

India

REDUCE (no change)

Consensus ratings*: Buy 11 Hold 11 Sell 16

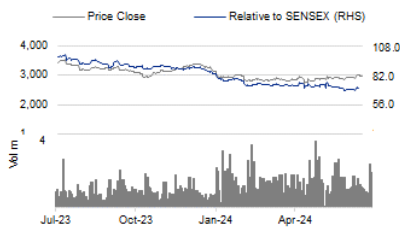
Current price:	Rs2,974
Target price:	Rs2,620
Previous target:	Rs2,620
Up/downside:	-11.9%
InCred Research / Consensus:	-10.1%

Reuters:	
Bloomberg:	APNT IN
Market cap:	US\$39,291m
	Rs2,853,086m
Average daily turnover:	US\$56.5m
	Rs4104.0m
Current shares o/s:	959.2m
Free float:	47.4%

*Source: Bloomberg

Key changes in this note

- Lower FY25F/26F EPS by 1.2%/2.5%.
- Introduce FY27F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.8	5.1	(13.3)
Relative (%)	(2.9)	(5.0)	(28.5)

Major shareholders	% held
Promoter and Promoter Group	52.6
BlackRock	2.0
Vanguard Group	2.0

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Asian Paints Limited

Weak start to FY25F

- Consolidated sales in 1QFY25 declined by 2.3% yoy. Volume growth stood at 7%. Demand improved from Jun 2024 onwards, with rural green shoots visible.
- Management maintains its outlook of double-digit volume growth for FY25F. Margins are expected to remain under pressure due to competitive intensity.
- As Birla Opus steps up its presence in the market, we see limited room for near-term margin expansion. Retain REDUCE with a target price of Rs2,620.

Demand remained weak in 1Q due to general elections and heatwave

Asian Paints (APNT) posted a 2.3% yoy sales decline in its decorative business in 1QFY25, with a 7% volume growth, indicating a price cut of 9.9% (vs. a 11.9% cut in 4QFY24). The industrial segment continued to post faster growth in 1Q, up 5.8% yoy. Rural markets performed better than urban markets during the quarter. The international business division's (IBD) sales declined by 2% yoy (up 1.8% in constant currency or CC terms), largely driven by the macroeconomic uncertainty and forex-related constraints in the key markets of Nepal, Bangladesh, Middle East and Egypt. The IBD posted a PBT margin of 0.9%, down 300bp yoy. Owing to better demand from Jun 2024 & green shoots in rural markets, management remains optimistic about double-digit volume growth in 2Q/FY25F.

Home décor biz improves; industrial segment outpaces decorative

Asian Paints' home decor business saw an improvement on a low base, with the bath fittings business growing 10% yoy and the kitchen products business up 5% in 1QFY25, led by synergies from Beautiful Homes' service offerings. Management aims to take the home décor business to 8-10% of the decorative segment's sales by FY26F, from 4-5% currently. In the industrial segment, PPG-AP (automobile OEM) revenue grew 9.6% led by the auto OEM segment, with its PBT margin rising by 181bp yoy to 19.2% in 1QFY25. AP-PPG posted flat yoy growth because of subdued demand from the infrastructure segment due to general elections in India. The PBT margin stood at 10.2%, down 317bp yoy.

