

ICICI Securities Limited  
is the author and  
distributor of this report

Q3FY23 result review  
and earnings/TP  
revision

## Paints

Target price: Rs2,900

### Earnings revision

(%)	FY23E	FY24E
Sales	↓ 5.0	↓ 6.5
EBITDA	↓ 4.3	↓ 6.0
PAT	↓ 4.9	↓ 7.4

### Target price revision

Rs2,900 from Rs3.200

### Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	52.6	52.6	52.6
Institutional investors	26.9	27.3	27.2
MFs and other	3.5	3.7	3.7
Banks, FI's, Insurance co	4.1	4.9	4.9
FII's	19.3	18.7	18.6
Others	20.5	20.1	20.2

Source: BSE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	41.6	45.6	4.0
Environment	7.5	17.6	10.2
Social	32.4	34.2	1.8
Governance	84.9	84.9	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA


**ICICI Securities**

## Asian Paints

**HOLD**  
Maintained

### Multiple triggers for structural correction in P/E multiples

**Rs2,868**

Double digit volume growth in Dec'22 is just optically higher considering there was high inventory in trade in Dec'21 and primary sales were weak in Dec'22, in our view. While there was a lot of noise in Q3FY23 due to prolonged monsoon, early Diwali, correction in RM prices and strong base quarter, we note three structural factors which indicate the P/E multiples are likely to decline as (1) the portfolio mix continues to deteriorate with weaker consumer sentiment, higher sales of putty, primer as well as institutional/ projects sales. If we assume a P/E of ~20x for institutional & putty/primer business, paints segment is valued at P/E > 70x for FY24E, (2) the EBITDA margin range is targeted at 17-20%, much lower than historical 21-22%. Structural reduction of 250bps in EBITDA margin is likely to hurt DCF valuation by 8-10% and (3) with Asian Paints reaching 150,000 outlets, there is limited scope to expand distribution. Average annual revenue/outlet is now lower than Rs1.4mn. It is tough to run a store profitably with such small turnover which indicates Asian Paints has hit the ceiling to add new stores (in near term in our view). **HOLD maintained.**

- **Q3FY23 results:** APNT reported consolidated revenue, EBITDA and PAT growth of 1.3%, 4.5% and 5.7%, respectively YoY. Standalone revenue, EBITDA and PAT growth (Adjusting for dividend from PPG-AP) was 0.4%, 1.8% and 2.2%, respectively, YoY. Domestic decorative volumes were flat YoY. Projects and Industrial paints reported strong growth led by recovery in economy and automotive production. With correction in input prices, gross margin improved 182bps and EBITDA margin expanded 57bps YoY.
- **Down-trading in market to be DCF negative:** Asian Paints' revenue mix has steadily deteriorated in past four quarters led by multiple factors such as inflation, steep price hikes and higher revenue saliency of institutional sales (15-20% of total sales now). With higher sales of putty as well as primers, the portfolio is already moving towards commodity products. If the revenue mix continues to remain inferior in medium term, it is DCF negative in our view.
- **Targeted EBITDA margin range of 17-20% lower than history:** Historically Asian Paints has been able to report EBITDA margin of 21-22%. However, it now wants to operate with EBITDA margin range of 17-20%. (in anticipation of rising competitive pressure in paint industry). We believe a structural reduction of ~250bps in EBITDA margin is likely to impact DCF valuation by 8-10%.

Market Cap	Rs2749bn/US\$33.8bn
Reuters/Bloomberg	ASPN.BO/APNT IN
Shares Outstanding (mn)	959.2
52-week Range (Rs)	3571/2580
Free Float (%)	47.4
FII (%)	18.6
Daily Volume (US\$'000)	43,828
Absolute Return 3m (%)	(10.7)
Absolute Return 12m (%)	(12.0)
Sensex Return 3m (%)	3.1
Sensex Return 12m (%)	2.6

