

India

REDUCE (no change)

Consensus ratings*: Buy 16 Hold 8 Sell 14

Current price:	Rs3,140
Target price:	Rs2,820 ▲
Previous target:	Rs2,650
Up/downside:	-10.2%
InCred Research / Consensus:	-7.9%

Reuters:	
Bloomberg:	APNT IN
Market cap:	US\$41,474m
	Rs3,011,641m
Average daily turnover:	US\$42.4m
	Rs3077.0m
Current shares o/s:	959.2m
Free float:	47.2%

*Source: Bloomberg

Key changes in this note

- Raise target price to Rs2,820 from Rs2,650.
- Raise FY24F EPS by 5.4%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.0	12.0	2.8
Relative (%)	11.2	9.7	(12.1)

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

Analyst(s)



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Asian Paints Limited

Higher margins are not sustainable

- APNT posted 4Q standalone volume/value growth of 16%/13%, respectively. International business rose by 7% and industrial subsidiaries grew by 12%.
- Consol. EBITDA margin expansion of 290bp to 21.2% driven by gross margin expansion (up 380bp yoy). However, management's guidance of 18-20% EBITDA margin has an undertone of caution from rising competitive intensity.
- Retain REDUCE rating with a higher target price of Rs2,820 (Rs2,650 earlier).

Growth to be volume-led; competition to intensify

Asian Paints' (APNT) consolidated sales grew 11.3% yoy in 4QFY23 to Rs87.9bn. Decorative paints' volume growth stood at 16% yoy. Demand conditions are stable. Urban and rural markets grew at a similar pace in 4Q; T-I/T-2 cities grew marginally ahead. Economy and waterproofing business led growth in 4Q. Growth is picking up in the premium and luxury segments. APNT expects near-term demand to remain stable. At the same time, it expects competition to intensify further as stability in supply chains to enable the unorganized players' share (whose share had fallen from 30% to c.25%) to return to pre-Covid levels. Also, there are new players entering the paints space.

Profitability improves in industrials segment; home décor subdued

The automobile OEM segment (PPG-AP) and the industrial segment (AP-PPG) grew 8%/17% yoy, respectively, in 4Q. PBT margin improved by 677bp/288bp to 13.1%/11.4%, respectively. The home décor segment witnessed a slowdown in the kitchen business (down 23% yoy) as well as the bath business (down 12%) due to lower retail sales. Profitability remains a cause of concern, despite achieving a decent scale (c.Rs9bn in combined revenue). International business declined 3% yoy (constant currency growth of 7%) as growth in the Middle East and Africa was offset by the decline in South Asia.

Margin expansion likely to be modest

Consolidated gross margin expanded by 380bp yoy to 42.5% (up 390bp qoq), led by moderation of key input cost and formulation efficiency-led gains. Consolidated EBITDA at Rs18.6bn was up 29.2% yoy while EBITDA margin expanded 290bp yoy to 21.2%. Despite strong margin expansion, management's guidance of 18-20% EBITDA margin for FY24F indicates an undertone of caution from rising competitive intensity, leading to higher trade/media spending.

Maintain REDUCE rating with a higher target price of Rs2,820

Given the strong margin recovery, we have increased our FY24/FY25 EPS estimates by 5.4-9.3%, respectively. However, given the concerns around decelerating topline growth and management's cautious EBITDA margin guidance (18-20% band), we retain REDUCE rating on the stock with a higher target price of Rs2,820 (49x FY25F EPS, 1SD below mean level) from Rs2,650 earlier. Upside risk: Higher-than-estimated sales growth/EBITDA margin.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	217,128	291,013	344,886	381,772	419,912
Operating EBITDA (Rsm)	48,556	48,036	62,598	75,294	80,982
Net Profit (Rsm)	32,170	30,308	41,065	52,003	55,242
Core EPS (Rs)	33.5	32.5	43.2	54.2	57.6
Core EPS Growth	18.9%	(3.1%)	32.9%	25.5%	6.2%
FD Core P/E (x)	93.62	99.37	73.34	57.91	54.52
DPS (Rs)	17.9	19.1	24.6	29.1	30.6
Dividend Yield	0.57%	0.59%	0.64%	0.93%	0.97%
EV/EBITDA (x)	61.35	62.47	47.93	39.46	36.53
P/FCFE (x)	423.84	260.49	133.09	63.58	69.51
Net Gearing	(28.1%)	(10.0%)	(9.8%)	(23.2%)	(26.6%)
P/BV (x)	23.52	21.21	18.83	15.85	13.99
ROE	28.1%	23.1%	27.4%	29.7%	27.3%
% Change In Core EPS Estimates				5.36%	9.30%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Higher margins are not sustainable