Demand environment remains subdued; retain REDUCE rating

Demand remained weak in 1QFY25, with a weaker mix impacting margins (gross/EBITDA margins contracted 40bp/380bp yoy to 42.5%/18.9%, respectively). During the quarter, Asian Paints witnessed raw material inflation of 1.8% for which it hiked prices by 1% in Jul 2024. With c.1.5% raw material inflation likely in 2QFY25F, further price hikes are on the cards. Management maintained its guidance of posting double-digit volume growth (with a c.5-6% value/volume gap) in FY25F. We expect the competitive intensity to step up gradually as Birla Opus rolls out its products in a stronger manner, and the limited pricing power in case raw material inflation creates a challenging environment for the industry. We maintain our REDUCE rating on the stock with an unchanged target price of Rs2,620 (45x Sep 2027F EPS). Upside risk: The company maintains its market share, despite intense competition. Downside risk: Market share erosion due to higher competitive intensity.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	344,886	354,947	378,518	412,390	450,959
Operating EBITDA (Rsm)	62,598	75,850	74,987	76,477	81,469
Net Profit (Rsm)	41,065	54,602	54,016	54,404	57,281
Core EPS (Rs)	43.2	56.9	56.3	56.7	59.7
Core EPS Growth	32.9%	31.8%	(1.1%)	0.7%	5.3%
FD Core P/E (x)	69.48	52.25	52.82	52.44	49.81
DPS (Rs)	24.6	32.0	31.2	31.5	32.9
Dividend Yield	0.68%	1.07%	1.05%	1.06%	1.11%
EV/EBITDA (x)	45.39	37.47	37.86	37.05	34.79
P/FCFE (x)	126.09	99.58	83.74	78.90	88.15
Net Gearing	(9.8%)	(9.3%)	(9.9%)	(11.2%)	(10.2%)
P/BV (x)	17.84	15.23	13.58	12.25	11.08
ROE	27.4%	31.5%	27.2%	24.6%	23.4%
% Change In Core EPS Estimates			(1.17%)	(2.56%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak start to FY25F

Highlights from 1QFY25 earnings conference call

Decorative business

- Volume grew 7% in 1QFY25. Value growth was impacted by price cuts & higher growth in the economy range.
- Demand was impacted by general elections and heatwave in India during the quarter. April and May months were subdued. There was some recovery in Jun 2024, with some green shoots visible in rural demand. T3-4 cities grew ahead of urban markets.
- **Sales mix:** The mix was led by Smartcare Waterproofing, distempers (led by NeoBharat) and wood finishes. Economy emulsions, primers and some premium waterproofing offerings did not perform well. PreLux emulsions, as a category, performed relatively well. Premium/luxury emulsions grew relatively lower.
- The distribution footprint continued to expand, and it now has 1,65,000 retail touchpoints.
- The projects business saw some deceleration due to general elections. The builder segment performed well.
- Beautiful Homes service & Trusted Contractor service witnessed strong growth yoy.
- NPD contributed 12% to sales in 1Q.
- The NeoBharat range (launched in both interior and exterior categories) is showing good traction across markets, but it dragged down the sales mix during the quarter.
- The installed capacity at Mysuru facility increased from 300,000 to 600,000kLpa.

International business

- Overall business declined by 2% in INR terms (up 1.8% in CC terms).
- Ethiopia and Sri Lanka markets posted healthy growth.
- The Middle East market witnessed a slowdown. The outlook remains positive, as per management.
- Nepal continued to see unfavourable macroeconomic conditions and liquidity constraints.
- Bangladesh was adversely impacted by muted industry growth and currency devaluation.
- Egypt was impacted by weak demand on the back of steep inflation and currency devaluation.
- Subdued demand also impacted profitability.

Industrial business

- The industrial segment posted better growth than the decorative segment led by automotive coatings.
- **PPG-AP (auto OEM):** Its growth of 10% was led by the auto OEM & refinishes segment. Margin improvement was aided by the fall in raw material prices and sourcing/formulation efficiencies.
- **AP-PPG:** Its growth was flat yoy because of subdued demand in the infrastructure-related sectors due to general elections.

Home decor business

- **Beautiful Homes or BH:** The second BH studio was launched in Guwahati. Will add 15-20 stores every year. Added automated blinds into home decor (serviced from a facility in Chennai).
- **White Teak:** Sales grew 14% yoy in 1Q. More stores are likely to be opened going ahead.
- **Weatherseal:** It was up 18% yoy in 1Q.
- **The kitchen products business** (up 5% yoy) and **the bath fittings business** (up 10% yoy) were supported by synergies with Beautiful Homes' offerings along with White Teak & Weatherseal.

