

India

REDUCE (no change)

Consensus ratings*: Buy 12 Hold 12 Sell 16

Current price: Rs2,710
 Target price: ▼ Rs2,620
 Previous target: Rs3,000
 Up/downside: -3.3%
 InCred Research / Consensus: -15.4%

Reuters: ASPN.NS
 Bloomberg: APNT IN
 Market cap: US\$31,128m
 Rs2,599,522m
 Average daily turnover: US\$42.2m
 Rs3522.9m
 Current shares o/s: 959.2m
 Free float: 47.4%

*Source: Bloomberg

Key changes in this note

- Lower target price to Rs2,620 from Rs3,000 earlier.
- Lower FY25F/26F EPS by 2.1%/3.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.1)	(8.2)	(10.7)
Relative (%)	(1.7)	(9.2)	(23.6)

Major shareholders	% held
Promoter and Promoter Group	52.6
LIC	5.8
BlackRock	2.0

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Asian Paints Limited

Weak performance

- Consolidated sales in 4QFY24 declined by 0.6% yoy. The decorative/industrial segments' volumes grew 10% each. Overall volume growth stood at 10%.
- Management is optimistic about continued double-digit volume growth in the near term. Margins are expected to taper off gradually in the over a few years.
- As competition intensifies with Grasim's entry into the market, we see limited room for near-term margin expansion. Retain REDUCE with a TP of Rs2,620.

Muted demand in decorative segment

Asian Paints' (APNT) reported a 0.6% yoy sales decline in its decorative business driven by a 10% volume growth, indicating a price cut of 5.5%. The industrial segment continued to post faster growth in 4Q, growing 3% yoy. Urban markets grew in double-digit volume while the rural markets grew a tad lower. The international business division's (IBD) sales growth was up 2% yoy (double digits ex-Nepal), largely driven by the macroeconomic uncertainty and forex-related constraints in the key markets of Nepal and Egypt. The IBD posted a PBT margin of 6.8%, up 10bp yoy. With competitive intensity expected to step up post Grasim's entry, we expect pricing to remain a key lever for continued growth as consumer sentiment is likely to remain subdued in the near term, which may impact growth.

Home décor biz remains subdued; industrial JVs performed well

Asian Paints' home improvement business continues to remain subdued, with the bath business declining by 8% yoy while the kitchen business grew 2.8% in 4QFY24, after multiple quarters of posting double-digit decline. Management targets taking the home décor business to 8-10% of the decorative segment's sales by FY26F, from 4% currently, by merging it under the beautiful homes brand architecture (avg. store size expected to increase). Within the industrial segment, PPG-AP (auto OEM) revenue grew 10.2% led by the automobile OEM segment, with its PBT margin declining 759bp qoq to 14.6% in 4QFY24. AP-PPG posted an 8.1% yoy growth led by protective and powder coatings. The PBT margin stood at 10.7%.

Margins have limited scope to rise from here on; retain REDUCE

Demand remained weak in 4Q, with customers visibly downtrading, despite a 5.5% price cut. We expect value growth to remain subdued in the medium term as Asian Paints is expected to heighten its rebating intensity, leading to further price cuts in the decorative paints segment. Management maintains its guidance of an 18-20% EBITDA margin in the medium term. We expect the competitive intensity to step up gradually with the launch of Birla Opus, which is yet to roll out its products in a strong manner, as well as lower pricing power in the case of raw material inflation leading to a challenging environment in the medium term. We maintain our REDUCE rating on the stock with a target price of Rs2,620 (45x Mar 2026F EPS). Upside risk: The company maintaining its market share, despite intense competition.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	291,013	344,886	354,947	386,230	421,793
Operating EBITDA (Rsm)	48,036	62,598	75,850	76,930	79,095
Net Profit (Rsm)	30,308	41,065	54,602	54,658	55,833
Core EPS (Rs)	32.5	43.2	56.9	57.0	58.2
Core EPS Growth	(3.1%)	32.9%	31.8%	0.1%	2.2%
FD Core P/E (x)	85.77	63.30	47.61	47.56	46.56
DPS (Rs)	19.1	24.6	32.0	31.9	32.7
Dividend Yield	0.68%	0.74%	1.18%	1.18%	1.21%
EV/EBITDA (x)	53.89	41.34	34.12	33.61	32.62
P/FCFE (x)	224.85	114.88	90.73	75.73	68.42
Net Gearing	(10.0%)	(9.8%)	(9.3%)	(9.7%)	(11.2%)
P/BV (x)	18.31	16.25	13.88	12.34	11.09
ROE	23.1%	27.4%	31.5%	27.5%	25.1%
% Change In Core EPS Estimates				(2.13%)	(3.46%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak performance

