

India

REDUCE (no change)

Consensus ratings*: Buy 9 Hold 11 Sell 19

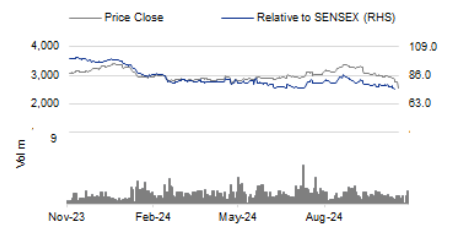
Current price:	Rs2,543
Target price:	Rs2,340
Previous target:	Rs2,620
Up/downside:	-8.0%
InCred Research / Consensus:	-17.4%

Reuters:	
Bloomberg:	APNT IN
Market cap:	US\$33,593m
	Rs2,439,336m
Average daily turnover:	US\$56.0m
	Rs4070.0m
Current shares o/s:	959.2m
Free float:	47.4%

*Source: Bloomberg

Key changes in this note

- Lower the target price to Rs2,340 from Rs2,620.
- Lower FY25F/26F EPS by 16%/12%, respectively..



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(16.3)	(16.4)	(17.3)
Relative (%)	(14.3)	(16.1)	(32.5)

Major shareholders	% held
Promoter and Promoter Group	52.6
LIC	6.6
BlackRock	2.0

Asian Paints Limited

Persistent weakness drives earnings cut

- Consolidated sales in 2QFY25 fell by 5.3% yoy. Decorative volume declined by 0.5% on account of weak demand. Industrial biz fared relatively better.
- Management maintains its outlook of double-digit volume growth for FY25F. Margin is expected to remain under pressure due to competitive intensity
- Heightened competitive intensity amidst a weak demand environment limits room for near-term margin growth. Retain REDUCE with a new TP of Rs2,340.

Weakness persists due to subdued demand environment

Asian Paints (APNT) posted a 6.5% yoy sales decline in its decorative business in 2QFY25, with a 0.5% volume decline, indicating a price cut of 6% (vs. a 9.9% cut in 1QFY25). Weak consumer sentiment impacted demand in 2Q, further affected by extended monsoons, which, coupled with price cuts taken in the base and a weak mix, led to sales decline. Urban markets remained under stress while rural markets gained on account of improvement in the distribution reach & assortment. The pace of growth of the project business slowed down. The industrial business fared relatively better. International business declined by 1% yoy (+8.7% on a constant currency basis) impacted by weak performance in Africa and a decline in Bangladesh, which led Asia to decline by 1% yoy. Forex loss in Ethiopia, along with subdued demand in Asia, impacted profitability.

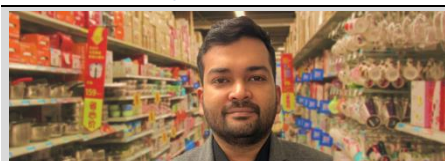
Home décor and industrial business fared relatively better

Asian Paints' home decor business saw an improvement on a low base, with the bath fittings business growing 2% yoy, the kitchen products business up 9% and White Teak growing 19% yoy in 2QFY25, led by synergies from Beautiful Homes' service offerings. In the industrial segment, PPG-AP (automobile OEM) revenue grew 6% led by the general industrial and refinish segment while the auto OEM segment declined, with its PBT margin flat yoy at 15.7% in 2QFY25. AP-PPG (general industrial) posted a 6% yoy growth, driven by protective and powder coatings. Sharper pricing led the PBT margin to contract 437bp yoy from 11.3% in 2QFY24 to 7% in 2QFY25.

Retain REDUCE rating with a lower target price of Rs2,340

Decorative paint demand remained weak in 2QFY25 (for both Asian Paints & the industry), with a weaker mix and higher rebating intensity impacting margins (gross/EBITDA margins contracted 260bp/480bp yoy to 40.8%/15.4%, respectively). During the quarter, Asian Paints witnessed raw material inflation of 1.5%, for which it hiked product prices by 1.2%, however demand conditions are expected to remain challenging, which, coupled with heightened competitive intensity, should limit the potential for upside in margins for paint players in the near term. We cut our FY25F/26F EPS by 16%/12%, respectively, and maintain our REDUCE rating on the stock with a new target price of Rs2,340 (45x Sep 2027F EPS) from Rs2,620 earlier. Upside risk: Stronger-than-expected sales growth.