Key takeaways from the earnings call

Decorative business ➤

- Volume grew by 16% in 4QFY23 (8% in 4QFY22). There was no demand deferment in 4Q. 3Q had a shorter Diwali festival base and hence, growth was lower. Aiming at double-digit volume growth in the medium term.
- In 4Q, T1-2 cities grew marginally ahead of T3-4 cities. APNT performed well in smaller cities, growing in double digits (CAGR) across rural and urban markets.
- Economy and waterproofing segments led the overall growth. Some categories grew even faster like upgradation emulsions, waterproofing, B2B flooring, admixtures, etc.
- Witnessing recovery in Premium and luxury segments which grew well (vs. last two quarters). Premium wood finishes also performed well.
- **Distribution expansion** - 1,50,000 retail touch points. Added 15-20k dealer points in FY23, and targets 10-15k retail touchpoints in FY24F. Larger focus on smaller cities and suburbs of bigger cities.
- **Safe painting services** now cater to more than 1,70,000 customers.
- **Projects (B2B)** business has been growing at a strong pace across both builder/co-op housing and factories/govt sectors. The government sector has grown faster in 4Q, leading to strong growth in the waterproofing range (membranes, ad-mixtures, etc).
- **New products** launched over the last seven years contributed 10% to sales.
- The work on capacity expansion and backward integration initiatives is progressing well.
- **Advertising campaigns** continued - focusing on the bottom of the pyramid to convert customers from unbranded to branded products. Campaigns on luxe categories (Royale Glitz, etc) have also performed well. The share of voice in media outstripped competition. In 4Q, advertisement expenditure was higher.
- In **waterproofing** (retail) APNT is No1. APNT started this business seven years back. In the retail space, larger players were Roff, Sika, Pidilite and Forsoc. It's not just market share gains, APNT has enlarged the overall market as well. Waterproofing has been a boon for APNT. Competitors at that time were only servicing the demand vs. APNT who focused on growing the market. APNT goes directly to the retailers, which helped in boosting retail sales vs. peers who use distributors. In projects business, APNT is No 3. Now, it is a significant player in the projects business as well - entered membranes, admixtures business - with 200+ technical products being offered. In another two years, it may become No. 1 in the projects business as well. Close to double digits in terms of contribution to sales.
- **Pidilite's entry into the paints business** – Pidilite was in some segments like wood finishes. It's more a range completion exercise from them now. Products are at price economy level - nothing differentiated. The company just wants to foray into the market before others (like new entrants). APNT's management does not expect much disruption from Pidilite's entry.
- **Unorganized players** – Volume stayed compressed over the last two years owing to supply chain problems and inflation. There is now stabilization in supply chains. The unorganized players' share (pre-Covid) was at 30% and 70% of organized players, with these players having lost a 4-5% sharing during the Covid-19 pandemic which is likely to come back to the earlier levels (i.e., they cover lost ground of 4-5%).

International business ➤

- Declined 2.7% yoy in 4Q (INR terms).
- Strong growth registered in the Middle East and Africa.
- Asia's performance was impacted by Sri Lanka owing to the economic crisis while Bangladesh was impacted by forex devaluation. Nepal saw challenges owing to political and liquidity uncertainty.

Industrial business ➤

- **PPG-AP:** Double-digit growth continued in FY23. Revenue grew 8% yoy to Rs4,280m (Rs18,260m; up 27% yoy in FY23). PBT was up 122% at Rs560m (Rs2,360m, up 173% in FY23).
- **AP-PPG:** Crossed the Rs10bn milestone in FY23.
- No price cuts were taken in 4Q. Looked at increasing reach and depth along with technical servicing. Also, JV with PPG Industries helped them to introduce high-end products into the market (heat-resistant, epoxy, rubber, etc).