Highlights from the earnings call

Decorative business

- Volume grew 10%/9% in 4Q/FY24, respectively. Price cuts were 3.7%.
- Demand environment was weak in 4Q.
- Urban markets grew faster in double digits (volume) while rural markets grew slightly lower. In Apr 2024, there was some resurgence in rural markets.
- Product mix: It was impacted in 4Q. In FY24, the economy and luxury ranges saw good traction. The premium range was slightly slower led by downtrading in rural markets (customers shifting from premium to economy products). Downtrading is expected to tone down in FY25F vs. FY24.
- The economy market still accounts for 70% of the industry. Asian Paints has a strong share in these segments.
- Distribution expansion continued, now catering to 163,000 retail touchpoints (3-4x higher than peers), up 10k this year.
- Projects business did well. In 4Q, there was a slowdown led by slowdown in the government business (driven by the general elections) towards the end of Feb-Mar 2024. Should improve from Jul 2024F. The Smartcare range is doing well in the project business (280+ SKUs). Admixtures are doing well, so Asian Paints is covering the whole construction phase.
- Innovation: NPD contributed 11% to sales in 4Q & FY24.
- Capex update:
 - Greenfield facility in Madhya Pradesh with 4 lakh KLPA per annum capacity. Land acquisition is done. Should be ready in 2028F.
 - Brownfield projects in Kasna, Khandala, Ankleshwar and Mysuru will increase the capacity from 17.3 KLPA to 22.7 KLPA. Kasna and Khandala facilities are commissioned. The other two should be completed this year.
 - Backward integration: VAM facility: Partnered with Godrej Consumer Products for ethylene supply. The goal is to bring in cost benefits from a formulations perspective, which are not feasible with imports. This can give a benefit of 1%-1.5% to margins. Environment clearances have been obtained. Targeting completion by 2026F. The white cement facility is expected to be commissioned in 2025F.
- Focus will be on the bottom of the pyramid, with distempers under Neo Bharat - latex paints, with prices matched to the distemper category. Launched in Jan 2024. The volume is building up.
- Contractors: 6,80,000 contractors were trained at its learning centres (28 facilities), up 33% yoy. Aiming to do 800,000-900,000 trainings in FY25F.
- Beautiful homes service offering is growing 70-80% yoy and is possibly the largest painting service offering in the world.
- Data analytics: Colour Next (started in 2003) has been forecasting colour demand for the last two decades. This propels the premium/luxury end in a strong manner. No other competitor has this capability.

International business

- Overall IBD was down 1% in FY24. In constant currency or CC terms, growth was healthy. Ex-Asia (Nepal) growth is in double digits.
- Middle East: The UAE market is doing well.
- In Asia, Sri Lanka is back to recovery. Bangladesh was impacted. Nepal continued to decline.

Industrial business

- Industrial segment sales volumes/values were healthy. Volumes were up 10%.
- **PPG-AP (Auto OEM)**: Growth was led by Auto OEM segment. Margin improvement aided by deflation in RMs and sourcing/formulation efficiencies.
- **AP-PPG**: Growth was led by protective and powder coatings in FY24.