Year to March (Cons)	FY22	FY23E	FY24E	FY25E
Net Revenue (Rs mn)	2,91,013	3,45,500	3,92,341	4,42,831
Net Profit (Rs mn)	28,183	40,278	46,209	52,124
Dil. EPS (Rs)	32.9	42.0	48.2	54.3
% Chg YoY	0.3	27.5	14.7	12.8
P/E (x)	87.1	68.3	59.5	52.8
CEPS (Rs)	41.5	51.5	59.7	68.2
EV/EBITDA (x)	57.4	45.5	39.0	33.8
Dividend Yield (%)	0.7	0.8	0.8	0.9
RoCE (%)	21.0	24.3	24.7	24.6
RoE (%)	23.8	27.3	27.4	26.9

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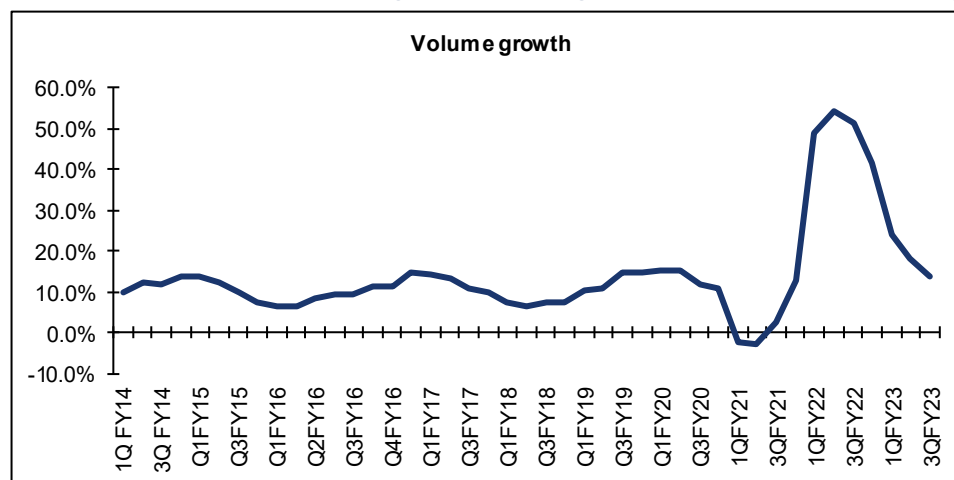
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- **Limited scope to expand distribution, in our view:** With APNT reaching to 150,000 outlets, we note the average revenue/ outlet is now just Rs1.36mn. ((FY22 sales – 25% B2B sales)/150,000). At annual revenues of just Rs1.36mn, it is difficult to run a store profitably. Hence, we believe APNT has probably hit the ceiling in terms of store addition (at-least in near term).
- **Retain HOLD:** We model sales and earnings CAGR of 15% and 18.2% respectively, for FY22-FY25E. Maintain HOLD with a revised DCF-based TP of Rs2,900 (was Rs3,200 earlier). Lower-than-expected urban recovery and potential execution challenges in new categories are key risks. Upside risks are steep correction in raw material prices and lower than expected competitive intensity.

