	844	697			
Total Current Liabilities	59,421	71,878	74,791	79,289	85,601
Total Long-term Debt	5,759	6,429	6,429	6,429	6,429
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	5,759	6,429	6,429	6,429	6,429
Total Provisions	7,010	6,109	6,576	6,815	7,036
Total Liabilities	72,190	84,415	87,796	92,533	99,067
Shareholders Equity	128,063	141,991	160,033	182,284	205,497
Minority Interests	4,229	3,875	4,175	4,475	4,775
Total Equity	132,292	145,866	164,208	186,760	210,273

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	7.4%	34.0%	17.7%	9.9%	8.7%
Operating EBITDA Growth	16.7%	(1.1%)	28.8%	19.9%	5.6%
Operating EBITDA Margin	22.4%	16.5%	18.1%	19.7%	19.1%
Net Cash Per Share (Rs)	38.70	15.20	29.23	34.44	49.49
BVPS (Rs)	133.51	148.03	166.84	190.04	214.24
Gross Interest Cover	44.36	41.79	48.19	59.22	61.21
Effective Tax Rate	25.7%	26.5%	25.1%	25.1%	25.0%
Net Dividend Payout Ratio	53.2%	58.4%	54.1%	53.5%	52.7%
Accounts Receivables Days	37.02	40.63	39.54	35.33	34.07
Inventory Days	108.45	99.24	99.70	90.19	86.33
Accounts Payables Days	138.35	114.83	110.98	114.08	114.08
ROIC (%)	46.8%	31.6%	39.3%	42.1%	40.4%
ROCE (%)	30.8%	26.1%	30.5%	33.5%	30.6%
Return On Average Assets	16.2%	13.3%	15.8%	17.5%	16.1%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Domestic decorative revenue growth	14.0%	4.5%	20.0%	19.9%	0.8%
EBIDTA margins	22.4%	16.5%	18.1%	19.7%	19.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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