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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	344,886	354,947	363,093	380,324	412,767
Operating EBITDA (Rsm)	62,598	75,850	63,820	68,016	73,821
Net Profit (Rsm)	41,065	54,602	45,593	48,120	51,672
Core EPS (Rs)	43.2	56.9	47.5	50.2	53.9
Core EPS Growth	32.9%	31.8%	(16.5%)	5.5%	7.4%
FD Core P/E (x)	59.40	44.67	53.50	50.69	47.21
DPS (Rs)	24.6	32.0	26.1	27.7	29.5
Dividend Yield	0.79%	1.26%	1.03%	1.09%	1.16%
EV/EBITDA (x)	38.78	32.01	38.03	35.64	32.85
P/FCFE (x)	107.80	85.14	90.72	78.47	87.99
Net Gearing	(9.8%)	(9.3%)	(9.0%)	(9.9%)	(8.5%)
P/BV (x)	15.25	13.02	11.81	10.75	9.80
ROE	27.4%	31.5%	23.2%	22.2%	21.7%
% Change In Core EPS Estimates			(15.59%)	(11.55%)	(9.79%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Persistent weakness drives earnings cut

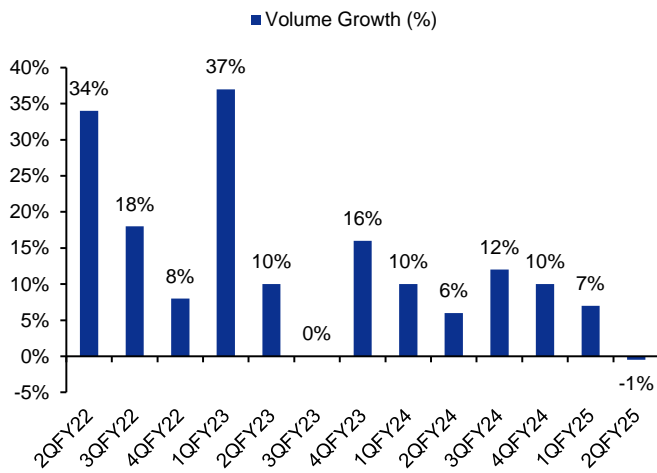
Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs m)	2QFY24	3QFY24	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	(%)
Revenue	84,786	91,031	80,275	-5.3	-11.8	1,76,609	1,69,973	-3.8
Expenditure	67,623	70,470	67,880	0.4	-3.7	1,38,641	1,40,640	1.4
Consumption of RM	48,015	51,336	47,543	-1.0	-7.4	1,00,419	99,089	-1.3
as % of sales	56.6	56.4	59.2			56.9	58.3	
Employee costs	5,961	5,702	6,765	13.5	18.6	11,825	13,507	14.2
as % of sales	7.0	6.3	8.4			6.7	7.9	
Other expenditure	13,648	13,432	13,572	-0.6	1.0	26,397	28,044	6.2
as % of sales	16.1	14.8	16.9			14.9	16.5	
EBITDA	17,162	20,561	12,395	-27.8	-39.7	37,968	29,333	-22.7
Depreciation	2,087	2,204	2,420	15.9	9.8	4,070	4,697	15.4
EBIT	15,075	18,357	9,975	-33.8	-45.7	33,898	24,636	-27.3
Other income	1,652	1,386	1,736	5.1	25.2	3,623	3,298	-9.0
Interest	509	544	630	23.8	15.8	967	1,184	22.5
PBT	16,218	19,199	11,081	-31.7	-42.3	36,554	26,750	-26.8
Total tax	4,186	4,926	2,654	-36.6	-46.1	9,487	6,822	-28.1
PAT	12,033	14,273	8,427	-30.0	-41.0	27,067	19,928	-26.4
Minority interest	-22	-204	-321	1386.1	57.0	-84	-520	522.1
Adjusted net profit	12,054	14,477	8,748	-27.4	-39.6	27,151	20,448	-24.7
Extraordinary items	0	0	1,801	NA	NA	-407	1,801	-542.6
Reported net profit	12,054	14,477	6,946	-42.4	-52.0	27,558	18,646	-32.3
Adjusted EPS	12.6	15.1	9.1	-27.4	-39.6	28.3	21.3	-24.7