**Table 1: Q3FY23 consolidated financial performance**

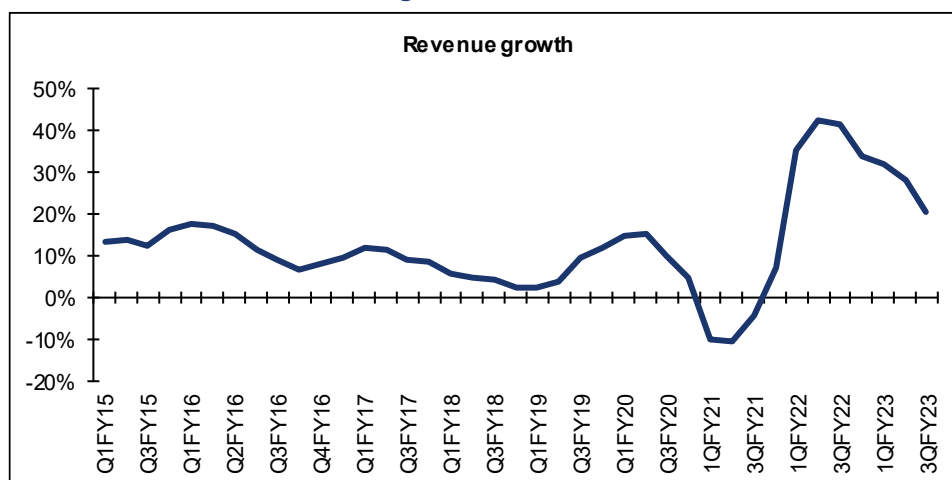
Rs mn	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ
<b>Net revenues</b>	<b>86,367</b>	<b>85,272</b>	<b>1.3</b>	<b>84,576</b>	<b>2.1</b>
Raw materials	53,058	53,933	(1.6)	54,356	(2.4)
% of sales	61.4%	63.2%	-182 bps	64.3%	-284 bps
Employee costs	5,038	4,557	10.6	5,126	(1.7)
% of sales	5.8%	5.3%	49 bps	6.1%	-23 bps
Other expenditure	12,158	11,359	7.0	12,816	(5.1)
% of sales	14.1%	13.3%	76 bps	15.2%	-108 bps
<b>Total expenditure</b>	<b>70,253</b>	<b>69,849</b>	<b>0.6</b>	<b>72,299</b>	<b>(2.8)</b>
<b>EBITDA</b>	<b>16,114</b>	<b>15,423</b>	<b>4.5</b>	<b>12,277</b>	<b>31.3</b>
<b>EBITDA margin (%)</b>	<b>18.7%</b>	<b>18.1%</b>	<b>57 bps</b>	<b>14.5%</b>	<b>414 bps</b>
Other income	866	718	20.5	955	(9.3)
<b>PBDIT</b>	<b>16,980</b>	<b>16,141</b>	<b>5.2</b>	<b>13,232</b>	<b>28.3</b>
Depreciation	2,141	2,079	3.0	2,157	(0.8)
<b>PBIT</b>	<b>14,839</b>	<b>14,062</b>	<b>5.5</b>	<b>11,075</b>	<b>34.0</b>
Interest	414	275	50.8	354	16.9
<b>PBT</b>	<b>14,426</b>	<b>13,788</b>	<b>4.6</b>	<b>10,721</b>	<b>34.6</b>
Tax	3,811	3,624	5.2	2,903	31.3
% of PBT	26%	26%	0.5	27%	(2.4)
<b>PAT before associates &amp; MI</b>	<b>10,614</b>	<b>10,163</b>	<b>4.4</b>	<b>7,817</b>	<b>35.8</b>
<b>Share of profit from associates</b>	<b>357</b>	<b>150</b>	<b>138.3</b>	<b>221</b>	<b>61.4</b>
Minority interest	201	128	57.4	220	(8.6)
<b>Extraordinary</b>	<b>(298)</b>	<b>(598)</b>	<b>(50.3)</b>	<b>784</b>	<b>(138.0)</b>
<b>PAT</b>	<b>10,472</b>	<b>9,587</b>	<b>9.2</b>	<b>8,602</b>	<b>21.7</b>
<b>Adj. PAT</b>	<b>10,770</b>	<b>10,185</b>	<b>5.7</b>	<b>7,819</b>	<b>37.7</b>

Source: Company data, I-Sec research

**Chart 1: Normalised volume growth (average of past 4 quarter volume growth)**

Source: Company data, I-Sec research

Chart 2: Normalised revenue growth\*



Source: Company data, I-Sec research \*TTM revenue growth

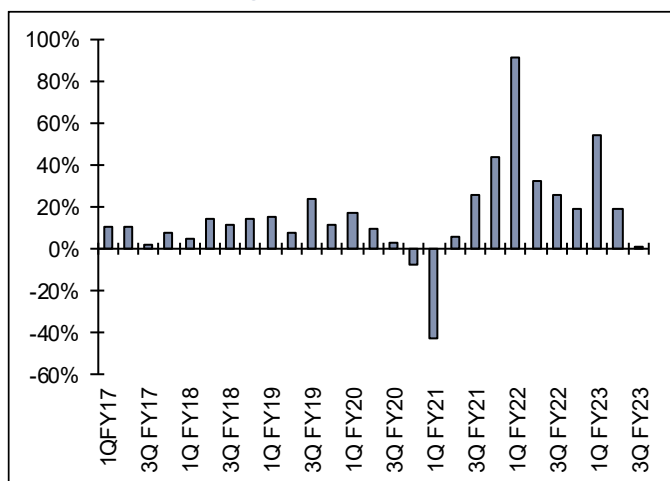
Table 2: Q3FY23 standalone financial performance