Home decor business

- **Home decor** is now 4% of decorative revenues. APNT is now the No1 integrated decor player. There are 60 Beautiful Homes stores. The stores are growing 50-60% yoy and offer a complete range.
- **Beautiful homes** saw new additions of Sabyasachi wallpapers. Among the most expensive wallpapers in the world (Rs200-500 per sq ft).
- **White teak**: Sales grew 33% yoy in 4Q and up 23% yoy in FY24.
- **Weather Seal** was up 63% yoy in 4Q, more than doubling in FY24.
- **Kitchen Business** was down 8% in FY24 (up 3% in 4Q).

Margins and input costs

- Raw material deflation stood at 1.8% and prices were cut by 2.8% in 4Q.
- In 4Q, spending on advertisements was higher and is expected to remain firm in 1HFY25F.

Outlook

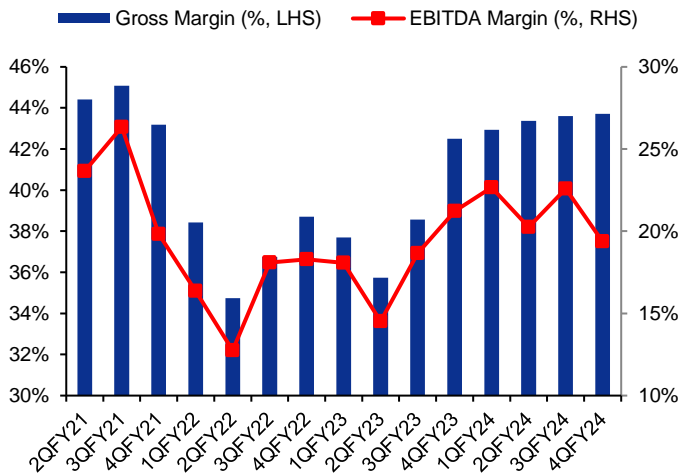
- Started seeing some uptick in rural markets in Apr 2024 & the beginning of May 2024. 1Q is expected to be supported by this uptick. The focus will be on the bottom of the pyramid.
- The festive (Diwali) season should aid 2QFY25F and 3QFY25F this year. Deferred demand from 4QFY24 should also benefit in the coming quarters.
- B2B business will pick up from 2QFY25F, post general elections, led by government/infrastructure/construction businesses. Automobile-related demand should also aid growth.
- **International business**: Nepal and Egypt are expected to remain weak. The UAE, Sri Lanka and other markets are expected to perform better.
- **Home decor**: Bath and kitchen will be the focus areas. The Ess Ess and Sleek businesses require more brand building. Now that everything will be brought under Beautiful Homes, the brand equity will improve. Beautiful Homes store sizes will increase from 6,000 sq ft to 12,000-plus sq ft gradually.
- Management is optimistic about double-digit volume growth in FY25F. The guidance on margins remains in the range of 18-20%.
- **Pricing outlook**: Crude oil derivatives have shown some signs of an uptick but TiO2 remains stable. Prices are expected to remain benign. No disturbances expected in the near term. From 1QFY25F, it is expected to remain benign. Some inflation may be witnessed over time.