Margins and input costs

- Raw material inflation stood at 1.8% in 1QFY25 (vs. a deflation of 1.8% in 4QFY24).
- Prices hiked by 1% in Jul 2024. More price hikes are expected as 1.5% raw material inflation is expected in 2QFY25F.
- Moderate inflation expected in FY25F.
- Employee costs were higher due to corrections in the sick leave policy, excluding which the rise is lower. However, the overall feet on the street expanded (which was a major contributor to higher costs). Asian Paints will increase its rural footprint, focus on waterproofing and bottom-of-the pyramid segments going ahead.

Outlook

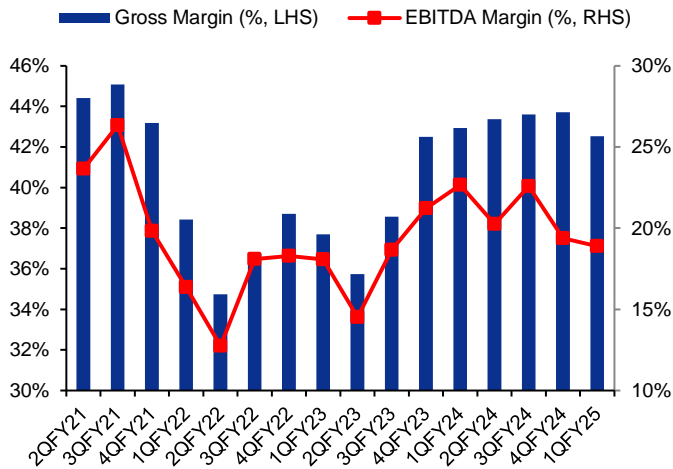
- Management remains confident of an improvement in demand led by green shoots in rural markets, healthy monsoon expectations and the upcoming festive season. It does not believe that there has been any change in competitive intensity. Management continues to expect double-digit volume growth in FY25F as the demand picked up from Jun 2024. Double-digit volume is expected in 2QFY25F. The value/volume gap is expected to be in the range of 5-6% in FY25F.
- B2B business is expected to see an uptick led by government investments.
- Seeing some inflation in certain raw materials (raw material inflation stood at 1.8% in 1Q; 1% price hike in Jul 2024). Supply chain challenges continue to be monitored due to the Red Sea shipping crisis. Further inflation of 1.4-1.5% is expected and hence, more price hikes are likely going ahead.
- The focus remains on scaling up industrial business and home decor categories.
- Key markets of Nepal, Bangladesh & Egypt are expected to remain challenged by macroeconomic problems in the near term.