Home improvement business ➤

- **Beautiful homes:** Doing well. Now at No.3 in service at the pan-India level. No other company offers the same service.
- **White Teak:** Net sales at Rs358m in 4Q (Rs1,050m in FY23). Gaining from rising retail footprint and synergies with Beautiful Homes.
- **Weather Seal** sales stood at Rs96m (Rs246m in FY23).
- **Kitchen business:** Sales down 21% yoy to Rs980m. PBT at -11m in 4Q. Modular segment is profitable, but the components business has been impacted. 50 stores as of FY23-end. Will take it to 100 gradually.
- **Bath business:** Sales were down 10% yoy in 4Q while PBT was at breakeven point.
- Home improvement business has strong competitive intensity. APNT is a challenger in this space. Retail store expansion is expected to drive sales and volume growth in the segment.

Margins and input cost ➤

- Gross margins have been improving steadily (qoq) aided by softening raw material cost. 1) Material deflation at 4% in 4Q vs. deflation of 7% in 3Q and inflation of 2% in 2Q). 2) Strong focus on formulation and sourcing efficiencies. 3) Decent mix (with outlier growth in some categories; higher than premium/luxury) led to margin improvement.
- Exceptional item – The ongoing problems in Sri Lanka led to an impairment loss of Rs242m.
- Management maintains its guidance on margins as the macroeconomic environment has not fully stabilized.
- If input prices remain stable, EBITDA margin is expected to range between 18-20% levels. The price hikes taken over the last 1.5 years were high. If required, will pass on the benefits of deflation to its customers.

Capex ➤

- Guidance for FY24F stands at Rs20-23bn. Current utilization at 75-78%.
- Brownfield expansions are underway - some will get commissioned in FY24F.
- In FY24F, APNT to add 2,50,000KL to its capacity.

Outlook ➤

- The mix is expected to improve and aid in achieving the targeted margins (18-20% EBITDA margin). Luxury and premium range will be a focus area.
- Home decor revenue contribution target at 8-10% of decorative business by FY26F.
- Monsoon forecast (El Nino) remains a concern, especially for rural demand.

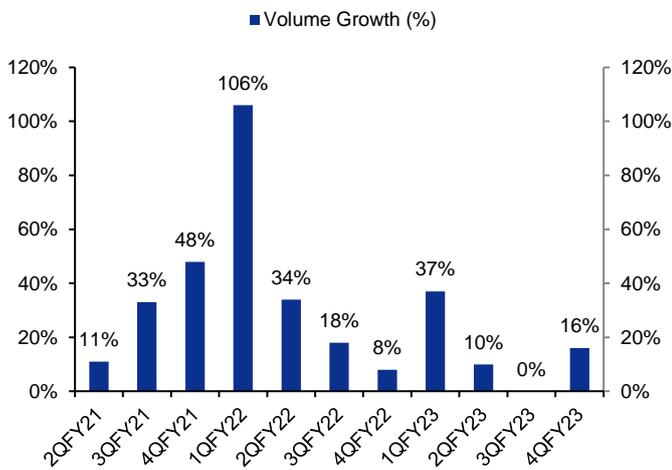
- The focus will be on scaling up industrial business and building on the home decor category.