Margins (%)	2QFY24	3QFY24	2QFY25	YoY (bp)	QoQ (bp)	1HFY24	1HFY25	(bp)
Gross margin	43.4	43.6	40.8	-260	-280	43.1	41.7	-140
EBITDA	20.2	22.6	15.4	-480	-710	21.5	17.3	-420
EBIT	17.8	20.2	12.4	-540	-770	19.2	14.5	-470
EBT	19.1	21.1	13.8	-530	-730	20.7	15.7	-500
PAT	14.2	15.7	10.5	-370	-520	15.3	11.7	-360
Effective tax rate	25.8	25.7	23.9	-190	-170	26.0	25.5	-40

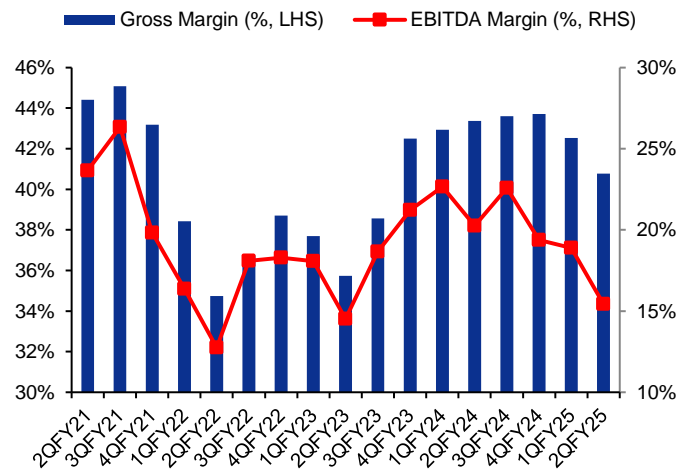
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Volume growth stood at -0.5% in 2Q



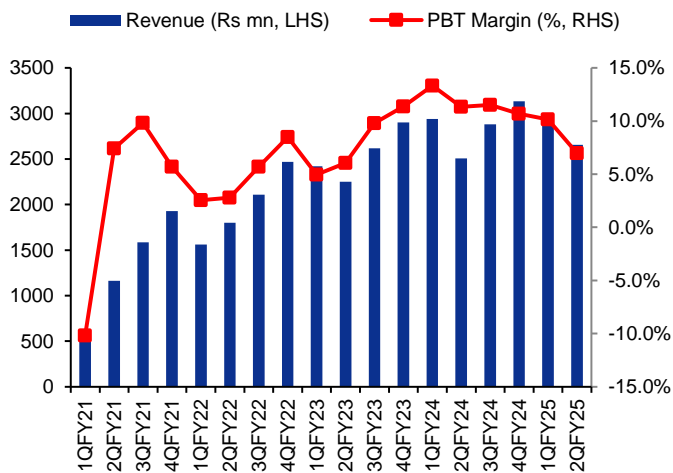
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Gross/EBITDA margin contracted 260/480bp yoy



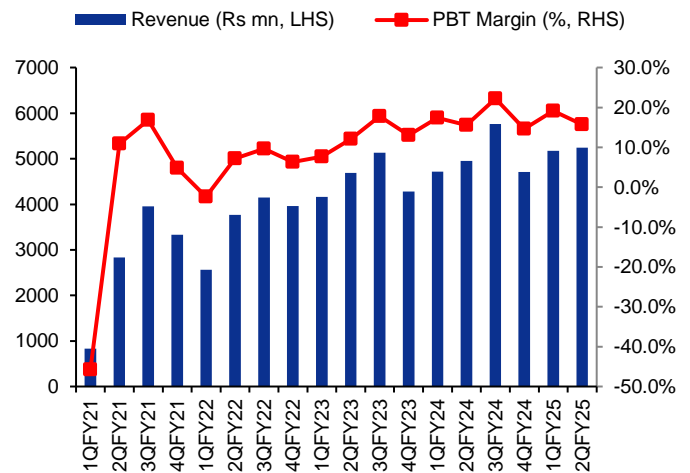
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: AP-PPG sales grew 6% yoy in 2QFY25



