



TM

09 May 2024

Asian Paints Ltd

Volume growth holding up; brand spend to aid market share

RESULT UPDATE

Sector: Paints **Rating:** BUY
CMP: Rs 2,716 **Target Price:** Rs 3,280

Stock Info

Sensex/Nifty	72,404/ 21,957
Bloomberg	APNT IN
Equity shares (mn)	959.20
52-wk High/Low	Rs 3567/2705
Face value	Rs 1
M-Cap	Rs 2604bn/US\$ 32bn
3-m Avg volume	US\$ 46.7mn

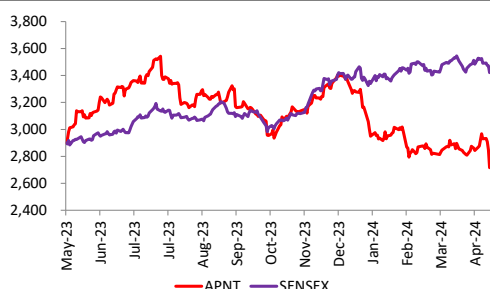
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Sales	3,54,947	3,84,715	4,27,119
PAT	54,039	54,684	59,136
EPS (Rs)	56.3	57.0	61.7
PE (x)	48.2	47.6	44.1
EV/EBITDA (x)	33.9	32.8	29.7
P/BV (x)	13.9	12.5	11.2
EV/Sales	7.3	6.7	6.0
RoE (%)	31.1	27.6	26.8
RoCE (%)	33.5	29.3	28.7
NWC (days)	72	68	66
Net gearing (x)	(0.2)	(0.2)	(0.2)

Shareholding Pattern (%)

	Mar 24	Dec 23	Sep 23
Promoter	52.6	52.6	52.6
—Pledged	-	-	-
FII	15.9	17.3	17.7
DII	17.4	16.3	15.8
Others	14.1	13.8	13.9

Stock Performance (1-year)



Asian Paints Ltd (APNT IN) delivered weaker-than-expected 4QFY24 results. Volume growth was sturdy at 10% YoY, inline with our estimate. However, consolidated revenue decline of c.1% YoY was below our estimates, impacted by (1) price cuts of c.3.7% and (2) adverse product mix due to downtrading in premium segment. Gross margin (GPM) expanded strongly by c.120bps YoY on the back of benign raw material costs and sourcing/formulation efficiencies. However, operating margin (OPM) decline of c.180bps YoY was significantly below our estimate, impacted mainly by a sharp step-up in marketing (A&P) spend.

Management highlighted a rural demand resurgence witnessed in April (rural growth was weak in 4Q24). With the projects/institutional business growing well, APNT also expects government business to pick up post-election. While the company sees a negative product mix of 5-6% persisting going forward, it expects benign input costs to continue to benefit GPMs (FY24 expansion of 475bps YoY). Management indicated that it will continue to ramp up A&P/brand-building spends over the next few quarters, prioritizing marketing spend over price cuts. However, APNT reiterated its OPM guidance of 18-20% (FY24 OPM expansion of 320bps YoY), and expects A&P cost at 3-5% of sales. We maintain BUY rating on APNT with a lower target price of Rs 3,280 (21% upside) with 5% EPS CAGR over FY24E-FY26E.

Other businesses: Kitchen/bath business sales were +3%/-8% YoY. White Teak/Weatherseal sales expanded 33%/63% YoY. International sales grew 2% YoY (ex-Nepal sales grew in double digits), with strong growth in Africa, while Nepal and Bangladesh were impacted. Auto/industrial business sales grew 10%/8% YoY.

Our view: We expect APNT to continue to deliver strong double-digit volume growth in FY25E, driven by (1) a rural demand rebound, (2) strong growth in low-economy categories (economy emulsions) and (3) product launch initiatives in premium and luxury segments. While we factor in negative price/mix to limit value growth near-term, we expect GPMs to continue to benefit from benign input costs and sourcing/formulation efficiencies that APNT is able to extract on an ongoing basis.