Figure 1: Quarterly summary - consolidated

Y/E Mar (Rs m)	1QFY24	2QFY24	1QFY25	YoY (%)	QoQ (%)	FY23	FY24	(%)
Revenue	91,823	84,786	89,697	-2.3	5.8	3,44,886	3,54,947	2.9
Expenditure	71,017	67,623	72,760	2.5	7.6	2,82,288	2,79,098	-1.1
Consumption of RM	52,404	48,015	51,546	-1.6	7.4	2,11,565	2,00,902	-5.0
as % of sales	57.1	56.6	57.5			61.3	56.6	
Employee costs	5,864	5,961	6,742	15.0	13.1	20,281	23,262	14.7
as % of sales	6.4	7.0	7.5			5.9	6.6	
Other expenditure	12,750	13,648	14,472	13.5	6.0	50,442	54,934	8.9
as % of sales	13.9	16.1	16.1			14.6	15.5	
EBITDA	20,806	17,162	16,938	-18.6	-1.3	62,598	75,850	21.2
Depreciation	1,983	2,087	2,277	14.8	9.1	8,580	8,530	-0.6
EBIT	18,823	15,075	14,661	-22.1	-2.7	54,018	67,320	24.6
Other income	1,971	1,652	1,562	-20.7	-5.4	3,865	6,880	78.0
Interest	458	509	554	21.0	8.8	1,445	2,052	42.0
PBT	20,336	16,218	15,669	-22.9	-3.4	56,438	72,148	27.8
Total tax	5,301	4,186	4,168	-21.4	-0.4	14,935	17,901	19.9
PAT	15,035	12,033	11,501	-23.5	-4.4	41,503	54,247	30.7
Minority interest	-62	-22	-199	221.1	821.8	-50	-355	615.1
Adjusted net profit	15,097	12,054	11,700	-22.5	-2.9	41,553	54,602	31.4
Extraordinary items	-407	0	0	-100.0	NA	489	0	-100.0
Reported net profit	15,504	12,054	11,700	-24.5	-2.9	41,064	54,602	33.0
Adjusted EPS	15.7	12.6	12.2	-22.5	-2.9	43.3	56.9	31.4
Margins (%)	1QFY24	2QFY24	1QFY25	YoY (bp)	QoQ (bp)	FY23	FY24	(bp)
Gross margin	42.9	43.4	42.5	-40	-80	38.7	43.4	470
EBITDA	22.7	20.2	18.9	-380	-140	18.2	21.4	320
EBIT	20.5	17.8	16.3	-420	-140	15.7	19.0	330
EBT	22.1	19.1	17.5	-470	-170	16.4	20.3	400
PAT	16.4	14.2	12.8	-360	-140	12.0	15.3	320
Effective tax rate	26.1	25.8	26.6	50	80	26.5	24.8	-170

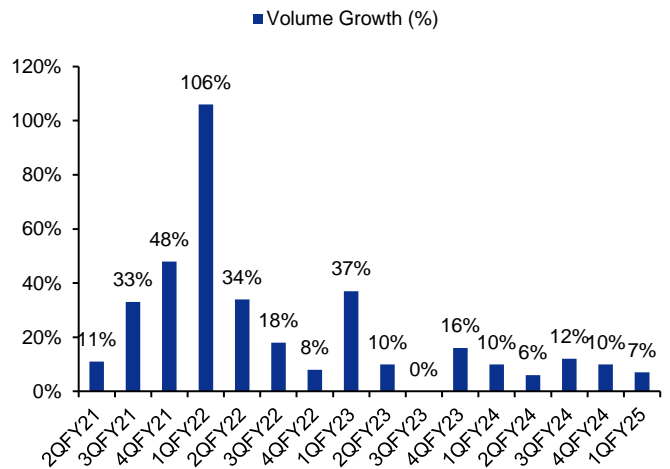
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross margin contracts by 40bp yoy to 42.5% in 1QFY25



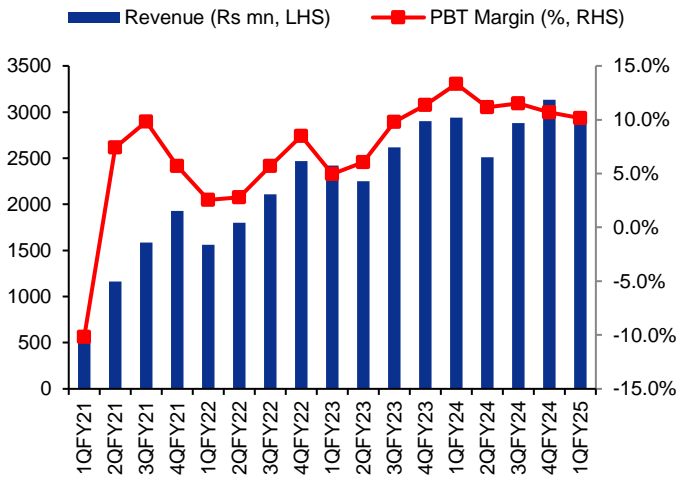
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Volume grows by 7% yoy in 1QFY25



