

India

**REDUCE** (no change)

Consensus ratings\*: Buy 10 Hold 11 Sell 18

Current price:	Rs2,354
Target price:	Rs2,230
Previous target:	Rs2,340
Up/downside:	-5.3%
InCred Research / Consensus:	-10.5%
Reuters:	
Bloomberg:	APNT IN
Market cap:	US\$31,099m
	Rs2,258,287m
Average daily turnover:	US\$49.5m
	Rs3592.3m
Current shares o/s:	959.2m
Free float:	47.4%

\*Source: Bloomberg

Key changes in this note

- Lower the target price to Rs2,230 from Rs2,340.
- Lower FY25F/26F EPS by 5.4%/5.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.8	(19.2)	(19.8)
Relative (%)	1.6	(19.0)	(26.4)

Major shareholders	% held
Promoter and Promoter Group	52.6
LIC	7.2
BlackRock	2.1

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# Asian Paints Limited

## Tepid outlook persists

- Consol./standalone sales declined 6.1%/7.5% yoy respectively in 3Q. Volume growth at 1.6% remained weak owing to weak decorative demand.
- Management expects the weakness to persist for two more quarters. We expect margins to remain under pressure amidst heightened rebating intensity.
- Heightened competition amidst a weak demand environment limits the room for near-term margin expansion. Retain REDUCE rating with a TP of Rs2,230.

### High competition coupled with weak demand drags decorative biz

Asian Paints (APNT) posted a 7.5% yoy sales decline in its standalone business in 3QFY25, with a 1.6% volume growth, implying a price cut of 9.1% (vs. a 6.8% cut in 3QFY24). Weak consumer sentiment prevailed as urban markets remained under stress while rural markets fared better led by an improvement in distribution reach & assortment. The pace of growth of APNT's project business improved qoq led by better spending by segments catering to government projects (improved after three quarters of weakness). The industrial business fared relatively better. International business grew by 5% yoy (vs. flat yoy growth in 3QFY24) led by better performance in the Middle East (led by the UAE) and Asia (led by a sustained recovery in Sri Lanka and stable performance of Bangladesh).

### Industrial biz remains a focus area amidst weak decorative demand

In the industrial segment, PPG-AP's (automotive OEM) revenue grew by 6% led by the general industrial and refinishes segment, with flat yoy PBT margin at 22.1%, while AP-PPG (general industrial) posted flat yoy sales growth, with a PBT margin contraction of 317bp yoy to 8.4% in 3QFY25. APNT's home decor business continued to remain weak, with its kitchen/bath business growing 3% each yoy. Profitability remained an area of concern, with PBT margin at -4.9%/-8%, respectively. White Teak sales declined by 23% yoy while Weatherseal's sales declined 14% yoy, led by weakness in urban markets.

### Outlook remains tepid; maintain our REDUCE rating

The demand for decorative paints remained weak in 3QFY25 (c.4-5% decline for the decorative industry), with high rebating intensity due to heightened competition amidst a weak demand environment (gross/EBITDA margins contracted 120bp/340bp yoy to 42.4%/19.1%, respectively). During the quarter, APNT witnessed raw material deflation of 2.1%, and product price hike of c.0.4%. Management pointed out the stable/deflationary raw material price trends; however, it expects demand conditions to remain challenging for the next two quarters led by weakness in urban markets. APNT's focus will be on driving rural distribution expansion and promoting growth in B2B & industrial businesses to drive overall growth in the near term. Persistent weakness in demand, coupled with heightened competition, should limit the potential for an upside in margin for paint players in the near term. We cut FY25F/26F EPS by 5.4%/5.2%, respectively, and maintain our REDUCE rating on the stock with a new target price of Rs2,230 (45x Sep 2027F EPS) from Rs2,340 earlier. Upside risk: Stronger-than-expected sales growth.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	344,886	354,947	339,955	356,261	386,779
Operating EBITDA (Rsm)	62,598	75,850	60,764	64,678	70,216
Net Profit (Rsm)	41,065	54,602	43,090	45,671	49,469
Core EPS (Rs)	43.2	56.9	44.9	47.6	51.6
Core EPS Growth	32.9%	31.8%	(21.1%)	6.0%	8.3%
FD Core P/E (x)	54.99	41.36	52.41	49.45	45.65
DPS (Rs)	24.6	32.0	24.4	25.9	27.7
Dividend Yield	0.86%	1.36%	1.04%	1.10%	1.18%
EV/EBITDA (x)	35.89	29.63	36.95	34.67	31.96
P/FCFE (x)	99.80	78.82	85.97	79.10	87.54
Net Gearing	(9.8%)	(9.3%)	(9.5%)	(10.0%)	(8.6%)
P/BV (x)	14.12	12.06	11.00	10.06	9.21
ROE	27.4%	31.5%	21.9%	21.3%	21.1%
% Change In Core EPS Estimates			(5.49%)	(5.09%)	(4.26%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Tepid outlook persists