Figure 1: Quarterly summary - consolidated

Y/E, Mar (Rs m)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	(%)
Revenue	78,927	86,367	87,873	11.3	1.7	2,91,013	3,44,886	18.5
Expenditure	64,494	70,253	69,226	7.3	-1.5	2,42,978	2,82,288	16.2
Consumption of RM	48,381	53,058	50,532	4.4	-4.8	1,83,009	2,11,565	15.6
as % of sales	61.3	61.4	57.5			62.9	61.3	
Employee Cost	4,574	5,038	5,220	14.1	3.6	17,867	20,281	13.5
as % of sales	5.8	5.8	5.9			6.1	5.9	
Other expenditure	11,540	12,158	13,473	16.8	10.8	42,103	50,442	19.8
as % of sales	14.6	14.1	15.3			14.5	14.6	
EBITDA	14,433	16,114	18,648	29.2	15.7	48,035	62,598	30.3
Depreciation	2,051	2,141	2,202	7.3	2.9	8,164	8,580	5.1
EBIT	12,382	13,974	16,446	32.8	17.7	39,871	54,018	35.5
Other Income	804	866	1,065	32.5	23.0	3,800	3,875	2.0
Interest	226	414	389	72.0	-6.0	954	1,445	51.4
PBT	12,960	14,426	17,122	32.1	18.7	42,717	56,448	32.1
Total Tax	3,151	3,811	4,514	43.3	18.4	11,029	14,935	35.4
PAT	9,808	10,614	12,607	28.5	18.8	31,688	41,513	31.0
Minority Interest	147	-113	9	-93.7	-108.2	227	-50	-121.9
Adjusted Net Profit	9,661	10,727	12,598	30.4	17.4	31,462	41,563	32.1
Extra ordinary items	1,157	0	247	-78.7	NA	1,157	489	-57.8
Reported Net Profit	8,504	10,727	12,351	45.2	15.1	30,305	41,074	35.5
Adjusted EPS	10.1	11.2	13.1	30.4	17.4	32.8	43.3	32.1
Margins (%)	4QFY22	3QFY23	4QFY23	YoY (bp)	QoQ (bp)	FY22	FY23	(bp)
Gross Margin	38.7	38.6	42.5	380	390	37.1	38.7	150
EBIDTA	18.3	18.7	21.2	290	260	16.5	18.2	160
EBIT	15.7	16.2	18.7	300	250	13.7	15.7	200
EBT	16.4	16.7	19.5	310	280	14.7	16.4	170
PAT	12.4	12.3	14.3	190	210	10.9	12.0	110
Effective Tax rate	24.3	26.4	26.4	210	-10	25.8	26.5	60

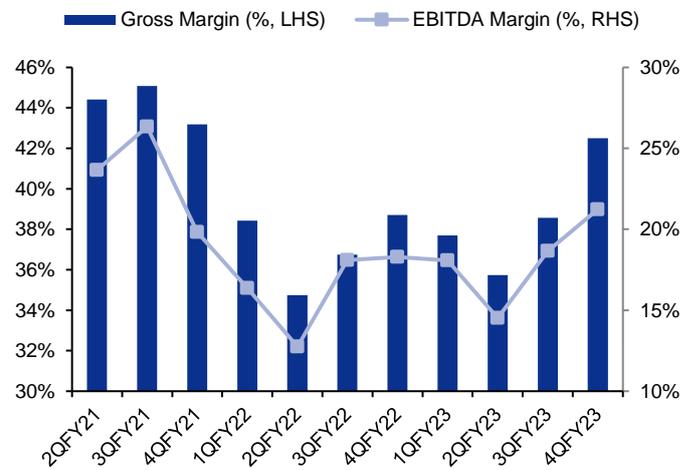
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Decorative segment's volume growth stood at 16% in 4QFY23



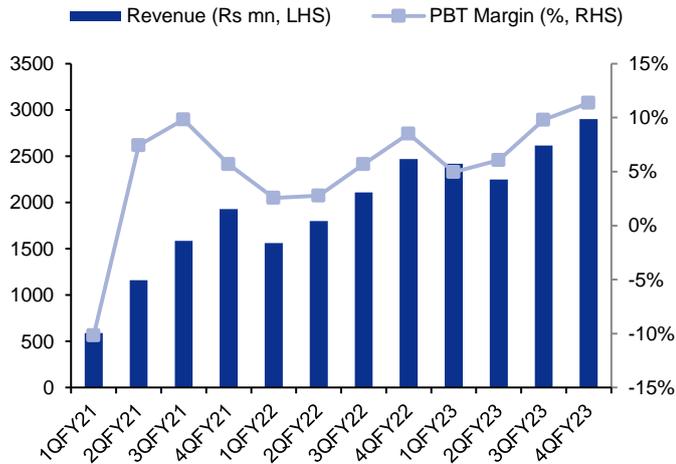
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated gross margin expanded by 380bp yoy to 42.5% in 4QFY23