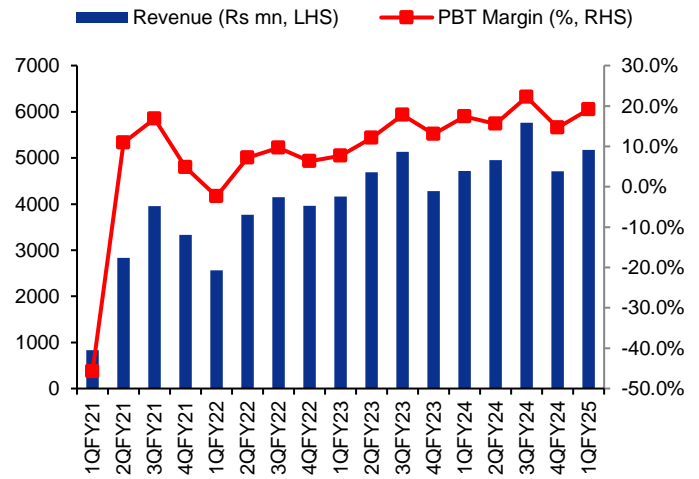
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: AP-PPG sales were flat yoy in 1QFY25



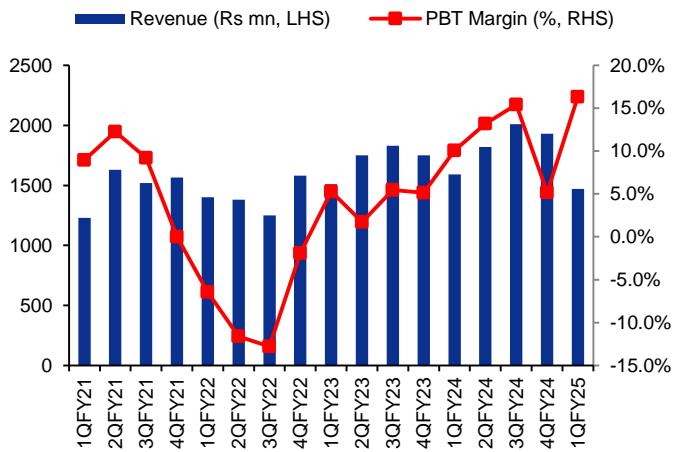
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PPG-AP sales grew 10% yoy in 1QFY25



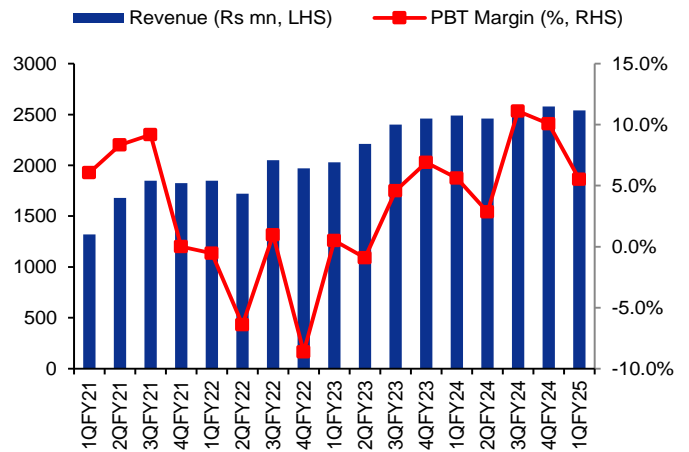
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Africa revenue declined by 7.5% yoy in 1QFY25