We had already been factoring in a meaningful decline in the company's OPMs over FY25E (front-loaded in 1HFY25E) due to adverse mix, price cuts, higher A&P/brand-building/distribution/overhead costs as APNT gears up to counter the new competitor. With these results, we believe the brand-building initiatives (and associated costs) have been advanced to 4QFY24 itself. We expect these initiatives to support APNT's strong volume growth trajectory and dominant market share position. APNT is well-placed to counter the threat from new competitors and cement its leadership position in the industry with high volume growth, best-in-class OPMs and robust cash flows. We view APNT as a prime beneficiary of long-term growth in the industry, aided by strong moats and sustained high growth of the organized segment. We lower our FY25E/FY26E EPS estimates by c.3%/4% respectively to account for the 4QFY24 results and OPM pressure over FY25E/FY26E.

Valuation and risks: We maintain BUY rating on APNT with a lower target price of Rs 3,280 (vs Rs 3,395 earlier) (21% upside), valuing the stock at 53x FY26E P/E with 5% EPS CAGR over FY24E-FY26E. Key risks: volume growth and OPMs slipping on rising competitive intensity.

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Exhibit 1: Result snapshot

Standalone (Rs m)	4QFY24	4QFY23	YoY	Consolidated (Rs m)	4QFY24	4QFY23	YoY
Net sales	74,439	75,892	-1.9%	Net sales	87,015	87,509	-0.6%
Other operating income	370	368	0.7%	Other operating income	293	365	-19.7%
Revenue from operations	74,809	76,260	-1.9%	Revenue from operations	87,308	87,873	-0.6%
Cost of goods sold	41,382	43,296	-4.4%	Cost of goods sold	49,147	50,532	-2.7%
<i>as % of sales</i>	<i>55.3%</i>	<i>56.8%</i>	<i>-146bps</i>	<i>as % of sales</i>	<i>56.3%</i>	<i>57.5%</i>	<i>-121bps</i>
Gross profit	33,428	32,964	1.4%	Gross profit	38,160	37,341	2.2%
<i>Gross profit margin (%)</i>	<i>44.7%</i>	<i>43.2%</i>	<i>146bps</i>	<i>Gross profit margin (%)</i>	<i>43.7%</i>	<i>42.5%</i>	<i>121bps</i>
Employee cost	4,659	3,855	20.9%	Employee cost	6,142	5,220	17.6%
<i>as % of sales</i>	<i>6.2%</i>	<i>5.1%</i>	<i>117bps</i>	<i>as % of sales</i>	<i>7.0%</i>	<i>5.9%</i>	<i>109bps</i>
Other expenditure	13,281	11,634	14.2%	Other expenditure	15,105	13,473	12.1%
<i>as % of sales</i>	<i>17.8%</i>	<i>15.3%</i>	<i>250bps</i>	<i>as % of sales</i>	<i>17.3%</i>	<i>15.3%</i>	<i>197bps</i>
EBITDA	15,488	17,476	-11.4%	EBITDA	16,914	18,648	-9.3%
<i>EBITDA margin (%)</i>	<i>20.7%</i>	<i>22.9%</i>	<i>-221bps</i>	<i>EBITDA margin (%)</i>	<i>19.4%</i>	<i>21.2%</i>	<i>-185bps</i>
Depreciation	1,935	1,937	-0.1%	Depreciation	2,256	2,202	2.5%
Interest	306	249	22.8%	Interest	541	389	39.0%
Other income	1,974	1,250	57.9%	Other income	2,124	1,288	64.9%
PBT	15,221	16,540	-8.0%	PBT	16,241	17,345	-6.4%
Tax	3,690	4,203	-12.2%	Tax	4,051	4,514	-10.3%
<i>Tax rate (%)</i>	<i>24.2%</i>	<i>25.4%</i>	<i>-117bps</i>	<i>Tax rate (%)</i>	<i>24.9%</i>	<i>26.0%</i>	<i>-108bps</i>
Adjusted PAT	11,531	12,337	-6.5%	Minority interest	186	243	-23.4%
<i>PAT margin (%)</i>	<i>15.4%</i>	<i>16.2%</i>	<i>-76bps</i>	Adjusted PAT	12,004	12,588	-4.6%
Extraordinary item	(563)	-		<i>PAT margin (%)</i>	<i>13.7%</i>	<i>14.3%</i>	<i>-58bps</i>
Reported PAT	12,094	12,337	-2.0%	Extraordinary item	(563)	247	
				Reported PAT	12,567	12,341	1.8%