### Highlights from the 3QFY25 earnings call

#### Decorative business

- Volume was up 1.6%/2.8% in 3Q/9MFY25, respectively. Including industrial segment, volume growth stood at 1.7%/3% in 3Q/9MFY25, respectively.
- The overall demand was weak during the quarter, impacting volume. Downtrading continued. Festive demand was also weak (shorter Diwali festive period this time; impacted Oct 2024 sales).
- Urban markets remained slower.
- Distribution expansion continued, now at 169k retail touchpoints.
- Project business saw a good pick up led by factories and builder segments, with a recovery in the government segment after three quarters of slow momentum.
- Backward integration projects of VAM-VAE and White Cement are on track.
- Product packaging has been revamped with region-specific designs.
- Waterproofing: Launched a new product called Infinia with a 25-year warranty period.
- Home improvement business continued to remain subdued due to weak urban demand.

#### International business

- Sales grew by 5%/17% in INR/constant currency or CC terms, respectively.
- Africa was down 28% yoy led by forex devaluation.
- The Middle East was up 20% yoy led by the UAE market.
- Asia was up 18% yoy led by continued recovery in Sri Lanka and stabilizing macroeconomic environment in Bangladesh.
- Focus on pre-lux and waterproofing categories supported growth.
- Profitability improved led by key Asian geographies.

#### Industrial business

- **PPG-AP (auto OEM):** Grew by 6% yoy led by general industrial and refinish segments.
- **AP-PPG:** Was flat yoy due to lower maintenance spending and investments.

#### Home decor business

- White teak declined by 23% yoy.
- Weather Seal declined by 14% yoy.
- Kitchen business grew by 3% yoy.
- Bath business grew by 3% yoy.

#### Outlook

- Management is cautiously optimistic about a recovery in the next few quarters. Demand weakness in urban markets is expected to continue in the near term (at least two quarters). Rural, B2B and industrial businesses are expected to support growth in the near term.
- Adequate monsoons and government spending should continue to support rural demand.

