

India

REDUCE (no change)

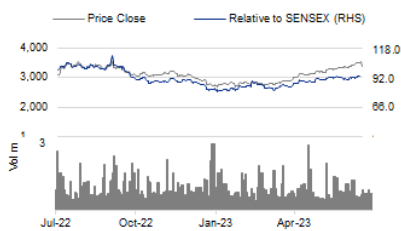
Consensus ratings*: Buy 12 Hold 9 Sell 12

Current price:	Rs3,400
Target price:	Rs3,000 ▲
Previous target:	Rs2,820
Up/downside:	-11.8%
InCred Research / Consensus:	-7.7%
Reuters:	ASPN.NS
Bloomberg:	APNT IN
Market cap:	US\$39,838m
	Rs3,261,656m
Average daily turnover:	US\$36.4m
	Rs2980.2m
Current shares o/s:	959.2m
Free float:	47.2%

*Source: Bloomberg

Key changes in this note

- Cut sales growth for FY24F by 2%.
- Increased the EBITDA margin for FY24F to 20.6%.
- Increased the target price to Rs3,000.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.8	16.9	9.4
Relative (%)	(2.5)	6.2	(8.9)

Major shareholders	% held
Promoter and Promoter Group	52.8
LIC	4.1
BlackRock Inc	1.8

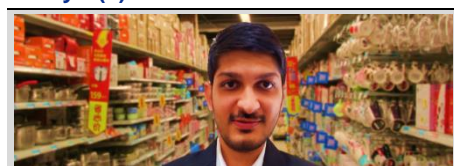
Brokers Poll 2023

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InCred Research

Analyst(s)



Harsh SHAH
 T (91) 22 4161 1568
 E harsh.shah@incredcapital.com

Rohan KALLE
 T (91) 22 4161 1561
 E rohan.kalle@incredcapital.com

Asian Paints Limited

Margin sustenance is the only positive

- Asian Paints' consol. 1Q sales growth of 6.7% was 3% below estimate. Volume growth was at 10%. International & home décor segments remained subdued.
- Gross/EBITDA margin (adjusted for one-off) expanded by 40bp/140bp qoq to 42.9%/22.7%, respectively. Margins are likely to remain high in the near term.
- We retain our REDUCE rating on the stock with a new target price of Rs3,000 (50x Jun FY25F EPS).

Sustains double-digit volume growth but the mix drags overall sales

Asian Paints' (APNT) sustained double-digit volume growth of 10% (4-year CAGR of 18%) in 1QFY24. However, the mix impact restricted sales growth to 7% as the economy and premium ranges grew well while the luxury range was muted. APNT remains confident of growing the economy segment led by 1) network expansion, 2) marketing initiatives, and 3) incentives to the trade channel. Rural growth saw improvement, with both urban and rural markets growing their volume in double digits. APNT's focus on expanding its footprint is more in smaller towns and suburbs of larger towns as it added 6,000 touchpoints in 1Q. Projects business & the waterproofing segment continued to grow faster than overall sales.

Industrial/auto strong; home décor and international remain weak

PPG-AP (auto OEM)/AP-PPG (non-auto industrial) grew 13%/22% yoy. Both auto & refinishes segments performed well while the industrial segment's growth was led by protective coatings. Improved realization, coupled with moderation of raw material costs, led to PBT improvement of 17.4%/13.3% for PPG-AP and AP-PPG, respectively. Kitchen and bath business declined (third consecutive quarter) by 12%/28% yoy, respectively, affected by the high base and profitability remaining a concern. International business sales/PBT fell 1%/30% yoy, respectively, due to macroeconomic challenges in key geographies of Asia (Nepal and Bangladesh).