Source: Company, Systematix Institutional Research

Exhibit 2: Change in Estimates

	Old estimates		Revised estimates		Variation (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net sales	3,87,702	4,30,408	3,84,715	4,27,119	-0.8%	-0.8%
EBITDA	81,146	89,831	78,315	86,265	-3.5%	-4.0%
EBITDA margin	20.9%	20.9%	20.4%	20.2%		
Adj. PAT	56,421	61,379	54,684	59,136	-3.1%	-3.7%

Source: Company, Systematix Institutional Research

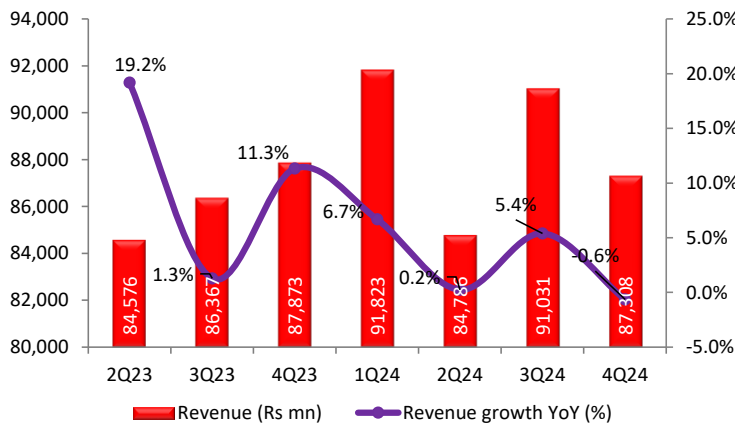
Key takeaways from the earnings call

- Demand outlook

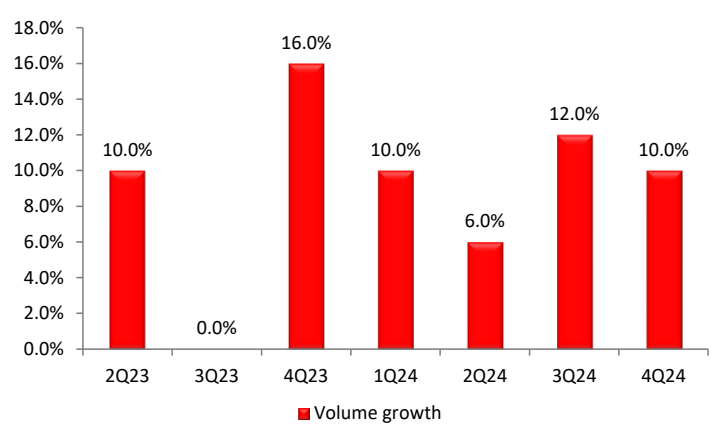
- **Volume growth:** Management expects double-digit volume growth in decorative segment in FY25 (9% YoY in FY24), driven by (1) rural demand rebound, (2) strong growth in bottom-of-pyramid categories like latex paints (seeing strong volumes building), and (3) product launch initiatives in premium and luxury segments.
- **Rural resurgence:** APNT is witnessing a demand resurgence taking place in rural markets in April. In 4Q24 the company saw weak demand from rural markets, which grew slower vs urban.