Rs mn	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ
<b>Net revenues</b>	<b>75,218</b>	<b>74,911</b>	<b>0.4</b>	<b>73,443</b>	<b>2.4</b>
Raw materials	45,943	46,824	(1.9)	47,092	(2.4)
% of sales	61%	63%	-143 bps	64%	-304 bps
Employee costs	3,792	3,378	12.2	3,857	(1.7)
% of sales	5%	5%	53 bps	5%	-21 bps
Other expenditure	10,536	10,027	5.1	11,340	(7.1)
% of sales	14%	13%	62 bps	15%	-143 bps
<b>Total expenditure</b>	<b>60,271</b>	<b>60,230</b>	<b>0.1</b>	<b>62,288</b>	<b>(3.2)</b>
<b>EBITDA</b>	<b>14,948</b>	<b>14,682</b>	<b>1.8</b>	<b>11,156</b>	<b>34.0</b>
<b>EBITDA margin (%)</b>	<b>19.9%</b>	<b>19.6%</b>	<b>27 bps</b>	<b>15.2%</b>	<b>468 bps</b>
Other income	1,193	1,047	13.9	1,171	1.9
<b>PBDIT</b>	<b>16,141</b>	<b>15,729</b>	<b>2.6</b>	<b>12,327</b>	<b>30.9</b>
Depreciation	1,891	1,840	2.8	1,890	0.1
<b>PBIT</b>	<b>14,249</b>	<b>13,889</b>	<b>2.6</b>	<b>10,437</b>	<b>36.5</b>
Interest	247	215	15.1	235	5.2
<b>PBT</b>	<b>14,002</b>	<b>13,674</b>	<b>2.4</b>	<b>10,202</b>	<b>37.2</b>
Tax	3,571	3,472	2.9	2,569	39.0
% of PBT	25.5%	25.4%	0.5	25%	1.3
<b>PAT</b>	<b>10,431</b>	<b>10,203</b>	<b>2.2</b>	<b>7,633</b>	<b>36.7</b>
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Extraordinary items	575	(511)	(212.7)	587	(2.0)
PAT after MI	11,006	9,692	13.6	8,220	33.9
<b>Adj. PAT</b>	<b>10,431</b>	<b>10,203</b>	<b>2.2</b>	<b>7,633</b>	<b>36.7</b>

Source: Company data, I-Sec research

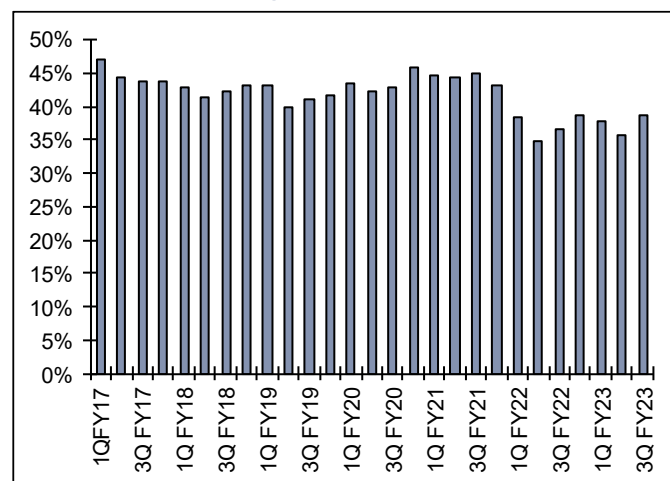
## Operational highlights – Quarterly (Consolidated)