Figure 1: Quarterly summary - consolidated

Y/E Mar (Rs m)	4QFY23	1QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	(%)
Revenue	87,873	91,823	87,308	-0.6	-4.9	3,44,886	3,54,947	2.9
Expenditure	69,226	71,017	70,394	1.7	-0.9	2,82,288	2,79,098	-1.1
Consumption of RM	50,532	52,404	49,147	-2.7	-6.2	2,11,565	2,00,902	-5.0
as % of sales	57.5	57.1	56.3			61.3	56.6	
Employee costs	5,220	5,864	6,142	17.6	4.7	20,281	23,262	14.7
as % of sales	5.9	6.4	7.0			5.9	6.6	
Other expenditure	13,473	12,750	15,105	12.1	18.5	50,442	54,934	8.9
as % of sales	15.3	13.9	17.3			14.6	15.5	
EBITDA	18,648	20,806	16,914	-9.3	-18.7	62,598	75,850	21.2
Depreciation	2,202	1,983	2,256	2.5	13.8	8,580	8,530	-0.6
EBIT	16,446	18,823	14,658	-10.9	-22.1	54,018	67,320	24.6
Other income	1,065	1,971	1,871	75.7	-5.1	3,865	6,880	78.0
Interest	389	458	541	39.0	18.3	1,445	2,052	42.0
PBT	17,122	20,336	15,988	-6.6	-21.4	56,438	72,148	27.8
Total tax	4,514	5,301	3,488	-22.7	-34.2	14,935	17,901	19.9
PAT	12,607	15,035	12,500	-0.9	-16.9	41,503	54,247	30.7
Minority interest	9	-62	-67	-832.6	8.7	-50	-355	615.1
Adjusted net profit	12,598	15,097	12,567	-0.2	-16.8	41,553	54,602	31.4
Extraordinary items	247	-407	0	-100.0	-100.0	489	0	-100.0
Reported net profit	12,351	15,504	12,567	1.7	-18.9	41,064	54,602	33.0
Adjusted EPS	13.1	15.7	13.1	-0.3	-16.8	43.3	56.9	31.4
Margins (%)	4QFY23	1QFY24	4QFY24	YoY (bp)	QoQ (bp)	FY23	FY24	(bp)
Gross Margin	42.5	42.9	43.7	120	80	38.7	43.4	470
EBITDA	21.2	22.7	19.4	-180	-330	18.2	21.4	320
EBIT	18.7	20.5	16.8	-190	-370	15.7	19.0	330
EBT	19.5	22.1	18.3	-120	-380	16.4	20.3	400
PAT	14.3	16.4	14.3	0	-210	12.0	15.3	320
Effective tax rate	26.4	26.1	21.8	-460	-430	26.5	24.8	-170

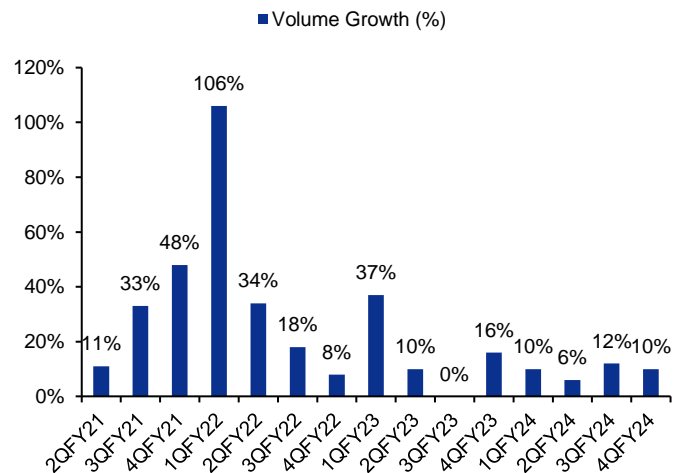
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross margin expanded by 120bp yoy to 43.7% in 4QFY24



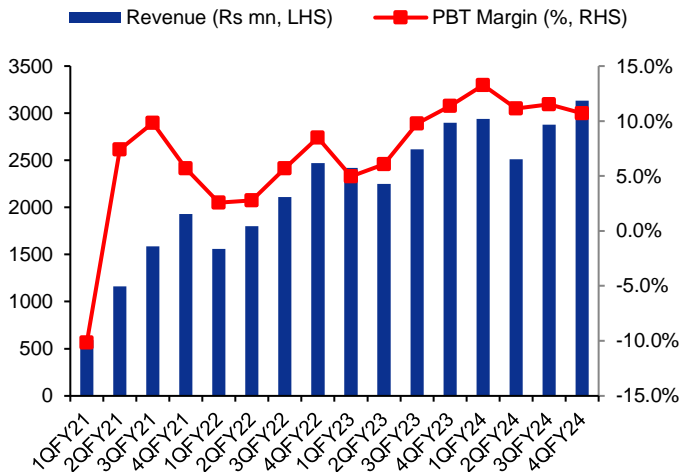
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Volume grew by 10% yoy in 4QFY24