- **Urban markets:** Volume growth in urban markets grew in double digits in 4Q24.
- **Product mix** was led by economy segment (c.70% of the market); the premium segment saw consumer downtrading mainly in rural markets. Management expects downtrading to ease in FY25, with a resurgence in the premium segment.
- **Projects/institutional business** continued to grow well; APNT saw a slowdown in Government business, which management expects will ease post-elections.
- **Waterproofing** continued to deliver strong growth.
- **Latex paints:** Management highlighted the launch of latex paints, which are being offered at similar pricing as distemper. APNT is seeing strong volumes building up in this category.
- **Home décor (c.4% of decorative sales)**
 - APNT's Beautiful Homes service is growing at 70-80% p.a.
 - The company has 60 Beautiful Homes stores, and plans to expand to 85-90 stores in FY25, and 150-200 stores over the next 5 years.
 - APNT plans to expand the store size from current c.6k sq.ft. to more than 10-15k.
 - The company plans to synergize the kitchen and bath businesses with the home décor umbrella, and will try to build the branding for these businesses.
- **Pricing**
 - The company took a price cut of c.3.7% in 4QFY24, impacting value growth.
 - Management expects volume-value difference of 5-6% to persist going forward.
- **Margins**
 - 4Q24 GPM was driven by benign raw material costs and sourcing/formulation efficiencies. Management expects raw material costs to remain benign over 1QFY25.
 - APNT significantly increased its A&P/brand-building spending in 4Q24. It plans to continue to ramp up investments in A&P and brand-building over the next few quarters, prioritizing marketing spend over price reductions.
 - Management maintains its OPM guidance of 18-20%, and expects A&P to range between 3-5% of sales going forward.
 - APNT expects the VAM/ VAE domestic production supply to boost OPMs by 1-1.5% driven by cost advantage. It also expects increased innovation in paint properties due to the project.
- **Distribution**
 - APNT added 10k retail touchpoints in FY24 (to reach 163k), expects to continue to add 10k annually going forward.

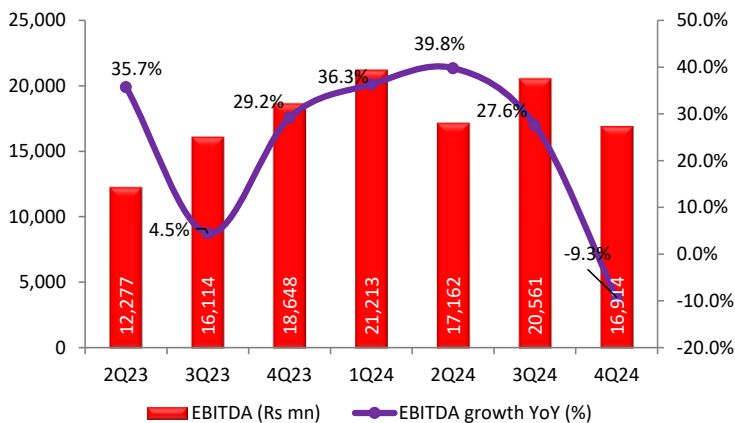
- The company is looking to improve dealer RoI through investment in forecasting abilities, by deploying AI and algorithmic models.
- **New product innovations** made up 11% of sales each in 4Q and FY24.
- **Capex projects**
 - Greenfield water-based plant in Madhya Pradesh: Land acquisition completed, completion targeted by CY28.
 - Brownfield capacity expansion: Khandala, Kasna expansions completed. Ankleshwar, Mysuru on track for completion in CY24.
 - Backward integration (VAM/VAE, white cement): VAM/VAE plant completion targeted in CY26. White cement plant commissioning targeted in CY25
- **International business**
 - International sales ex-Nepal grew in double digits in 4Q24, with strong growth in Africa (Ethiopia) and Middle East (UAE). Nepal, Bangladesh were impacted while Sri Lanka recovered
 - Management expects key markets of Nepal (APNT is no. 1 player) and Egypt to continue to witness macro headwinds, impacting near-term performance.

Exhibit 3: Revenue growth trend (consolidated)

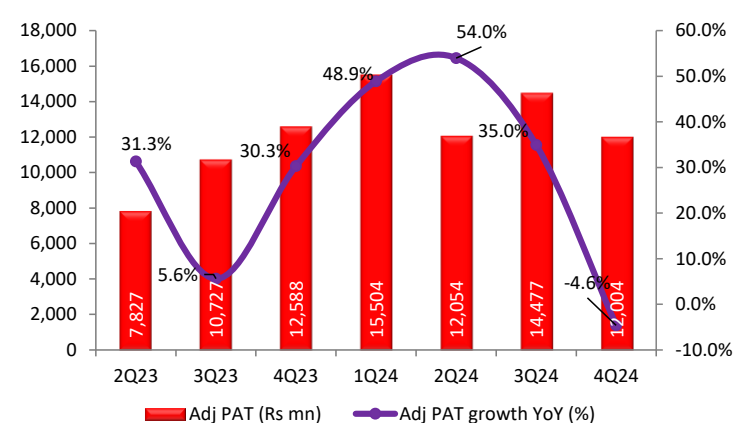
Source: Company, Systematix Institutional Research