Higher profits likely to sustain in the near term

APNT's consolidated gross/EBITDA margins (adj. for reversal of leave provision of Rs410m) expanded by 520bp/460bp yoy (up 40bp/140bp qoq) to 42.9%/22.7%, respectively. Given that the demand has remained healthy, paint companies haven't taken any price cuts despite stable/declining raw material prices, except recently. Rebating intensity remains benign as well. We expect this trend to continue in the near term and paint companies to retain/maintain a higher level of profitability. We expect APNT's consolidated EBITDA margin for FY24F to be higher than the guided range of 18-20%.

Maintain REDUCE rating on the stock

We tweak our estimates and build in a marginally lower sales growth and higher EBITDA margin. We retain REDUCE rating on the stock with a new target price of Rs3,000 (50x Jun FY25F EPS, 1SD below mean level), from Rs2,820 earlier. Upside risk: Higher-than-estimated sales growth/EBITDA margin.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	291,013	344,886	374,048	406,200	444,664
Operating EBITDA (Rsm)	48,036	62,598	76,998	81,193	86,429
Net Profit (Rsm)	30,308	41,065	53,553	56,658	60,336
Core EPS (Rs)	32.5	43.2	55.8	59.1	62.9
Core EPS Growth	(3.1%)	32.9%	29.3%	5.8%	6.5%
FD Core P/E (x)	107.62	79.43	60.91	57.57	54.06
DPS (Rs)	19.1	24.6	30.3	31.6	33.5
Dividend Yield	0.54%	0.59%	0.89%	0.93%	0.98%
EV/EBITDA (x)	67.68	51.92	41.82	39.50	36.93
P/FCFE (x)	282.12	144.14	65.54	74.55	66.60
Net Gearing	(10.0%)	(9.8%)	(24.4%)	(27.3%)	(30.8%)
P/BV (x)	22.97	20.40	17.53	15.41	13.63
ROE	23.1%	27.4%	31.0%	28.5%	26.8%
% Change In Core EPS Estimates			2.98%	2.56%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Margin sustenance is the only positive

Key takeaways from the earnings call

Decorative business

- Rural growth is improving. Both rural and urban markets have clocked DDVG (overall volume: 10%). Growth was led by the economy and premium ranges. The luxury range was impacted.
- **Projects/B2B** and waterproofing businesses grew at a faster pace. Projects business grew faster than decorative, led by healthy demand from the builder segment and government/factory segments. Management is optimistic about the projects business' growth trajectory.
- **Wood finishes** (premium) and economy emulsions also grew well.
- On competitive intensity from unorganized players: Local players aren't really recovering so much and hence, APNT's management believes that market share gains will continue in the economy range. Also, confident of growth in the BOP segment led by initiatives like 1) expansion of footprint in smaller towns, 2) strong BTL marketing initiatives in place (like displays in shops, etc), backed by media spending, and 3) incentives to the trade channel.
- **Price corrections:** If raw material costs remain benign, some price corrections can be undertaken.
- **Distribution:** Added 6k retail touchpoints in 1Q, taking the total to 1,60,000 touch points. Focusing on adding retailers from smaller towns and suburbs of larger towns.
- **Services:** Safe painting service (incl. trusted contractor services) did well. Revenue almost doubled in 1Q. NPS score is also healthy.
- **Innovation:** 13% contribution to sales in FY23, 11% in 1QFY24. Launched many new paints in the luxury segment - Nilaya (90% organic ingredients), Italian finishes under Royale Play Materials, Purafin PU (PU wood finishes), Ultima Protek (15 years warranty), Hydraulic Xtreme (tech-led innovation) and an anti-insect paint (keeps common insects away).

Margins and input costs

- Gross margin improvement was aided by 1) formulation efficiency, 2) sourcing efficiency, and 3) softening raw material costs.
- One-offs during 1QFY24: 1) One-time adjustments made provision reversal of Rs390m due to a change in the leave policy. 2) Dividend income from industrial JV.
- The EBITDA margin is expected to remain between 18-20%.