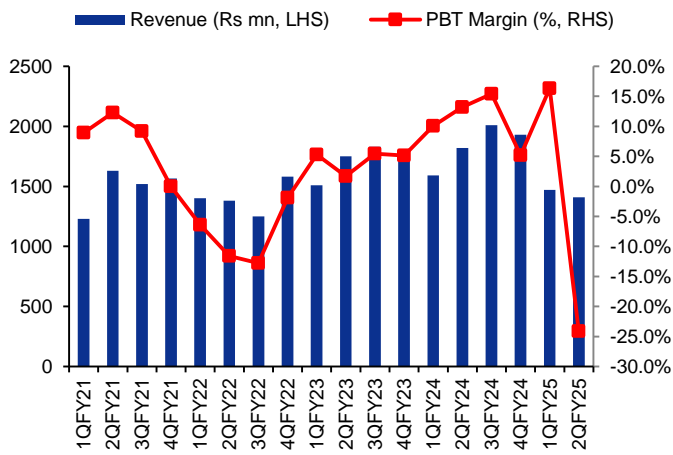
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: PPG-AP grew 6% yoy in 2QFY25



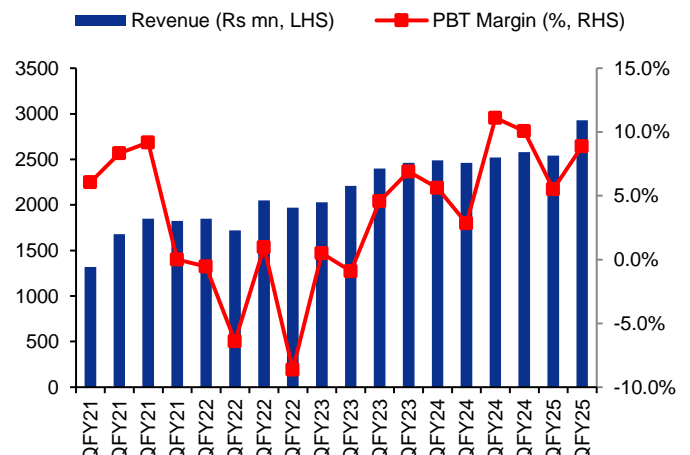
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Africa sales decline by 22% yoy in 2QFY25



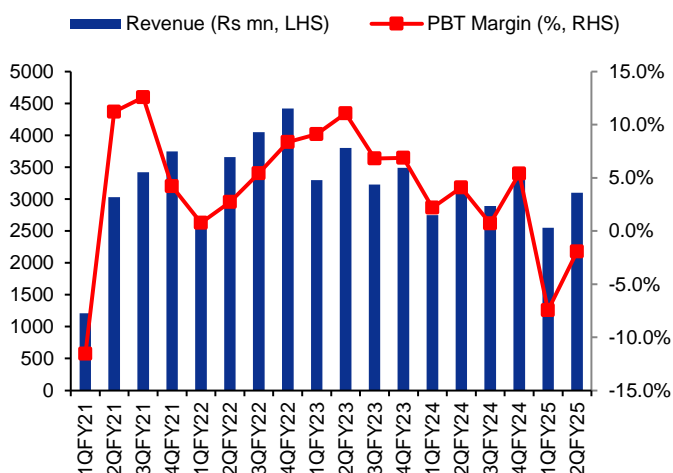
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Middle East sales grew by 19% yoy in 2QFY25