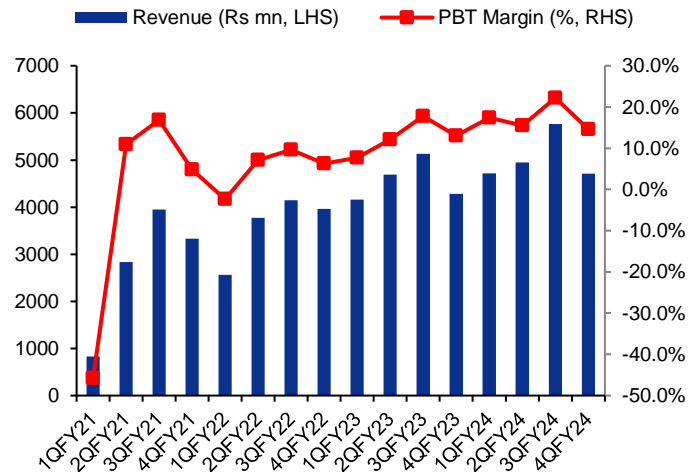
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: AP-PPG sales grew 10% yoy in 4QFY24



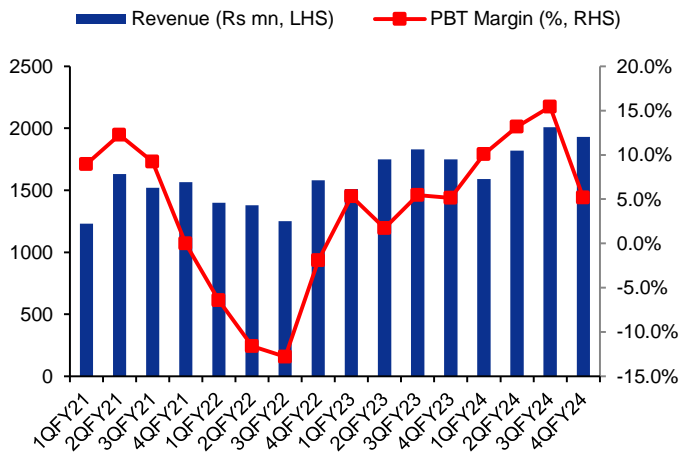
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PPG-AP grew 8% yoy in 4QFY24



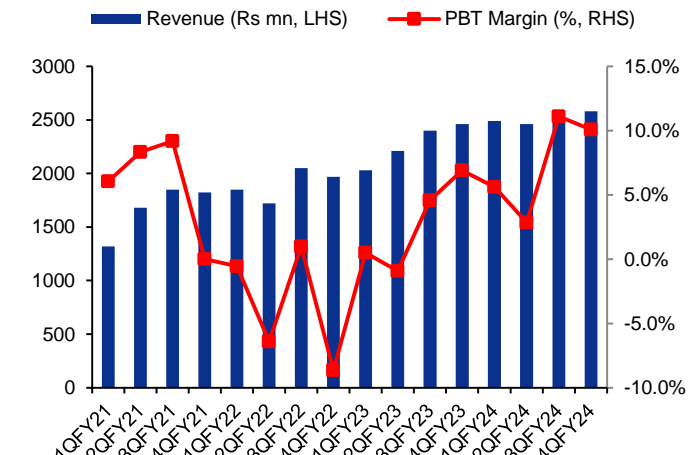
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Africa revenue grew 10% yoy in 4QFY24



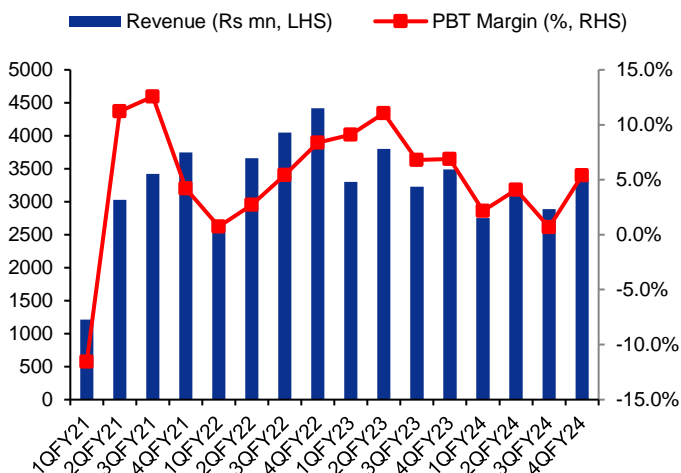
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Middle East sales grew 5% yoy in 4QFY24