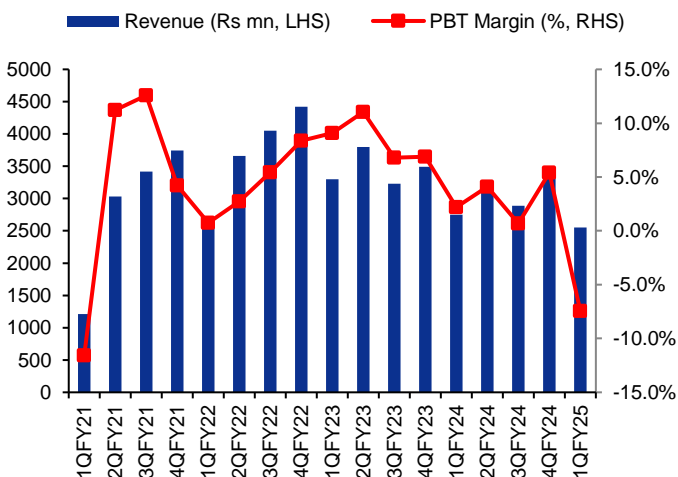
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Middle East revenue grew 2% yoy in 1QFY25



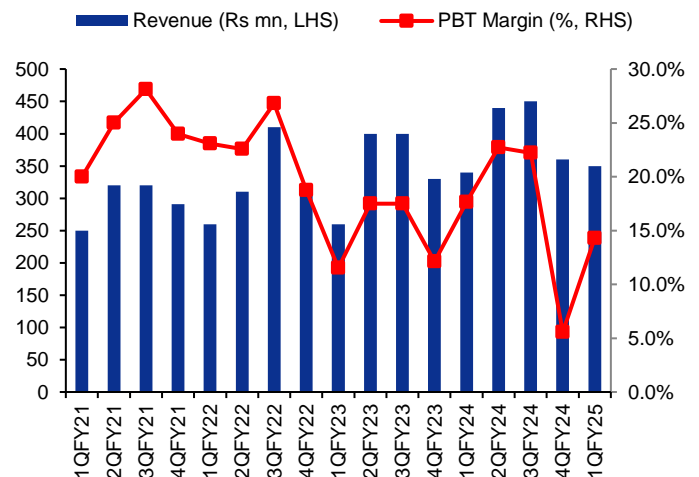
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asia revenue declined by 7% yoy in 1QFY25



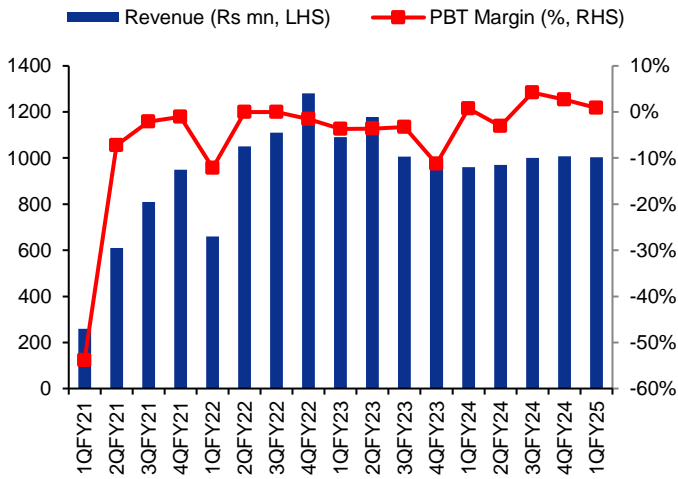
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: South Pacific revenue grew 3% yoy in 1QFY25



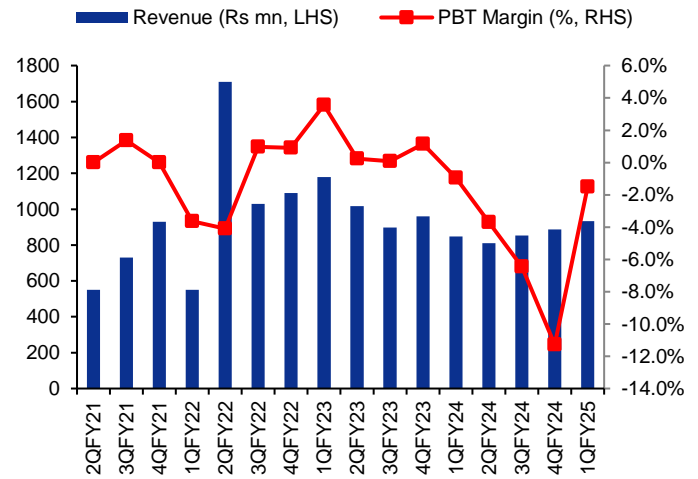
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Kitchen business sales grew 5% yoy in 1QFY25