International business

- Overall growth and margins affected by weakness in Asia where revenue declined 17% yoy. Nepal and Bangladesh were impacted while Sri Lanka is now charting growth.
- Africa revenue was up 5% yoy. Middle East revenue was up 23% yoy. South Pacific revenue grew 29% yoy.

Industrial business

- **PPG-AP (Auto OEM):** Grew 13% yoy with both auto and refinishes doing well. Realization improved with B2B customers, coupled with softening raw material costs, which led to massive PBT improvement (PBT margin of 17%).
- **AP-PPG:** Grew 22% yoy. PBT growth (PBT margin of 13%) was aided by softening raw material prices.
- Management is optimistic about growth. Protective paints and powder coatings are doing well. Government infrastructure business is also showing good signs of growth.

Home improvement business

- **Kitchen business:** Components business slow owing to high pricing in the base, which led to a decline. Witnessed growth in FKD business.
- **Bath:** Declined 28% yoy due to high base having price hikes. At a breakeven PBT in 1Q.
- **Range completion exercise:** Luxury kitchens (under Sleek; Rs1.2m onwards) and Nilaya series. Fitted furniture launched along with wardrobes.
- **Beautiful homes** are now at 44 stores. Launched a studio store in Chennai, which is comparable to a store in the international market with high-end/luxury offerings. APNT will also focus more on the luxury end of home improvement business going ahead.
- **White Teak:** Revenue up 28.4% yoy at Rs260m in 1Q. Acquired a 11% additional stake, taking APNTs stake to 60%, making it a subsidiary.
- **Weather Seal** revenue at Rs98m in 1Q (double yoy).
- **Home decor now contributes 4%** to the decorative division's revenue. Management is targeting 7-8% by FY26F.

Other highlights

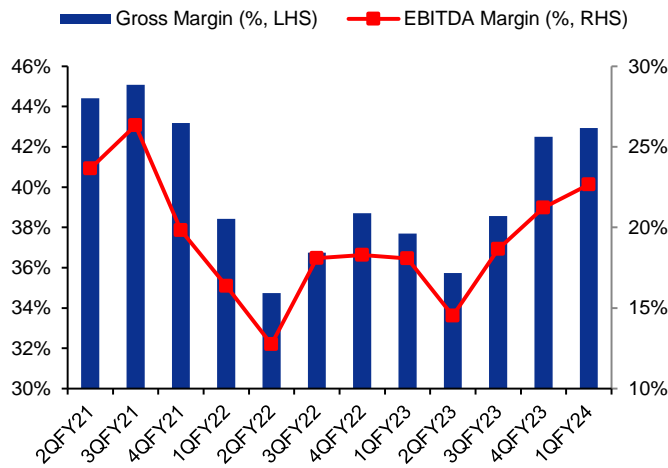
- Management is expecting good sales due to the longer festive season. The retail season is about 45 days before a festival. The larger impact will be seen in 3QFY24F.
- **On the lifecycle of an APNT retailer:** Retailers typically grow for 3-5 years and hence, the drop-outs (between year 1-4 of a retailer signing up) isn't very high as they have a tinting machine, which improves their service levels (to customers). 5-10% may drop out due to liquidity crunch (or personal reasons).
- Jammu & Kashmir, North-Eastern states still hold a good opportunity to expand, as per management.