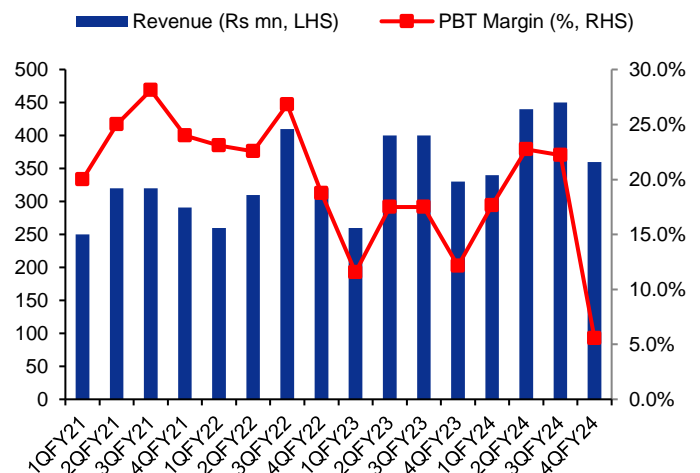
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asia PBT margins declined 149bp yoy to 5.4%



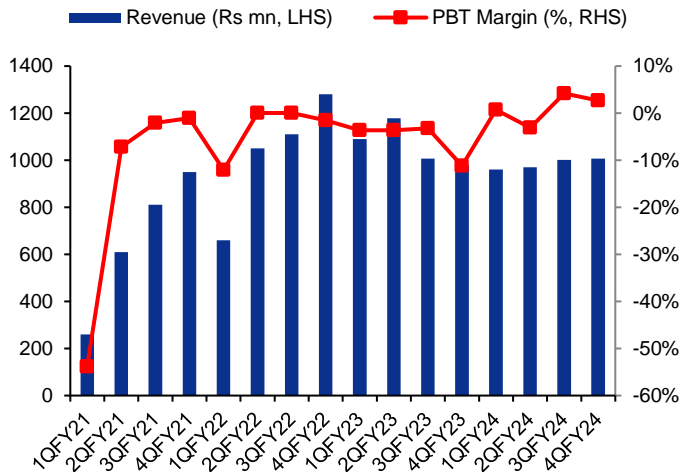
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 9: South Pacific PBT margins declined 657bp yoy to 5.6%



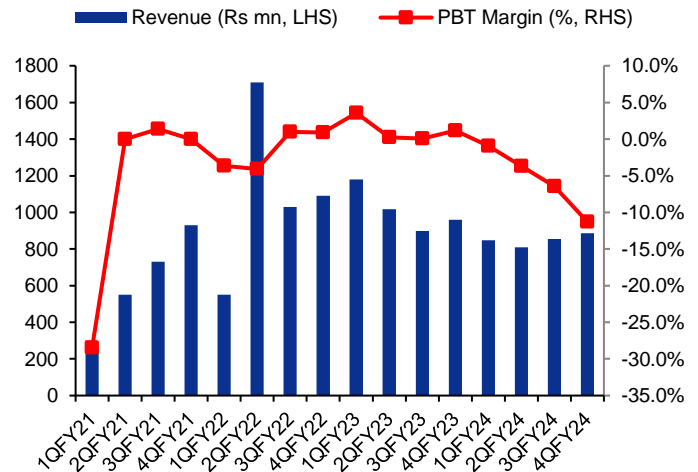
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Kitchen products business grew 2.8% yoy in 4QFY24



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Bath fittings business declined 8% yoy in 4QFY24