### Chart 3: Revenue growth (YoY)



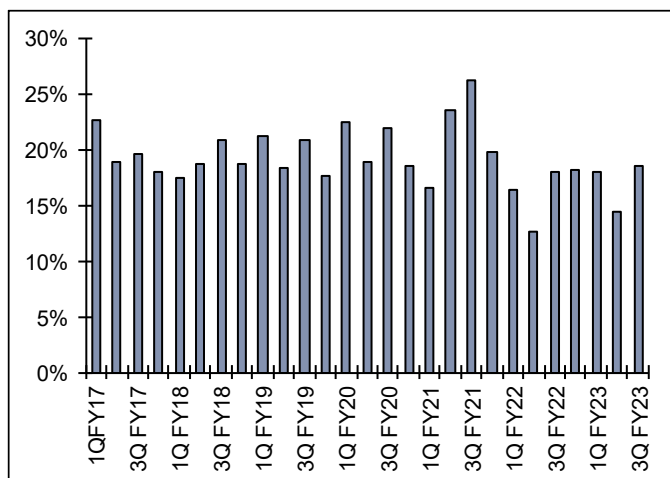
Source: Company data, I-Sec research

### Chart 4: Gross margin



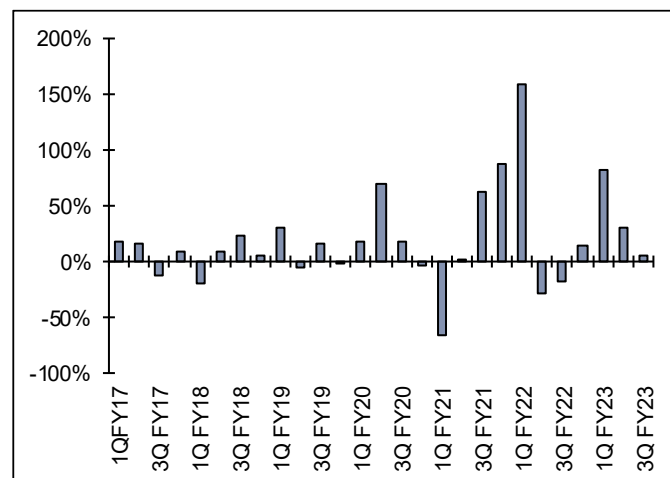
Source: Company data, I-Sec research

### Chart 5: EBITDA margin



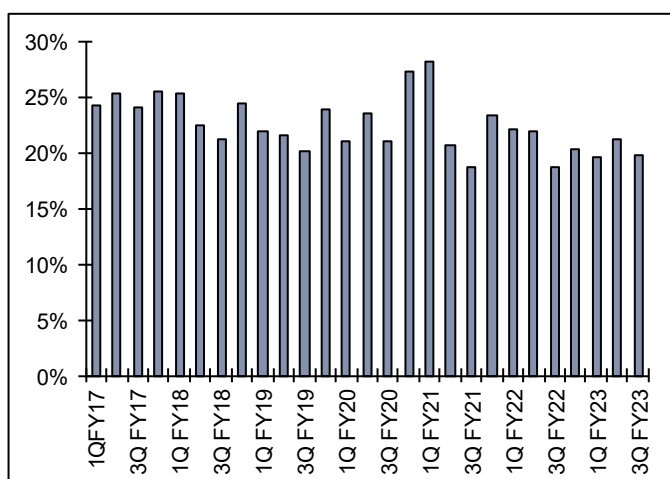
Source: Company data, I-Sec research

### Chart 6: PAT growth (YoY)



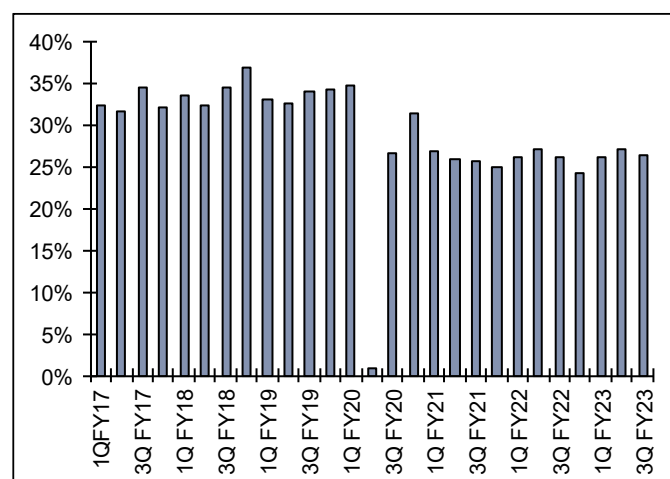
Source: Company data, I-Sec research