Figure 1: Quarterly summary - Consolidated

Y/E, Mar (Rs m)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue	86,069	87,873	91,823	6.7	4.5
Expenditure	70,510	69,226	71,017	0.7	2.6
Consumption of RM	53,619	50,532	52,404	-2.3	3.7
as % of sales	62.3	57.5	57.1		
Employee Cost	4,896	5,220	5,864	19.8	12.3
as % of sales	5.7	5.9	6.4		
Other expenditure	11,995	13,473	12,750	6.3	-5.4
as % of sales	13.9	15.3	13.9		
EBITDA	15,560	18,648	20,806	33.7	11.6
Depreciation	2,081	2,202	1,983	-4.7	-9.9
EBIT	13,479	16,446	18,823	39.6	14.5
Other Income	990	1,065	1,971	99.1	85.1
Interest	288	389	458	59.1	17.6
PBT	14,181	17,122	20,336	43.4	18.8
Total Tax	3,706	4,514	5,301	43.0	17.4
PAT	10,475	12,607	15,035	43.5	19.3
Minority Interest	63	9	-62	-197.8	-773.9
Adjusted Net Profit	10,411	12,598	15,097	45.0	19.8
Extraordinary items	242	247	-407	-268.1	-265.0
Reported Net Profit	10,169	12,351	15,504	52.5	25.5
Adjusted EPS	10.9	13.1	15.7	45.0	19.8
Margins (%)	1QFY23	4QFY23	1QFY24	YoY (bp)	QoQ (bp)
Gross Margin	37.7	42.5	42.9	520	40
EBIDTA	18.1	21.2	22.7	460	140
EBIT	15.7	18.7	20.5	480	180
EBT	16.5	19.5	22.1	570	270
PAT	12.2	14.3	16.4	420	200
Effective Tax rate	26.1	26.4	26.1	-10	-30

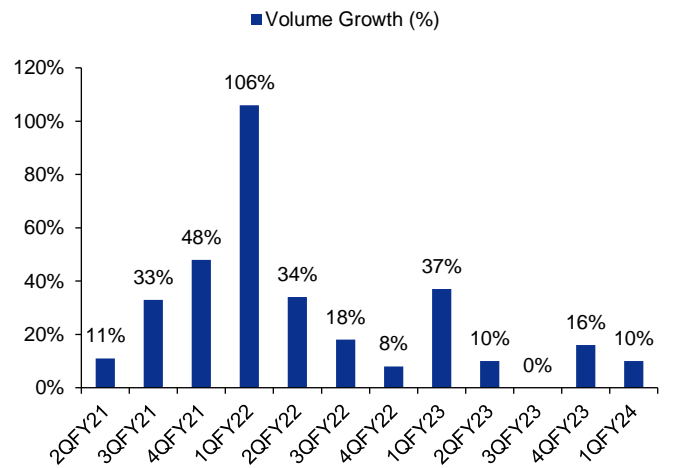
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross margin expanded 520bp yoy to 42.9% in 1QFY24



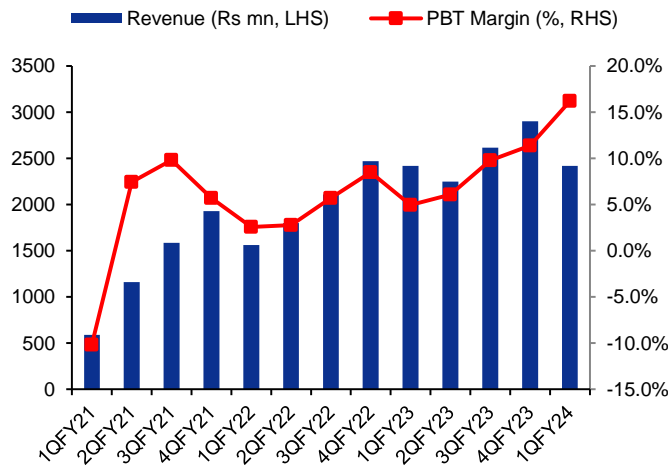
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Volume grew 10% in 1QFY24 on a high base of 37% growth