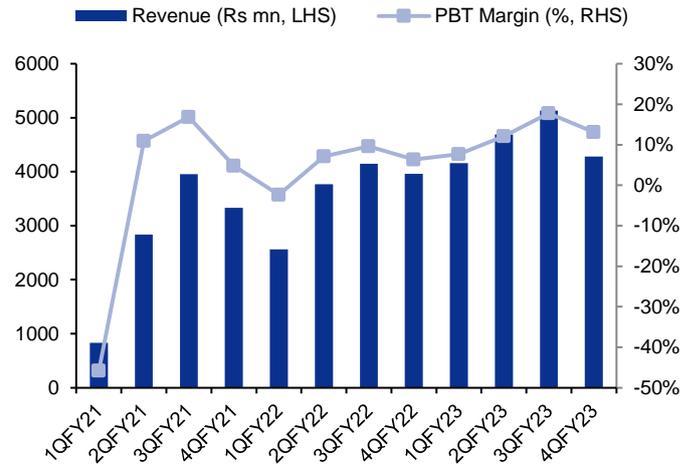
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Industrial business (AP-PPG) segment's PBT margin expanded by 288bp yoy to 11.4% in 4QFY23



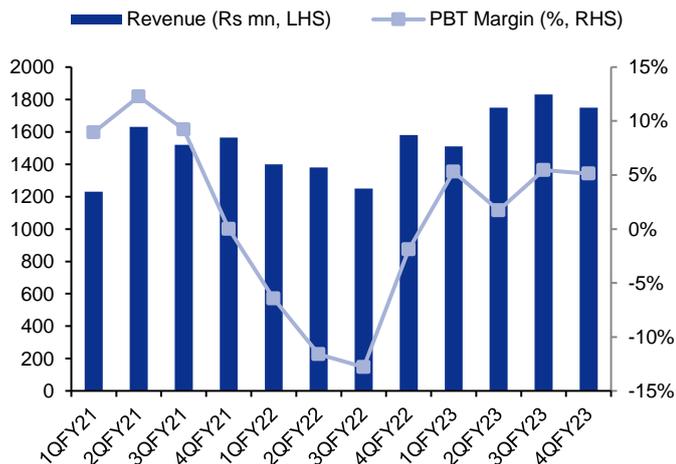
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Auto OEM (PPG-AP) segment's PBT margin improved by 677bp yoy to 13.1% in 4QFY23



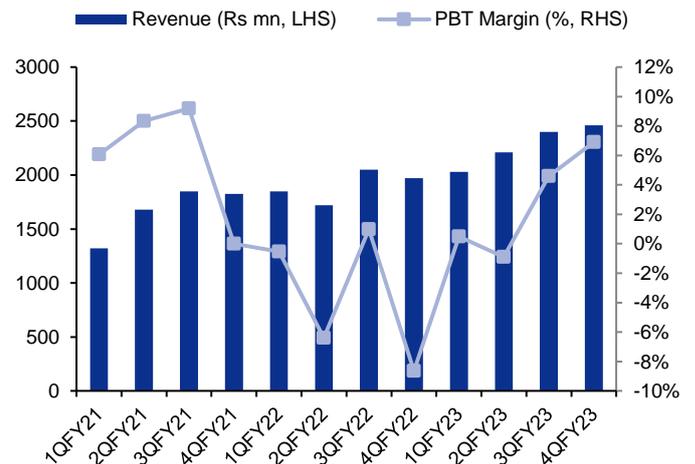
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Africa business PBT margin improved by 704bp yoy to 5.1% in 4QFY23