### Chart 7: Staff cost and other expenditure as % of net sales



Source: Company data, I-Sec research

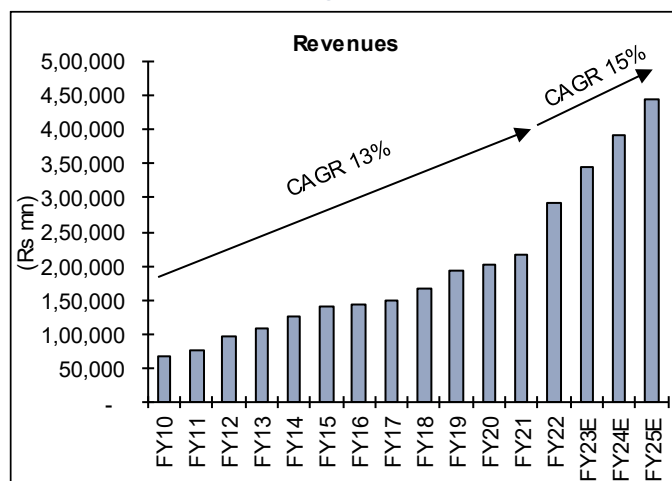
### Chart 8: Effective tax rate



Source: Company data, I-Sec research

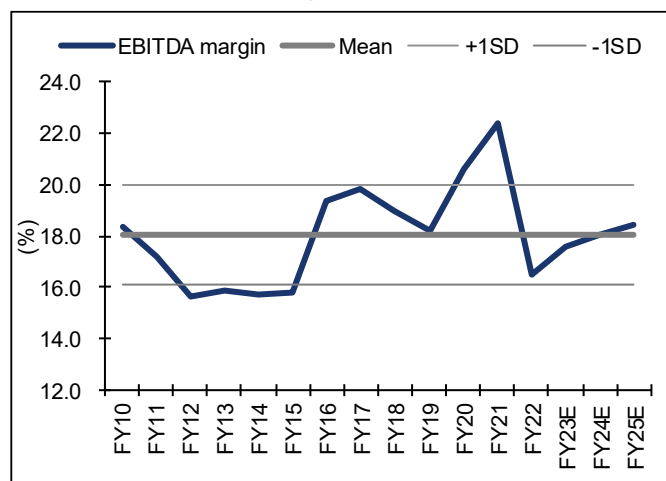
## Operational highlights - Annual

Chart 9: Revenues and growth rates



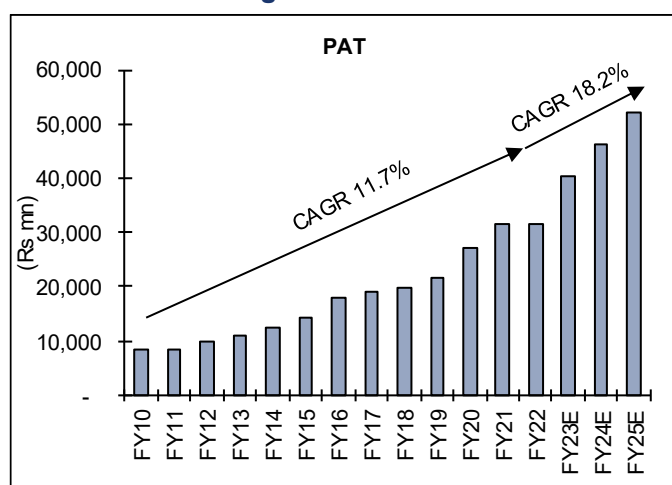
Source: Company data, I-Sec research