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs m)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	(%)
<b>Revenue</b>	<b>91,031</b>	<b>80,275</b>	<b>85,494</b>	-6.1	6.5	<b>2,67,640</b>	<b>2,55,467</b>	-4.5
<b>Expenditure</b>	<b>70,470</b>	<b>67,880</b>	<b>69,127</b>	-1.9	1.8	<b>2,08,704</b>	<b>2,09,767</b>	0.5
Consumption of RM	51,336	47,543	49,204	-4.2	3.5	1,51,755	1,48,293	-2.3
as % of sales	56.4	59.2	57.6			56.7	58.0	
Employee Costs	5,702	6,765	6,151	7.9	-9.1	17,120	19,658	14.8
as % of sales	6.3	8.4	7.2			6.4	7.7	
Other Expenditure	13,432	13,572	13,773	2.5	1.5	39,829	41,817	5.0
as % of sales	14.8	16.9	16.1			14.9	16.4	
<b>EBITDA</b>	<b>20,561</b>	<b>12,395</b>	<b>16,367</b>	<b>-20.4</b>	<b>32.0</b>	<b>58,936</b>	<b>45,700</b>	<b>-22.5</b>
Depreciation	2,204	2,420	2,556	16.0	5.6	6,274	7,252	15.6
<b>EBIT</b>	<b>18,357</b>	<b>9,975</b>	<b>13,812</b>	<b>-24.8</b>	<b>38.5</b>	<b>52,662</b>	<b>38,448</b>	<b>-27.0</b>
Other Income	1,386	1,736	1,430	3.2	-17.6	5,009	4,728	-5.6
Interest	544	630	558	2.6	-11.4	1,511	1,742	15.3
<b>PBT</b>	<b>19,199</b>	<b>11,081</b>	<b>14,683</b>	<b>-23.5</b>	<b>32.5</b>	<b>56,160</b>	<b>41,433</b>	<b>-26.2</b>
Total Tax	4,926	2,654	3,897	-20.9	46.9	14,413	10,719	-25.6
<b>PAT</b>	<b>14,273</b>	<b>8,427</b>	<b>10,786</b>	<b>-24.4</b>	<b>28.0</b>	<b>41,747</b>	<b>30,714</b>	<b>-26.4</b>
Minority Interest	-204	-321	-319	55.9	-0.7	-288	-839	191.3
<b>Adjusted Net Profit</b>	<b>14,477</b>	<b>8,748</b>	<b>11,105</b>	<b>-23.3</b>	<b>26.9</b>	<b>42,035</b>	<b>31,552</b>	<b>-24.9</b>
Extraordinary Items	0	1,801	0	NA	-100.0	0	1,801	NA
<b>Reported Net Profit</b>	<b>14,477</b>	<b>6,946</b>	<b>11,105</b>	<b>-23.3</b>	<b>59.9</b>	<b>42,035</b>	<b>29,751</b>	<b>-29.2</b>
<b>Adjusted EPS</b>	<b>15.1</b>	<b>9.1</b>	<b>11.6</b>	<b>-23.3</b>	<b>26.9</b>	<b>43.8</b>	<b>32.9</b>	<b>-24.9</b>
<b>Margins (%)</b>	<b>3QFY24</b>	<b>2QFY25</b>	<b>3QFY25</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>9MFY24</b>	<b>9MFY25</b>	<b>(bp)</b>
Gross Margin	43.6	40.8	42.4	-120	170	43.3	42.0	-130
EBITDA	22.6	15.4	19.1	-340	370	22.0	17.9	-410
EBIT	20.2	12.4	16.2	-400	370	19.7	15.0	-460
EBT	21.1	13.8	17.2	-390	340	21.0	16.2	-480
PAT	15.7	10.5	12.6	-310	210	15.6	12.0	-360
Effective Tax Rate	25.7	23.9	26.5	90	260	25.7	25.9	20

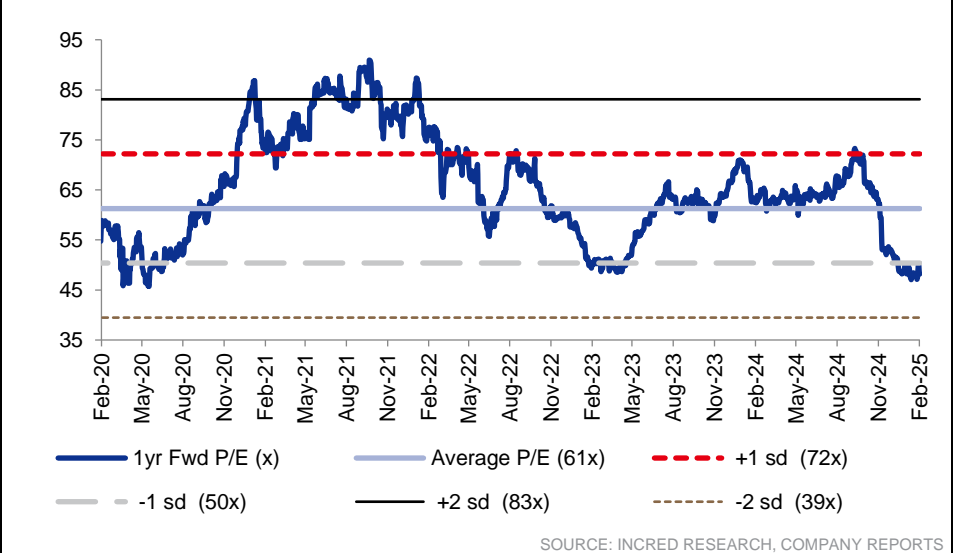
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	3,63,093	3,39,955	(6.4)	3,80,324	3,56,261	(6.3)	4,12,767	3,86,779	(6.3)
EBITDA	63,820	60,764	(4.8)	68,016	64,678	(4.9)	73,821	70,216	(4.9)
EBITDA Margin (%)	17.6	17.9	30bp	17.9	18.2	27bp	17.9	18.2	27bp
Net Profit	45,593	43,090	(5.4)	48,120	45,671	(5.1)	51,672	49,469	(4.3)
EPS	47.5	44.9	(5.4)	50.2	47.6	(5.2)	53.9	51.6	(4.3)