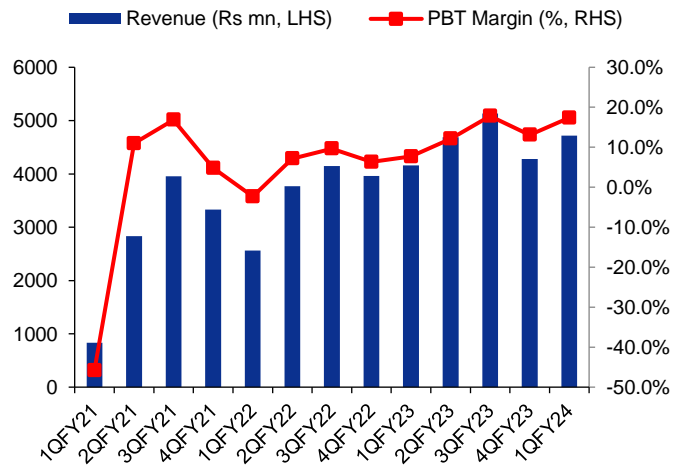
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: AP-PPG grew 22% yoy in 1QFY24



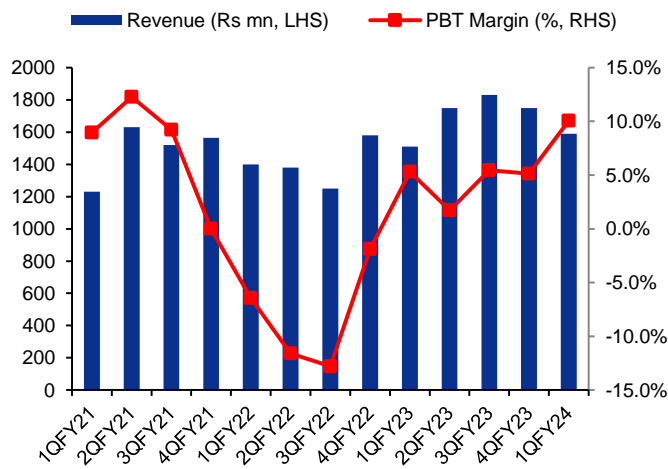
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PPG-AP grew 13% yoy in 1QFY24



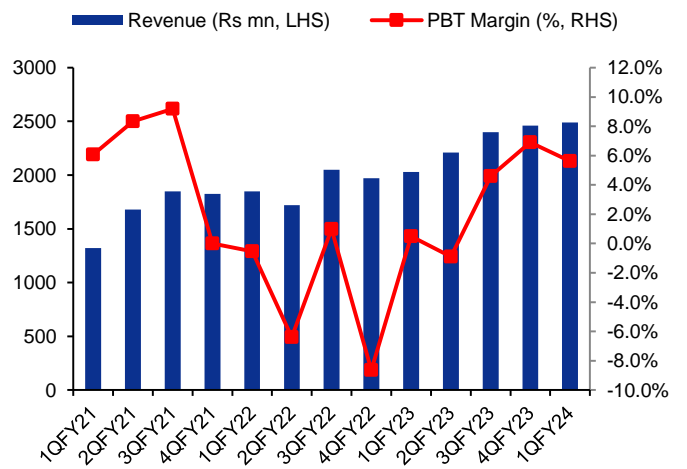
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Africa revenue grew 5% yoy in 1QFY24



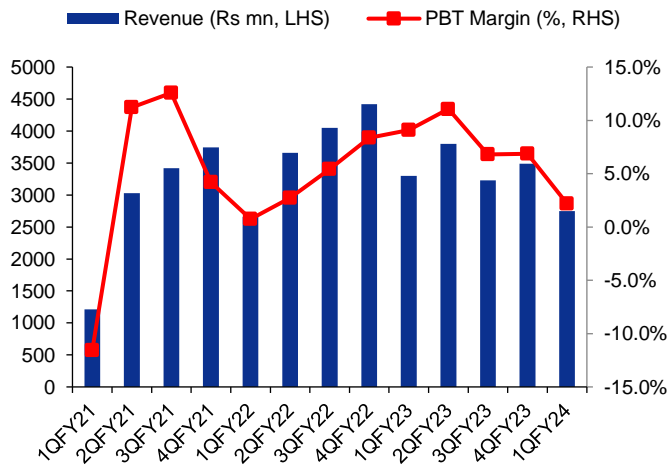
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Middle East revenue grew 23% yoy in 1QFY24