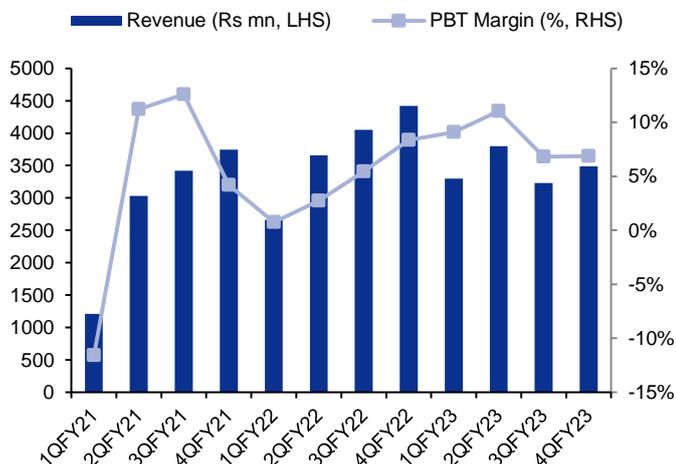
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Middle East PBT margin improved to 6.9% in 4QFY23 (vs. a loss of 8.6% in 4QFY22)



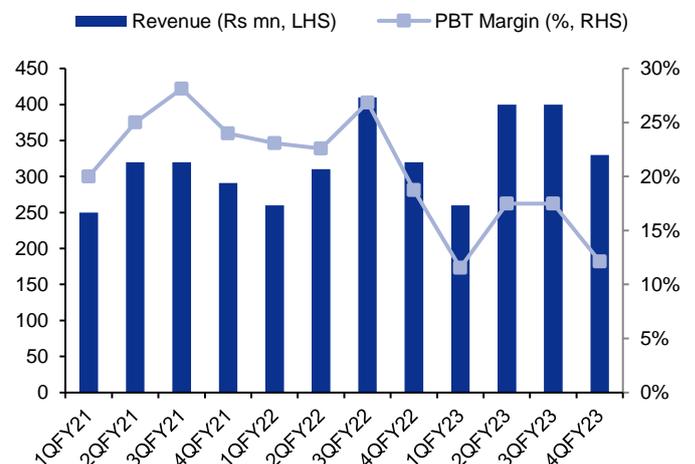
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asia business PBT margin contracted by 149bp yoy to 6.9% in 4QFY23



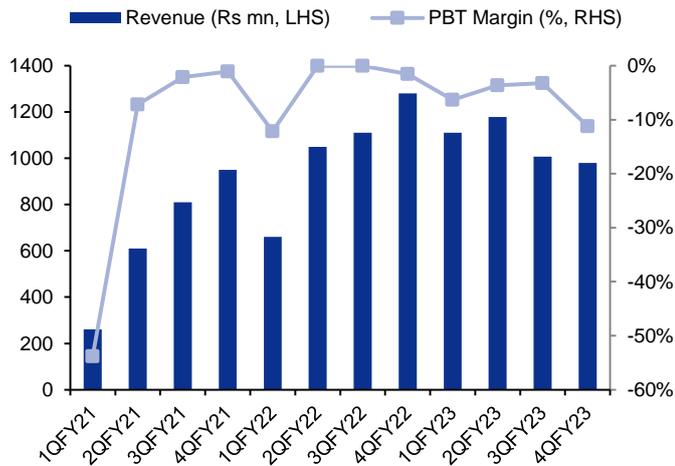
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: South Pacific business PBT margin improved by 663bp yoy to 12.1% in 4QFY23



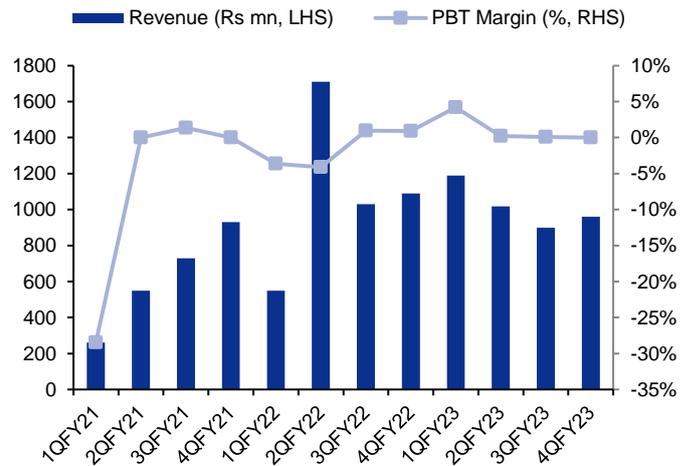
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Kitchen business reported a PBT margin of -11% in 4QFY23 vs -2% in 4QFY22