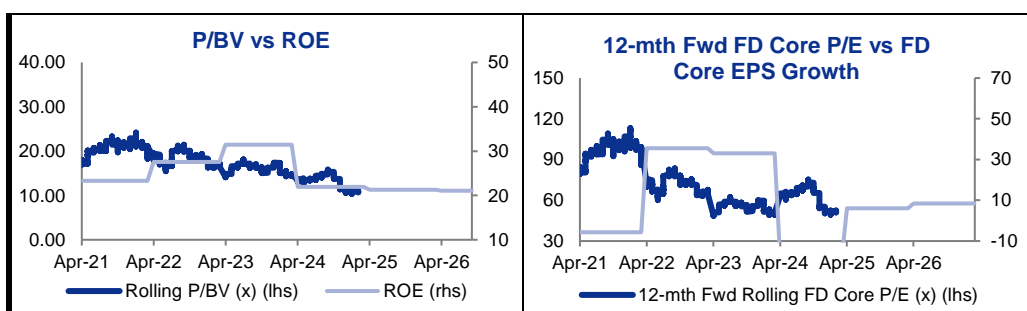
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: APNT's one-year forward P/E trades close to its -1SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>344,886</b>	<b>354,947</b>	<b>339,955</b>	<b>356,261</b>	<b>386,779</b>
<b>Gross Profit</b>	<b>133,321</b>	<b>154,045</b>	<b>141,540</b>	<b>148,799</b>	<b>161,760</b>
<b>Operating EBITDA</b>	<b>62,598</b>	<b>75,850</b>	<b>60,764</b>	<b>64,678</b>	<b>70,216</b>
Depreciation And Amortisation	(8,580)	(8,530)	(9,650)	(10,279)	(11,007)
<b>Operating EBIT</b>	<b>54,018</b>	<b>67,320</b>	<b>51,113</b>	<b>54,399</b>	<b>59,209</b>
Financial Income/(Expense)	2,420	4,828	4,860	5,270	5,628
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>56,439</b>	<b>72,148</b>	<b>55,973</b>	<b>59,670</b>	<b>64,836</b>
Exceptional Items	(489)				
<b>Pre-tax Profit</b>	<b>55,950</b>	<b>72,148</b>	<b>55,973</b>	<b>59,670</b>	<b>64,836</b>
Taxation	(14,935)	(17,901)	(13,483)	(14,798)	(16,367)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>41,015</b>	<b>54,247</b>	<b>42,490</b>	<b>44,871</b>	<b>48,469</b>
Minority Interests	50	355	600	800	1,000
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>41,065</b>	<b>54,602</b>	<b>43,090</b>	<b>45,671</b>	<b>49,469</b>
Recurring Net Profit	41,423	54,602	43,090	45,671	49,469
<b>Fully Diluted Recurring Net Profit</b>	<b>41,423</b>	<b>54,602</b>	<b>43,090</b>	<b>45,671</b>	<b>49,469</b>