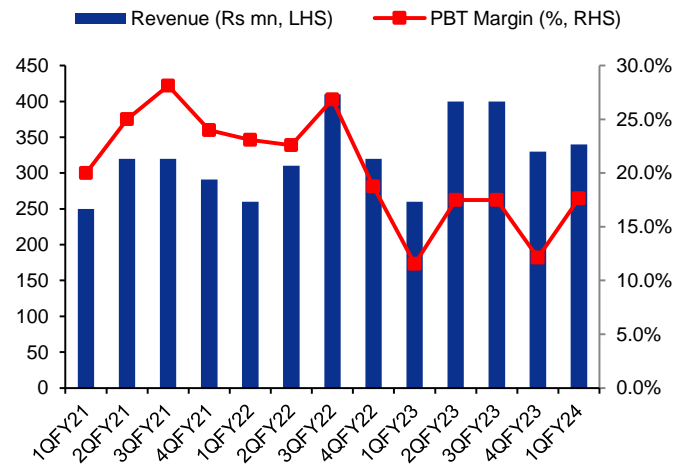
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asia revenue declined 17% yoy in 1QFY24



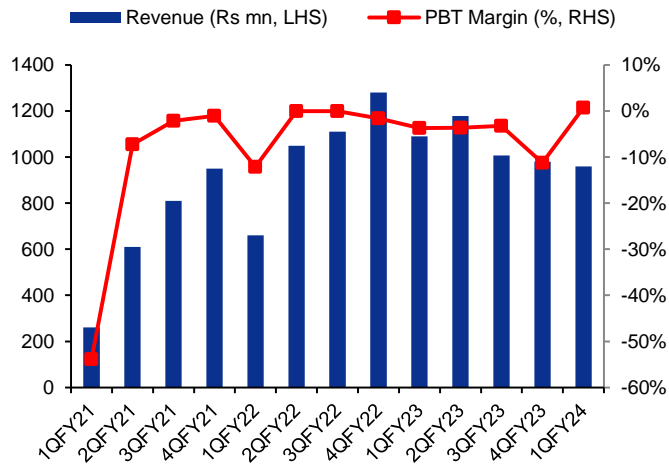
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: South Pacific revenue grew 78% yoy in 1QFY24



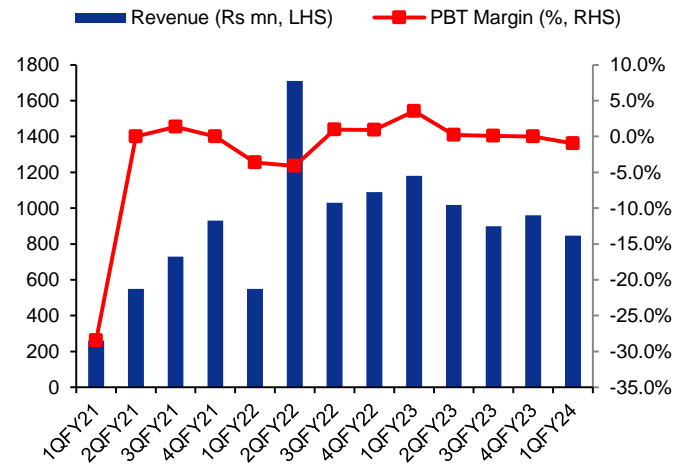
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Kitchen business declined 11.9% yoy in 1QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Bath business declined 28.2% yoy in 1QFY24