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Bath business PBT remains at breakeven levels



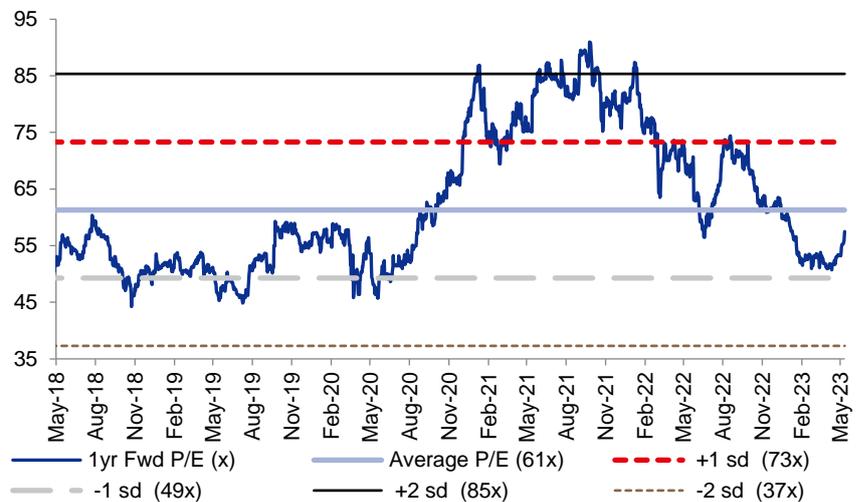
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	3,76,364	3,81,772	1.4	4,08,982	4,19,912	2.7
EBITDA	74,171	75,294	1.5	78,288	80,982	3.4
EBITDA Margin (%)	19.7	19.7	2bp	19.1	19.3	19bp
Net Profit	49,358	52,003	5.4	50,544	55,242	9.3
EPS	51.5	54.2	5.4	52.7	57.6	9.3

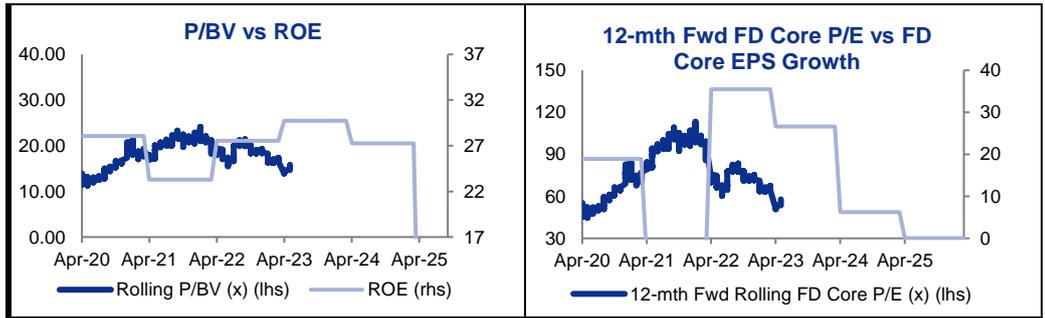
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Asian Paints' one-year forward P/E trades between 5-year average and -1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	217,128	291,013	344,886	381,772	419,912
Gross Profit	96,156	108,005	133,321	155,646	170,618
Operating EBITDA	48,556	48,036	62,598	75,294	80,982
Depreciation And Amortisation	(7,913)	(8,164)	(8,580)	(9,089)	(10,781)
Operating EBIT	40,643	39,873	54,018	66,205	70,202
Financial Income/(Expense)	2,114	2,846	2,420	3,655	3,941
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	42,758	42,719	56,439	69,860	74,142
Exceptional Items		(1,157)	(489)		
Pre-tax Profit	42,758	41,562	55,950	69,860	74,142
Taxation	(10,976)	(11,029)	(14,935)	(17,557)	(18,600)
Exceptional Income - post-tax					
Profit After Tax	31,782	30,532	41,015	52,303	55,542
Minority Interests	389	(225)	50	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	32,170	30,308	41,065	52,003	55,242
Recurring Net Profit	32,170	31,157	41,423	52,003	55,242
Fully Diluted Recurring Net Profit	32,170	31,157	41,423	52,003	55,242