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>62,598</b>	<b>75,850</b>	<b>60,764</b>	<b>64,678</b>	<b>70,216</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,602)	891	(172)	(899)	(7,979)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,445)	(2,052)	(2,432)	(2,512)	(2,612)
Tax Paid	(14,935)	(17,901)	(13,483)	(14,798)	(16,367)
<b>Cashflow From Operations</b>	<b>42,617</b>	<b>56,788</b>	<b>44,676</b>	<b>46,470</b>	<b>43,259</b>
Capex	(17,170)	(37,172)	(25,700)	(25,700)	(25,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(6,277)	3,618	7,292	7,782	8,239
<b>Cash Flow From Investing</b>	<b>(23,447)</b>	<b>(33,555)</b>	<b>(18,408)</b>	<b>(17,918)</b>	<b>(17,461)</b>
Debt Raised/(repaid)	3,457	5,418			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,361)	(30,658)	(23,440)	(24,867)	(26,554)
Preferred Dividends					
Other Financing Cashflow	(3,128)	6,315	(682)	(682)	(682)
<b>Cash Flow From Financing</b>	<b>(19,031)</b>	<b>(18,925)</b>	<b>(24,122)</b>	<b>(25,549)</b>	<b>(27,236)</b>
Total Cash Generated	140	4,309	2,146	3,003	(1,439)
<b>Free Cashflow To Equity</b>	<b>22,628</b>	<b>28,651</b>	<b>26,268</b>	<b>28,551</b>	<b>25,798</b>
<b>Free Cashflow To Firm</b>	<b>20,615</b>	<b>25,285</b>	<b>28,700</b>	<b>31,063</b>	<b>28,409</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	35,408	42,874	45,020	48,023	46,584
Total Debtors	46,391	48,908	48,267	51,729	58,171
Inventories	62,106	59,234	55,867	56,143	60,565
Total Other Current Assets	30,340	35,696	35,696	35,696	35,696
<b>Total Current Assets</b>	<b>174,246</b>	<b>186,713</b>	<b>184,850</b>	<b>191,590</b>	<b>201,016</b>
Fixed Assets	65,616	94,258	110,308	125,729	140,422
Total Investments	15,647	13,845	13,845	13,845	13,845
Intangible Assets	2,285	4,192	4,192	4,192	4,192
Total Other Non-Current Assets			467	486	525
<b>Total Non-current Assets</b>	<b>83,548</b>	<b>112,295</b>	<b>128,812</b>	<b>144,252</b>	<b>158,983</b>
Short-term Debt	11,275	13,247	13,247	13,247	13,247
Current Portion of Long-Term Debt					
Total Creditors	67,797	73,888	70,211	72,990	75,749
Other Current Liabilities	742	625			
<b>Total Current Liabilities</b>	<b>79,815</b>	<b>87,760</b>	<b>83,458</b>	<b>86,237</b>	<b>88,996</b>
Total Long-term Debt	8,051	11,497	11,497	11,497	11,497
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>8,051</b>	<b>11,497</b>	<b>11,497</b>	<b>11,497</b>	<b>11,497</b>
Total Provisions	6,211	6,139	6,102	6,182	6,347
<b>Total Liabilities</b>	<b>94,077</b>	<b>105,396</b>	<b>101,057</b>	<b>103,915</b>	<b>106,839</b>
Shareholders Equity	159,922	187,283	205,351	224,373	245,306
Minority Interests	4,537	6,954	7,254	7,554	7,854
<b>Total Equity</b>	<b>164,459</b>	<b>194,237</b>	<b>212,605</b>	<b>231,927</b>	<b>253,160</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	18.5%	2.9%	(4.2%)	4.8%	8.6%
Operating EBITDA Growth	30.3%	21.2%	(19.9%)	6.4%	8.6%
Operating EBITDA Margin	18.2%	21.4%	17.9%	18.2%	18.2%
Net Cash Per Share (Rs)	16.77	18.90	21.14	24.27	22.77
BVPS (Rs)	166.72	195.25	214.09	233.92	255.74
Gross Interest Cover	37.40	32.81	21.02	21.66	22.67
Effective Tax Rate	26.7%	24.8%	24.1%	24.8%	25.2%
Net Dividend Payout Ratio	46.6%	56.1%	54.4%	54.4%	53.7%
Accounts Receivables Days	45.05	49.00	52.17	51.22	51.86
Inventory Days	106.65	110.23	105.87	98.53	94.65
Accounts Payables Days	111.74	128.71	132.54	125.97	120.63
ROIC (%)	39.1%	40.1%	27.7%	27.1%	26.5%
ROCE (%)	31.4%	33.7%	22.8%	22.5%	22.6%
Return On Average Assets	16.0%	17.8%	12.3%	12.2%	12.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.