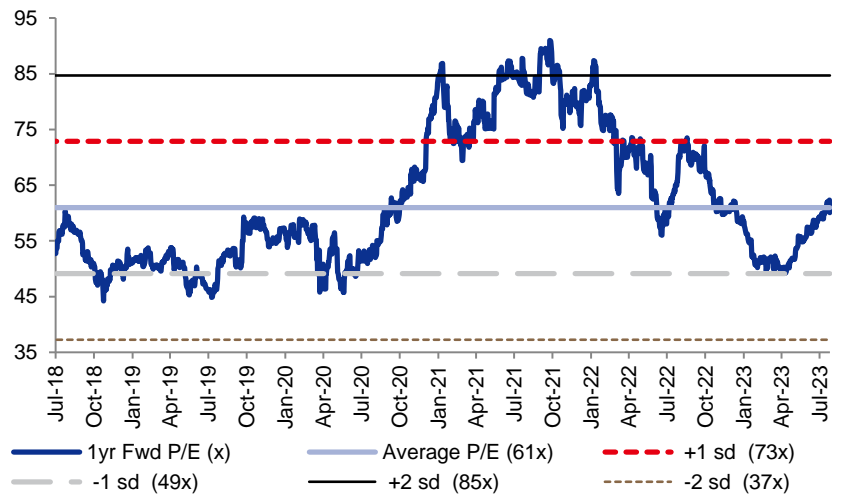
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F Introduced
	Earlier	Revised	% Change	Earlier	Revised	% Change	
Revenue	3,81,772	3,74,048	(2.0)	4,19,912	4,06,200	(3.3)	4,44,664
EBITDA	75,294	76,998	2.3	80,982	81,193	0.3	86,429
EBITDA Margin (%)	19.7	20.6	89bp	19.3	20.0	69bp	19.4
Net Profit	52,003	53,553	3.0	55,242	56,658	2.6	60,336
EPS	54.2	55.8	3.0	57.6	59.1	2.6	62.9

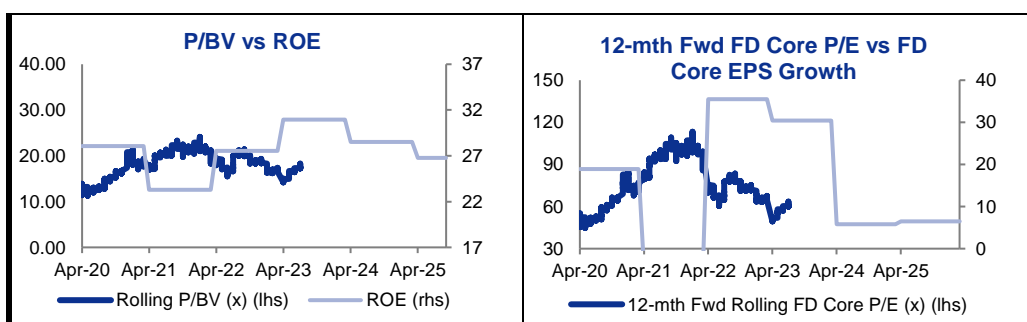
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: APNT's one-year forward P/E trades close to its five-year average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	291,013	344,886	374,048	406,200	444,664
Gross Profit	108,005	133,321	154,570	166,770	180,849
Operating EBITDA	48,036	62,598	76,998	81,193	86,429
Depreciation And Amortisation	(8,164)	(8,580)	(9,029)	(9,437)	(10,112)
Operating EBIT	39,873	54,018	67,970	71,755	76,317
Financial Income/(Expense)	2,846	2,420	3,655	3,941	4,253
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	42,719	56,439	71,624	75,696	80,569
Exceptional Items	(1,157)	(489)			
Pre-tax Profit	41,562	55,950	71,624	75,696	80,569
Taxation	(11,029)	(14,935)	(17,771)	(18,738)	(19,933)
Exceptional Income - post-tax					
Profit After Tax	30,532	41,015	53,853	56,958	60,636
Minority Interests	(225)	50	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	30,308	41,065	53,553	56,658	60,336
Recurring Net Profit	31,157	41,423	53,553	56,658	60,336
Fully Diluted Recurring Net Profit	31,157	41,423	53,553	56,658	60,336