Exhibit 4: Volume growth trend

Source: Company, Systematix Institutional Research

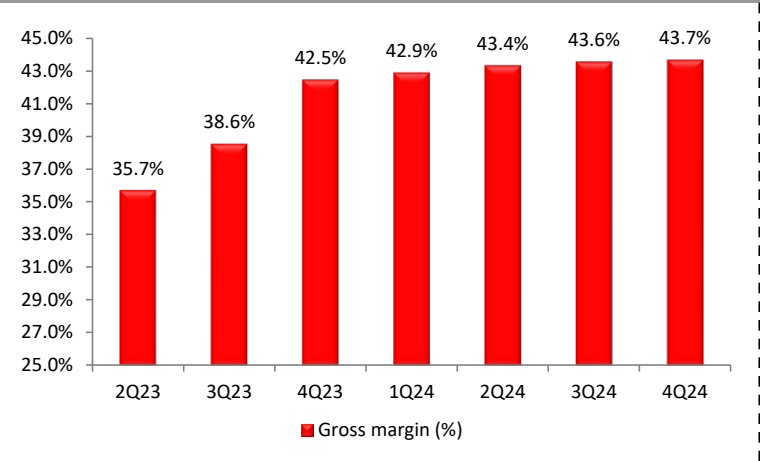
Exhibit 5: EBITDA growth trend

Source: Company, Systematix Institutional Research

Exhibit 6: Adjusted PAT growth trend

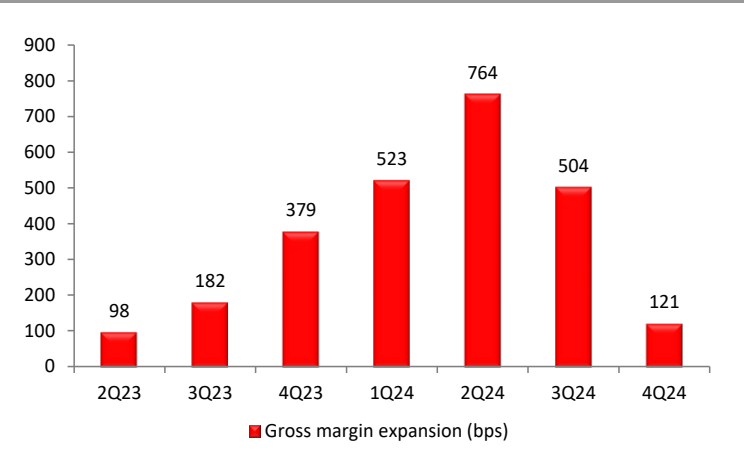
Source: Company, Systematix Institutional Research

Exhibit 7: Gross margin trend



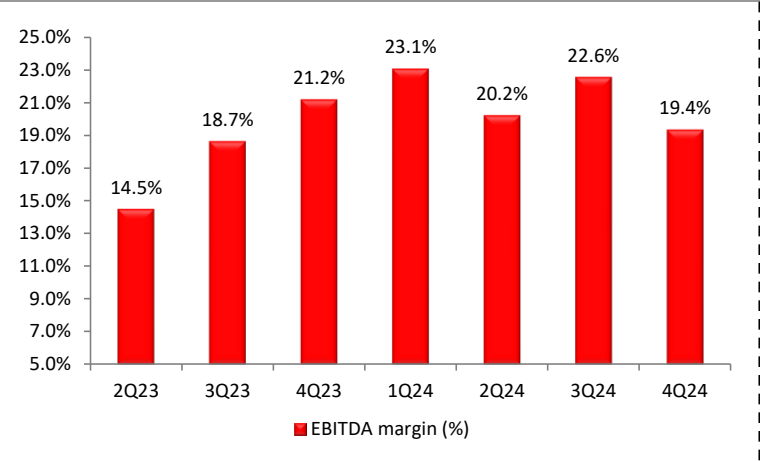
Source: Company, Systematix Institutional Research