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	48,556	48,036	62,598	75,294	80,982
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(325)	(40,321)	(3,602)	22,941	2,705
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(600)				
Other Operating Cashflow					
Net Interest (Paid)/Received	(916)	(954)	(1,445)	(1,065)	(1,051)
Tax Paid	(10,976)	(11,029)	(14,935)	(17,557)	(18,600)
Cashflow From Operations	35,738	(4,268)	42,617	79,613	64,036
Capex	(4,376)	(7,801)	(17,170)	(30,426)	(25,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(24,149)	18,693	(6,277)	3,856	4,992
Cash Flow From Investing	(28,525)	10,892	(23,447)	(26,570)	(20,708)
Debt Raised/(repaid)	(108)	4,938	3,457	(5,676)	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(17,122)	(17,628)	(19,361)	(27,948)	(29,347)
Preferred Dividends					
Other Financing Cashflow	12,815	(115)	(3,128)	5,478	(682)
Cash Flow From Financing	(4,415)	(12,805)	(19,031)	(28,147)	(30,029)
Total Cash Generated	2,799	(6,181)	140	24,896	13,300
Free Cashflow To Equity	7,106	11,561	22,628	47,366	43,329
Free Cashflow To Firm	8,130	7,578	20,615	54,108	44,380

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	48,056	30,450	35,408	58,858	72,158
Total Debtors	26,051	38,738	46,391	37,802	39,823
Inventories	37,986	61,530	62,106	57,971	60,865
Total Other Current Assets	15,815	28,743	30,340	27,292	27,292
Total Current Assets	127,907	159,461	174,246	181,924	200,138
Fixed Assets	57,389	57,026	65,616	86,953	101,872
Total Investments	14,697	10,668	15,647	17,345	17,345
Intangible Assets	3,026	2,429	2,285	2,429	2,429
Total Other Non-Current Assets	795			537	588
Total Non-current Assets	75,907	70,123	83,548	107,263	122,233
Short-term Debt	5,172	9,440	11,275	5,440	5,440
Current Portion of Long-Term Debt					
Total Creditors	53,405	61,741	67,797	74,920	82,323
Other Current Liabilities	844	697	742		
Total Current Liabilities	59,421	71,878	79,815	80,360	87,763
Total Long-term Debt	5,759	6,429	8,051	8,210	8,210
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	5,759	6,429	8,051	8,210	8,210
Total Provisions	7,010	6,109	6,211	6,586	6,854
Total Liabilities	72,190	84,415	94,077	95,157	102,827
Shareholders Equity	128,063	141,991	159,922	190,024	215,237
Minority Interests	4,229	3,875	4,537	4,475	4,775
Total Equity	132,292	145,866	164,459	194,499	220,013

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	7.4%	34.0%	18.5%	10.7%	10.0%
Operating EBITDA Growth	16.7%	(1.1%)	30.3%	20.3%	7.6%
Operating EBITDA Margin	22.4%	16.5%	18.2%	19.7%	19.3%
Net Cash Per Share (Rs)	38.70	15.20	16.77	47.13	61.00
BVPS (Rs)	133.51	148.03	166.72	198.11	224.39
Gross Interest Cover	44.36	41.79	37.40	62.14	66.77
Effective Tax Rate	25.7%	26.5%	26.7%	25.1%	25.1%
Net Dividend Payout Ratio	53.2%	56.0%	46.6%	53.7%	53.1%
Accounts Receivables Days	37.02	40.63	45.05	40.25	33.74
Inventory Days	108.45	99.24	106.65	96.91	87.00
Accounts Payables Days	138.35	114.83	111.74	115.18	115.11
ROIC (%)	46.8%	31.6%	39.1%	48.0%	46.6%
ROCE (%)	30.8%	26.1%	31.2%	33.8%	31.9%
Return On Average Assets	16.2%	13.3%	16.0%	17.8%	16.9%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Domestic decorative revenue growth	14.0%	4.5%	28.6%	18.3%	5.0%
EBIDTA margins	22.4%	16.5%	18.2%	19.7%	19.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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