Chart 10: EBITDA margin



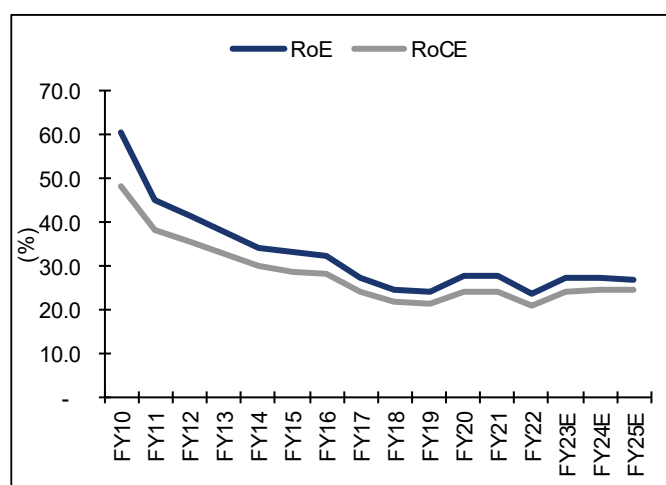
Source: Company data, I-Sec research

Chart 11: PAT and growth rates



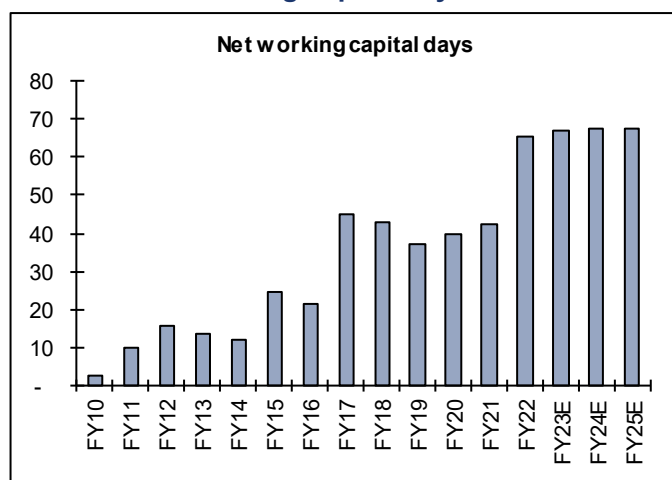
Source: Company data, I-Sec research

Chart 12: RoE &amp; RoCE



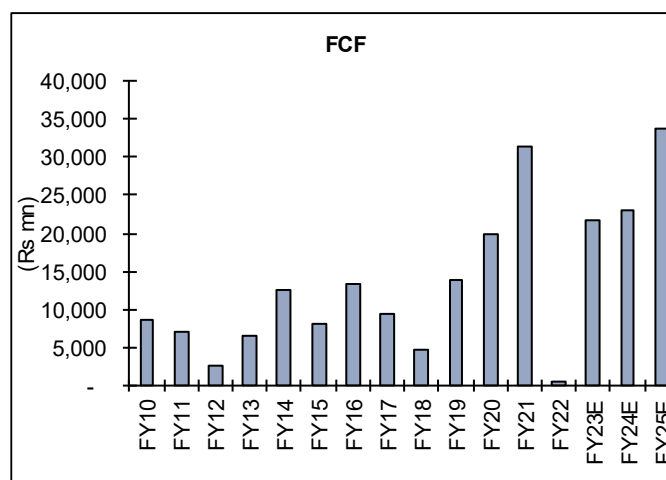
Source: Company data, I-Sec research

Chart 13: Net working capital days



Source: Company data, I-Sec research

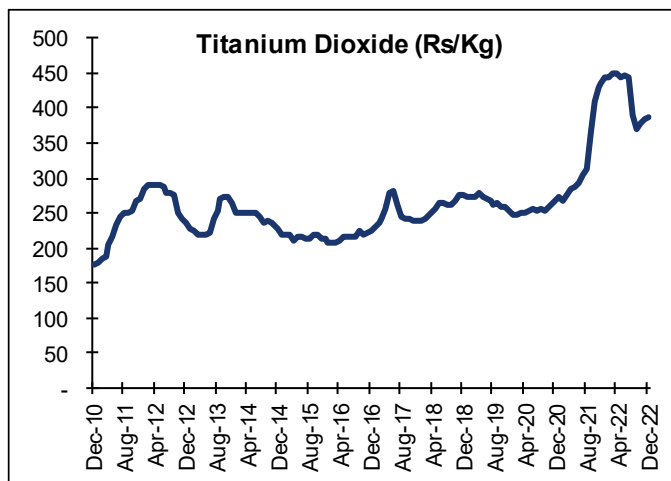