Exhibit 8: Gross margin change trend



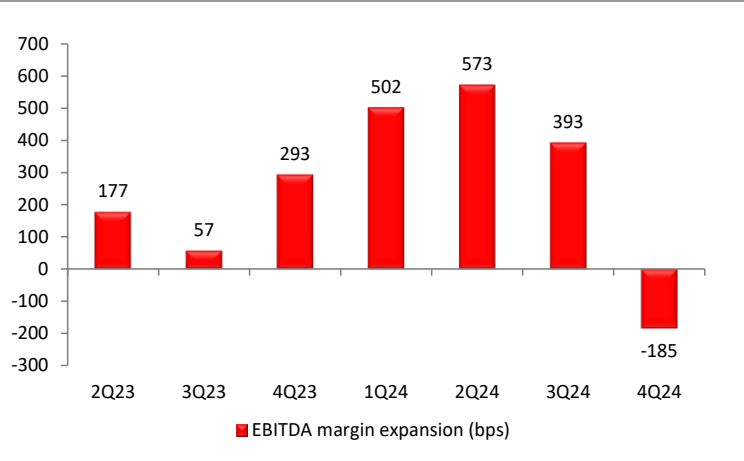
Source: Company, Systematix Institutional Research

Exhibit 9: EBITDA margin trend



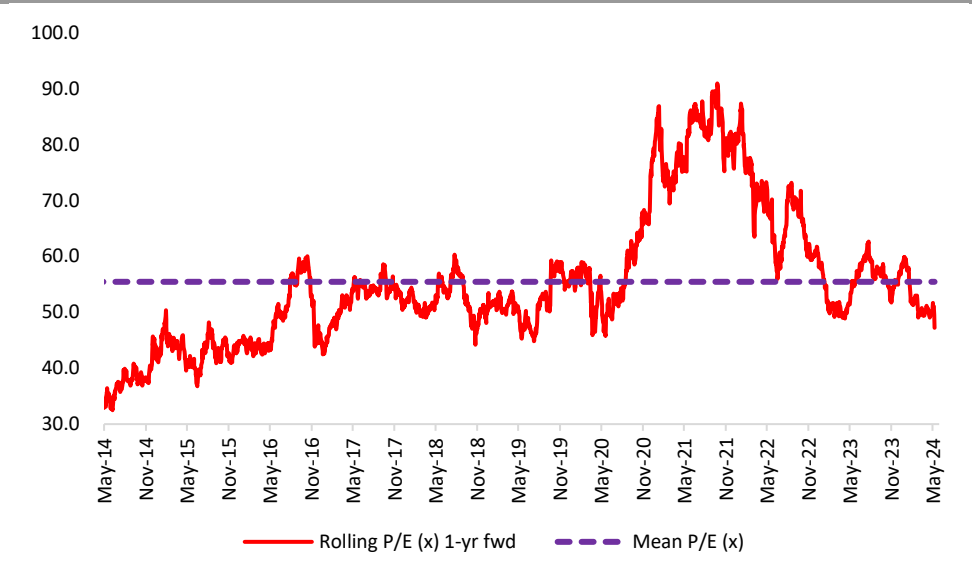
Source: Company, Systematix Institutional Research

Exhibit 10: EBITDA margin change trend



Source: Company, Systematix Institutional Research

Exhibit 11: APNT 1-year forward P/E (x)



Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,91,013	3,44,886	3,54,947	3,84,715	4,27,119
Gross profit	1,08,005	1,33,321	1,54,045	1,68,910	1,89,663
GP margin (%)	37.1%	38.7%	43.4%	43.9%	44.4%
Operating profit	48,036	62,598	75,850	78,315	86,265
OP margin (%)	16.5%	18.2%	21.4%	20.4%	20.2%
Depreciation	8,164	8,580	8,530	10,512	12,637
EBIT	39,873	54,018	67,320	67,803	73,629
Interest expense	954	1,445	2,052	2,364	2,931
Other income	3,800	3,865	6,880	7,568	8,324
Profit before tax	42,719	56,439	72,148	73,007	79,022
Taxes	11,029	14,935	18,464	18,713	20,243
Tax rate (%)	25.8%	26.5%	25.6%	25.6%	25.6%
Minority/Associates	-227	50	355	391	357
Adj. PAT	31,463	41,553	54,039	54,684	59,136
Exceptional loss	(1,157)	(489)	563	-	-
Net profit	30,306	41,065	54,602	54,684	59,136
Adj. EPS	32.8	43.3	56.3	57.0	61.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	959	959	959	959	959
Reserves	1,41,032	1,63,500	1,93,278	2,16,223	2,41,057
Debt	7,757	9,722	11,071	12,571	14,071
Deferred tax liab (net)					
Other non current liabilities	6,027	8,145	13,703	13,703	13,703
Total liabilities	1,55,774	1,82,326	2,19,012	2,43,457	2,69,791
Fixed Asset	57,026	65,616	94,258	1,08,746	1,21,110
Investments	10,668	15,647	13,845	13,845	13,845
Other Non-current Assets	10,366	11,179	15,534	15,534	15,534
Inventories	61,530	62,106	59,234	62,094	68,938
Sundry debtors	38,714	46,369	48,891	51,937	56,491
Cash & equivalents	30,450	35,408	42,874	50,105	57,399
Loans and Advances	21,089	21,654	24,605	25,835	27,127
Sundry creditors	41,643	36,354	38,313	42,581	48,444
Other current liabilities	32,427	39,300	41,916	42,058	42,208
Total Assets	1,55,774	1,82,326	2,19,012	2,43,457	2,69,791

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	41,877	56,888	73,478	74,470	80,558
Depreciation	8,164	8,580	8,530	10,512	12,637
Tax paid	(11,757)	(14,943)	(18,351)	(18,713)	(20,243)
Working capital Δ	(27,952)	(7,721)	101	(2,726)	(6,677)
Other operating items	(467)	(870)	(2,722)	(5,203)	(5,394)
Operating cashflow	9,865	41,934	61,036	58,339	60,881
Capital expenditure	(4,987)	(12,475)	(21,939)	(25,000)	(25,000)
Free cash flow	4,878	29,460	39,097	33,339	35,881
Equity raised	-	-	-	-	-
Investments	973	16	(2,530)	-	-
Debt financing/disposal	3,247	2,382	867	1,500	1,500
Interest Paid	(936)	(1,420)	(1,906)	(2,364)	(2,931)
Dividends paid	(17,628)	(19,361)	(25,509)	(32,811)	(35,482)
Other items	(1,962)	(3,291)	(3,985)	7,568	8,324
Net Δ in cash	(11,428)	7,787	6,035	7,231	7,293

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Revenue growth (%)	34.0	18.5	2.9	8.4	11.0
Op profit growth (%)	-1.1	30.3	21.2	3.3	10.2
Adj Net profit growth (%)	0.2	32.1	30.0	1.2	8.1
OPM (%)	16.5	18.2	21.4	20.4	20.2
Net profit margin (%)	10.8	12.0	15.2	14.2	13.8
RoCE (%)	26.8	32.0	33.5	29.3	28.7
RoNW (%)	23.6	27.9	31.1	27.6	26.8
EPS Adj (Rs)	32.8	43.3	56.3	57.0	61.7
DPS (Rs)	19.2	25.7	33.3	34.2	37.0
BVPS (Rs)	144.0	166.7	195.2	218.1	242.7
Debtor days	49	49	50	49	48
Inventory days	77	66	61	59	59
Creditor days	52	38	39	40	41
P/E (x)	82.8	62.7	48.2	47.6	44.1
P/B (x)	18.9	16.3	13.9	12.5	11.2
EV/EBITDA (x)	53.8	41.2	33.9	32.8	29.7

Source: Company, Systematix Institutional Research

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