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	48,036	62,598	76,998	81,193	86,429
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(40,321)	(3,602)	23,850	3,058	3,924
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(954)	(1,445)	(1,065)	(1,051)	(1,025)
Tax Paid	(11,029)	(14,935)	(17,771)	(18,738)	(19,933)
Cashflow From Operations	(4,268)	42,617	82,011	64,461	69,394
Capex	(7,801)	(17,170)	(30,426)	(25,700)	(25,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	18,693	(6,277)	3,856	4,992	5,278
Cash Flow From Investing	10,892	(23,447)	(26,570)	(20,708)	(20,422)
Debt Raised/(repaid)	4,938	3,457	(5,676)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(17,628)	(19,361)	(29,091)	(30,330)	(32,119)
Preferred Dividends					
Other Financing Cashflow	(115)	(3,128)	1,079	(682)	(682)
Cash Flow From Financing	(12,805)	(19,031)	(33,688)	(31,012)	(32,801)
Total Cash Generated	(6,181)	140	21,753	12,741	16,171
Free Cashflow To Equity	11,561	22,628	49,765	43,753	48,972
Free Cashflow To Firm	7,578	20,615	56,506	44,805	49,997

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	30,450	35,408	60,067	72,809	88,979
Total Debtors	38,738	46,391	36,708	38,009	39,464
Inventories	61,530	62,106	56,677	58,666	61,023
Total Other Current Assets	28,743	30,340	27,292	27,292	27,292
Total Current Assets	159,461	174,246	180,744	196,777	216,759
Fixed Assets	57,026	65,616	87,013	103,276	118,864
Total Investments	10,668	15,647	17,345	17,345	17,345
Intangible Assets	2,429	2,285	2,429	2,429	2,429
Total Other Non-Current Assets			530	574	629
Total Non-current Assets	70,123	83,548	107,316	123,623	139,266
Short-term Debt	9,440	11,275	5,440	5,440	5,440
Current Portion of Long-Term Debt					
Total Creditors	61,741	67,797	73,471	79,631	87,134
Other Current Liabilities	697	742			
Total Current Liabilities	71,878	79,815	78,910	85,071	92,574
Total Long-term Debt	6,429	8,051	8,210	8,210	8,210
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	6,429	8,051	8,210	8,210	8,210
Total Provisions	6,109	6,211	6,549	6,782	7,068
Total Liabilities	84,415	94,077	93,669	100,063	107,853
Shareholders Equity	141,991	159,922	186,033	211,678	239,214
Minority Interests	3,875	4,537	4,475	4,775	5,075
Total Equity	145,866	164,459	190,508	216,454	244,289

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	34.0%	18.5%	8.5%	8.6%	9.5%
Operating EBITDA Growth	(1.1%)	30.3%	23.0%	5.4%	6.4%
Operating EBITDA Margin	16.5%	18.2%	20.6%	20.0%	19.4%
Net Cash Per Share (Rs)	15.20	16.77	48.39	61.67	78.53
BVPS (Rs)	148.03	166.72	193.95	220.68	249.39
Gross Interest Cover	41.79	37.40	63.79	68.25	74.46
Effective Tax Rate	26.5%	26.7%	24.8%	24.8%	24.7%
Net Dividend Payout Ratio	56.0%	46.6%	54.3%	53.5%	53.2%
Accounts Receivables Days	40.63	45.05	40.54	33.57	31.80
Inventory Days	99.24	106.65	98.77	87.92	82.80
Accounts Payables Days	114.83	111.74	117.47	116.70	115.36
ROIC (%)	31.6%	39.1%	49.5%	47.6%	46.9%
ROCE (%)	26.1%	31.4%	35.1%	33.2%	31.4%
Return On Average Assets	13.3%	16.0%	18.4%	17.4%	16.7%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic decorative revenue growth	4.5%	28.6%	23.2%	4.3%	5.9%
EBIDTA margins	16.5%	18.2%	20.6%	20.0%	19.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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