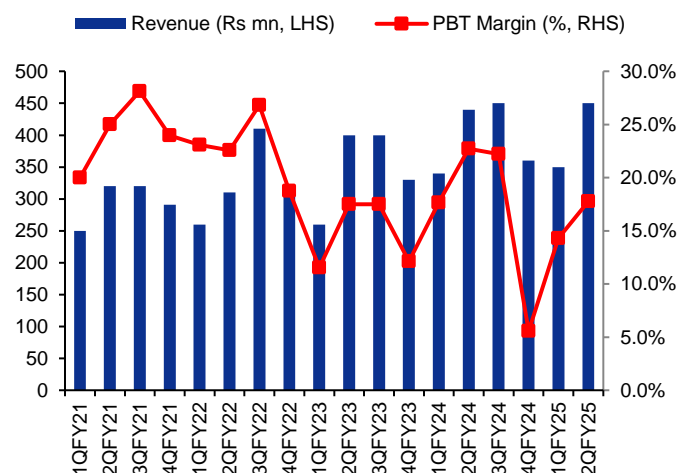
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Asia sales decline by 2.5% yoy in 2QFY25



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: South Pacific sales grew by 2.5% yoy in 2QFY25



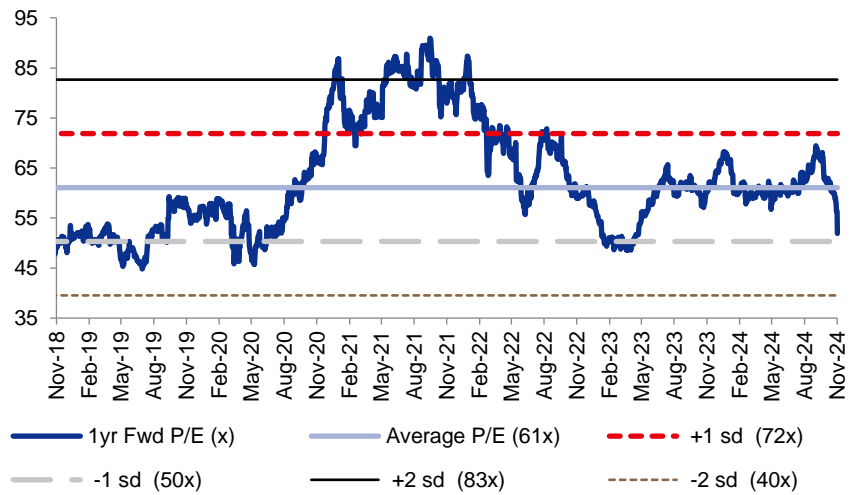
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	3,78,518	3,63,093	(4.1)	4,12,390	3,80,324	(7.8)	4,50,959	4,12,767	(8.5)
EBITDA	74,987	63,820	(14.9)	76,477	68,016	(11.1)	81,469	73,821	(9.4)
EBITDA Margin (%)	19.8	17.6	-223bp	18.5	17.9	-66bp	18.1	17.9	-18bp
Net Profit	54,024	45,593	(15.6)	54,404	48,120	(11.6)	57,281	51,672	(9.8)
EPS	56.3	47.5	(15.6)	56.7	50.2	(11.5)	59.7	53.9	(9.8)

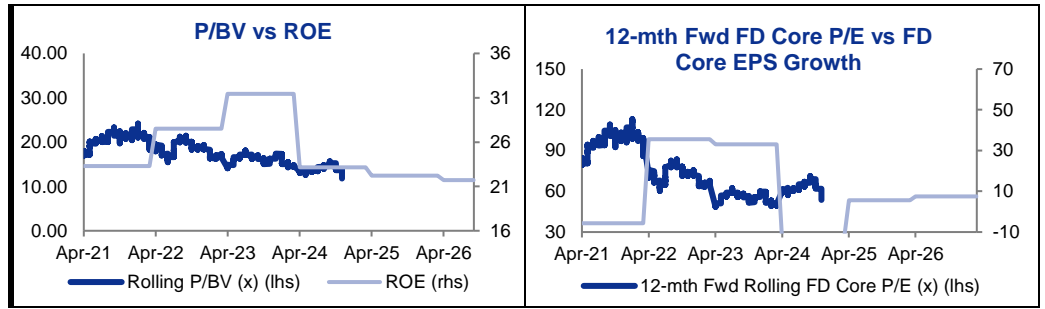
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Asian Paint's one-year forward P/E trades close to the -1SD level