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Bath fittings business declined by 10% yoy in 1QFY25



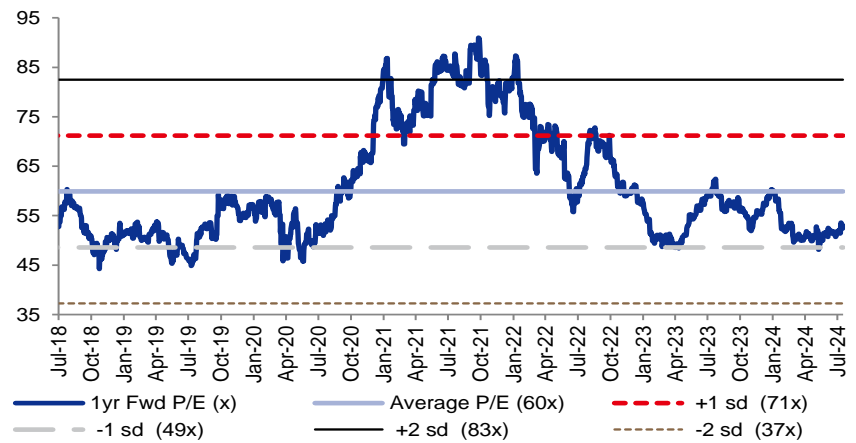
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenue	3,86,230	3,78,518	(2.0)	4,21,793	4,12,390	(2.2)	4,50,959
EBITDA	76,930	74,987	(2.5)	79,095	76,477	(3.3)	81,469
EBITDA margin (%)	19.9	19.8	-11bp	18.8	18.5	-21bp	18.1
Net profit	54,658	54,016	(1.2)	55,833	54,404	(2.6)	57,281
EPS	57.0	56.3	(1.2)	58.2	56.7	(2.5)	59.7

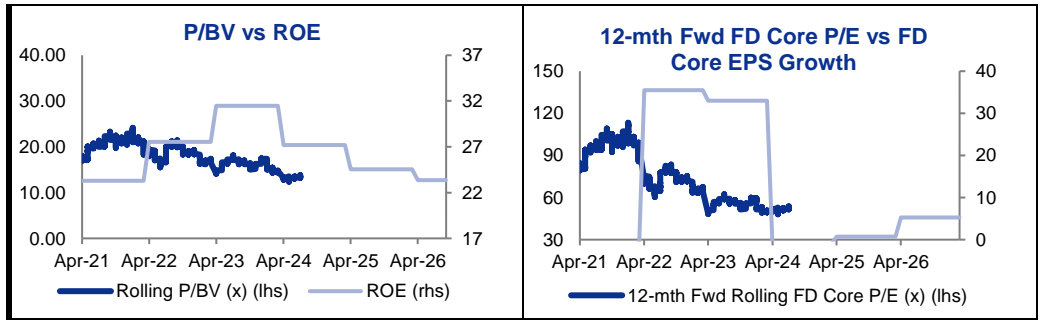
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	344,886	354,947	378,518	412,390	450,959
Gross Profit	133,321	154,045	157,736	172,429	188,780
Operating EBITDA	62,598	75,850	74,987	76,477	81,469
Depreciation And Amortisation	(8,580)	(8,530)	(9,353)	(9,927)	(10,561)
Operating EBIT	54,018	67,320	65,635	66,551	70,908
Financial Income/(Expense)	2,420	4,828	5,210	5,470	5,528
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	56,439	72,148	70,845	72,021	76,435
Exceptional Items	(489)				
Pre-tax Profit	55,950	72,148	70,845	72,021	76,435
Taxation	(14,935)	(17,901)	(17,129)	(17,917)	(19,354)
Exceptional Income - post-tax					
Profit After Tax	41,015	54,247	53,716	54,104	57,081
Minority Interests	50	355	300	300	200
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	41,065	54,602	54,016	54,404	57,281
Recurring Net Profit	41,423	54,602	54,016	54,404	57,281
Fully Diluted Recurring Net Profit	41,423	54,602	54,016	54,404	57,281