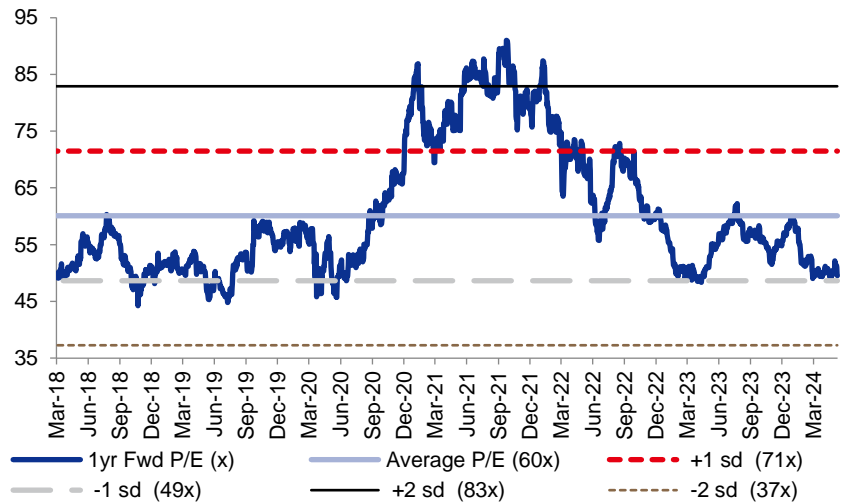
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

Y/E Mar (Rsm)	FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Introduced	% Change
Revenue	3,95,806	3,86,230	(2.4)	4,32,939	4,21,793	(2.6)
EBITDA	79,225	76,930	(2.9)	81,862	79,095	(3.4)
EBITDA Margin (%)	20.0	19.9	-10bp	18.9	18.8	-16bp
Net Profit	55,849	54,658	(2.1)	57,837	55,833	(3.5)
EPS	58.2	57.0	(2.1)	60.3	58.2	(3.5)

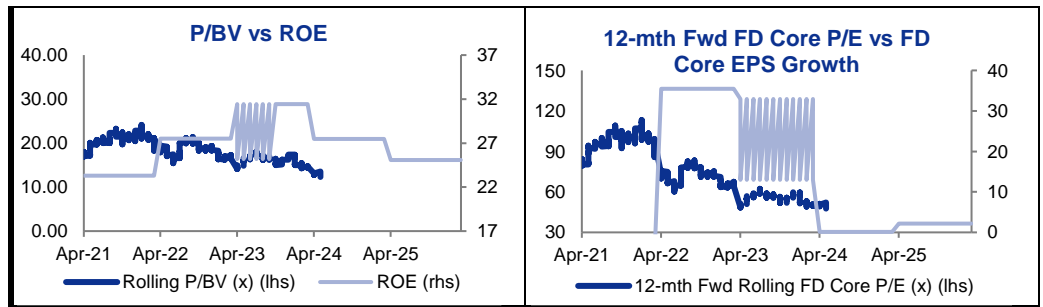
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Asian Paints' one-year forward P/E trades close to -1SD



SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	291,013	344,886	354,947	386,230	421,793
Gross Profit	108,005	133,321	154,045	161,310	177,119
Operating EBITDA	48,036	62,598	75,850	76,930	79,095
Depreciation And Amortisation	(8,164)	(8,580)	(8,530)	(8,994)	(9,845)
Operating EBIT	39,873	54,018	67,320	67,936	69,250
Financial Income/(Expense)	2,846	2,420	4,828	5,210	5,477
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	42,719	56,439	72,148	73,146	74,727
Exceptional Items	(1,157)	(489)			
Pre-tax Profit	41,562	55,950	72,148	73,146	74,727
Taxation	(11,029)	(14,935)	(17,901)	(18,188)	(18,594)
Exceptional Income - post-tax					
Profit After Tax	30,532	41,015	54,247	54,958	56,133
Minority Interests	(225)	50	355	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	30,308	41,065	54,602	54,658	55,833
Recurring Net Profit	31,157	41,423	54,602	54,658	55,833
Fully Diluted Recurring Net Profit	31,157	41,423	54,602	54,658	55,833