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	363,093	380,324	412,767
Gross Profit	133,321	154,045	151,258	158,929	172,701
Operating EBITDA	62,598	75,850	63,820	68,016	73,821
Depreciation And Amortisation	(8,580)	(8,530)	(9,344)	(9,875)	(10,471)
Operating EBIT	54,018	67,320	54,476	58,142	63,351
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	59,686	63,612	68,878
Exceptional Items	(489)				
Pre-tax Profit	55,950	72,148	59,686	63,612	68,878
Taxation	(14,935)	(17,901)	(14,393)	(15,792)	(17,406)
Exceptional Income - post-tax					
Profit After Tax	41,015	54,247	45,293	47,820	51,472
Minority Interests	50	355	300	300	200
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	41,065	54,602	45,593	48,120	51,672
Recurring Net Profit	41,423	54,602	45,593	48,120	51,672
Fully Diluted Recurring Net Profit	41,423	54,602	45,593	48,120	51,672

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	62,598	75,850	63,820	68,016	73,821
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,602)	891	(2,048)	(908)	(8,521)
(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)	(14,393)	(15,792)	(17,406)
Cashflow From Operations	42,617	56,788	45,298	49,006	45,183
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)	(25,055)	(26,566)	(28,284)
Preferred Dividends					
Other Financing Cashflow	(3,128)	6,315	(682)	(682)	(682)
Cash Flow From Financing	(19,031)	(18,925)	(25,737)	(27,248)	(28,966)
Total Cash Generated	140	4,309	1,153	3,839	(1,244)
Free Cashflow To Equity	22,628	28,651	26,890	31,087	27,722
Free Cashflow To Firm	20,615	25,285	28,972	33,399	30,434

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	44,027	47,866	46,622
Total Debtors	46,391	48,908	51,056	54,696	61,518
Inventories	62,106	59,234	59,576	59,802	64,481
Total Other Current Assets	30,340	35,696	35,696	35,696	35,696
Total Current Assets	174,246	186,713	190,355	198,060	208,317
Fixed Assets	65,616	94,258	110,614	126,439	141,668
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			505	525	567
Total Non-current Assets	83,548	112,295	129,155	145,001	160,272
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	74,712	77,604	80,448
Other Current Liabilities	742	625			
Total Current Liabilities	79,815	87,760	87,959	90,851	93,695
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	6,262	6,347	6,526
Total Liabilities	94,077	105,396	105,717	108,696	111,718
Shareholders Equity	159,922	187,283	206,539	226,812	249,017
Minority Interests	4,537	6,954	7,254	7,554	7,854
Total Equity	164,459	194,237	213,793	234,365	256,871

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	18.5%	2.9%	2.3%	4.7%	8.5%
Operating EBITDA Growth	30.3%	21.2%	(15.9%)	6.6%	8.5%
Operating EBITDA Margin	18.2%	21.4%	17.6%	17.9%	17.9%
Net Cash Per Share (Rs)	16.77	18.90	20.10	24.11	22.81
BVPS (Rs)	166.72	195.25	215.32	236.46	259.61
Gross Interest Cover	37.40	32.81	26.17	25.15	23.36
Effective Tax Rate	26.7%	24.8%	24.1%	24.8%	25.3%
Net Dividend Payout Ratio	46.6%	56.1%	55.0%	55.2%	54.7%
Accounts Receivables Days	45.05	49.00	50.24	50.75	51.38
Inventory Days	106.65	110.23	102.36	98.40	94.48
Accounts Payables Days	111.74	128.71	128.02	125.56	120.15
ROIC (%)	39.1%	40.1%	29.1%	28.5%	27.8%
ROCE (%)	31.4%	33.7%	24.2%	23.8%	23.9%
Return On Average Assets	16.0%	17.8%	13.0%	12.8%	12.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

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.