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	62,598	75,850	74,987	76,477	81,469
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,602)	891	(3,298)	(2,168)	(9,576)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,445)	(2,052)	(2,082)	(2,312)	(2,712)
Tax Paid	(14,935)	(17,901)	(17,129)	(17,917)	(19,354)
Cashflow From Operations	42,617	56,788	52,479	54,080	49,827
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
Cash Flow From Investing	(23,447)	(33,555)	(18,408)	(17,918)	(17,461)
Debt Raised/(repaid)	3,457	5,418			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,361)	(30,658)	(29,928)	(30,240)	(31,566)
Preferred Dividends					
Other Financing Cashflow	(3,128)	6,315	(682)	(682)	(682)
Cash Flow From Financing	(19,031)	(18,925)	(30,610)	(30,922)	(32,248)
Total Cash Generated	140	4,309	3,461	5,240	118
Free Cashflow To Equity	22,628	28,651	34,071	36,162	32,366
Free Cashflow To Firm	20,615	25,285	36,153	38,474	35,078

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	35,408	42,874	46,335	51,575	51,693
Total Debtors	46,391	48,908	52,916	58,649	66,435
Inventories	62,106	59,234	62,048	64,678	70,236
Total Other Current Assets	30,340	35,696	35,696	35,696	35,696
Total Current Assets	174,246	186,713	196,995	210,598	224,061
Fixed Assets	65,616	94,258	110,605	126,379	141,517
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			529	577	629
Total Non-current Assets	83,548	112,295	129,172	144,992	160,183
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	77,713	83,754	87,354
Other Current Liabilities	742	625			
Total Current Liabilities	79,815	87,760	90,960	97,001	100,601
Total Long-term Debt	8,051	11,497	11,497	11,497	11,497
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	8,051	11,497	11,497	11,497	11,497
Total Provisions	6,211	6,139	6,368	6,568	6,789
Total Liabilities	94,077	105,396	108,824	115,066	118,886
Shareholders Equity	159,922	187,283	210,089	232,971	257,503
Minority Interests	4,537	6,954	7,254	7,554	7,854
Total Equity	164,459	194,237	217,342	240,524	265,357

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	18.5%	2.9%	6.6%	8.9%	9.4%
Operating EBITDA Growth	30.3%	21.2%	(1.1%)	2.0%	6.5%
Operating EBITDA Margin	18.2%	21.4%	19.8%	18.5%	18.1%
Net Cash Per Share (Rs)	16.77	18.90	22.51	27.97	28.10
BVPS (Rs)	166.72	195.25	219.02	242.88	268.46
Gross Interest Cover	37.40	32.81	31.53	28.79	26.15
Effective Tax Rate	26.7%	24.8%	24.2%	24.9%	25.3%
Net Dividend Payout Ratio	46.6%	56.1%	55.4%	55.6%	55.1%
Accounts Receivables Days	45.05	49.00	49.09	49.37	50.62
Inventory Days	106.65	110.23	100.25	96.38	93.91
Accounts Payables Days	111.74	128.71	125.31	122.80	119.11
ROIC (%)	39.1%	40.1%	34.9%	32.2%	30.6%
ROCE (%)	31.4%	33.7%	28.8%	26.6%	25.9%
Return On Average Assets	16.0%	17.8%	15.5%	14.3%	13.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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