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	48,036	62,598	75,850	76,930	79,095
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(40,321)	(3,602)	891	(3,926)	(2,282)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(954)	(1,445)	(2,052)	(2,082)	(2,312)
Tax Paid	(11,029)	(14,935)	(17,901)	(18,188)	(18,594)
Cashflow From Operations	(4,268)	42,617	56,788	52,735	55,908
Capex	(7,801)	(17,170)	(37,172)	(25,700)	(25,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	18,693	(6,277)	3,618	7,292	7,788
Cash Flow From Investing	10,892	(23,447)	(33,555)	(18,408)	(17,912)
Debt Raised/(repaid)	4,938	3,457	5,418		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(17,628)	(19,361)	(30,658)	(30,625)	(31,364)
Preferred Dividends					
Other Financing Cashflow	(115)	(3,128)	6,315	(682)	(682)
Cash Flow From Financing	(12,805)	(19,031)	(18,925)	(31,307)	(32,046)
Total Cash Generated	(6,181)	140	4,309	3,020	5,951
Free Cashflow To Equity	11,561	22,628	28,651	34,327	37,996
Free Cashflow To Firm	7,578	20,615	25,285	36,408	40,308

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	30,450	35,408	42,874	45,902	51,853
Total Debtors	38,738	46,391	48,908	53,846	59,808
Inventories	61,530	62,106	59,234	63,284	66,108
Total Other Current Assets	28,743	30,340	35,696	35,696	35,696
Total Current Assets	159,461	174,246	186,713	198,728	213,465
Fixed Assets	57,026	65,616	94,258	110,964	126,819
Total Investments	10,668	15,647	13,845	13,845	13,845
Intangible Assets	2,429	2,285	4,192	4,192	4,192
Total Other Non-Current Assets				542	592
Total Non-current Assets	70,123	83,548	112,295	129,543	145,448
Short-term Debt	9,440	11,275	13,247	13,247	13,247
Current Portion of Long-Term Debt					
Total Creditors	61,741	67,797	73,888	79,210	85,553
Other Current Liabilities	697	742	625		
Total Current Liabilities	71,878	79,815	87,760	92,457	98,800
Total Long-term Debt	6,429	8,051	11,497	11,497	11,497
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	6,429	8,051	11,497	11,497	11,497
Total Provisions	6,109	6,211	6,139	6,421	6,633
Total Liabilities	84,415	94,077	105,396	110,375	116,929
Shareholders Equity	141,991	159,922	187,283	210,634	234,421
Minority Interests	3,875	4,537	6,954	7,254	7,554
Total Equity	145,866	164,459	194,237	217,888	241,975

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	34.0%	18.5%	2.9%	8.8%	9.2%
Operating EBITDA Growth	(1.1%)	30.3%	21.2%	1.4%	2.8%
Operating EBITDA Margin	16.5%	18.2%	21.4%	19.9%	18.8%
Net Cash Per Share (Rs)	15.20	16.77	18.90	22.06	28.26
BVPS (Rs)	148.03	166.72	195.25	219.59	244.39
Gross Interest Cover	41.79	37.40	32.81	32.63	29.96
Effective Tax Rate	26.5%	26.7%	24.8%	24.9%	24.9%
Net Dividend Payout Ratio	56.0%	46.6%	56.1%	56.0%	56.2%
Accounts Receivables Days	40.63	45.05	49.00	48.55	49.18
Inventory Days	99.24	106.65	110.23	99.41	96.51
Accounts Payables Days	114.83	111.74	128.71	124.22	122.89
ROIC (%)	31.6%	39.1%	40.1%	35.9%	33.3%
ROCE (%)	26.1%	31.4%	34.0%	30.0%	27.8%
Return On Average Assets	13.3%	16.0%	17.8%	15.9%	14.7%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Domestic decorative revenue growth	36.0%	19.4%	2.6%	8.5%	9.2%
EBIDTA margins	16.5%	18.2%	21.4%	19.9%	18.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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