Chart 14: Free cash-flow



Source: Company data, I-Sec research

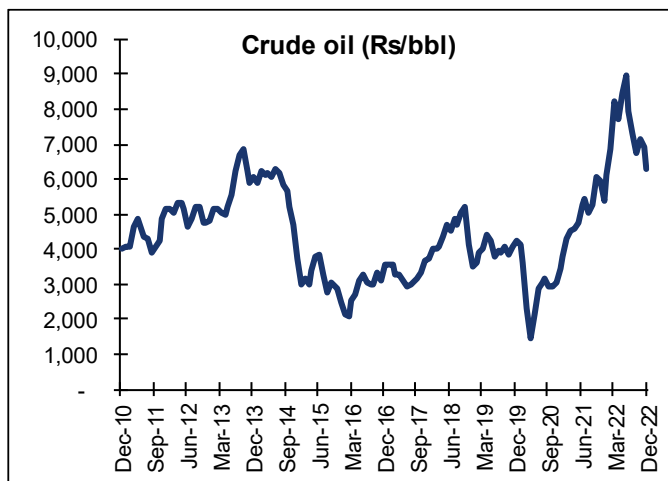
## Key raw material prices

**Chart 15: Titanium di-oxide**



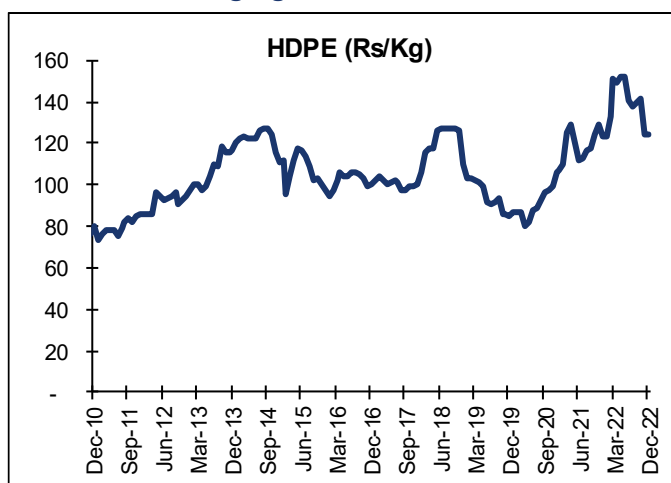
Source: Company data, I-Sec research

**Chart 16: Crude oil**



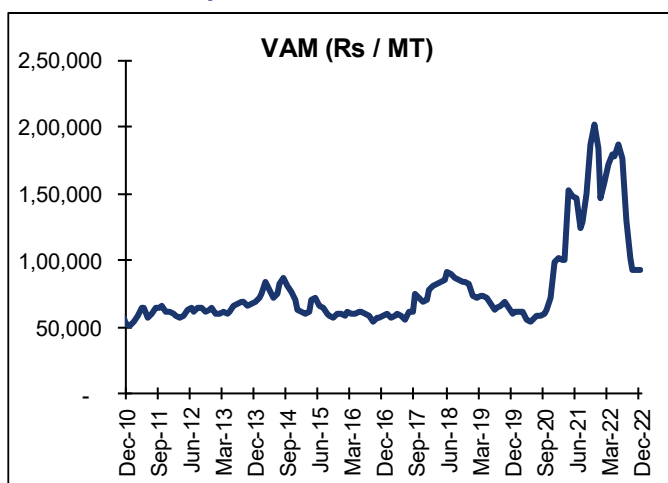
Source: Company data, I-Sec research

**Chart 17: Packaging material - HPDE**



Source: Company data, I-Sec research

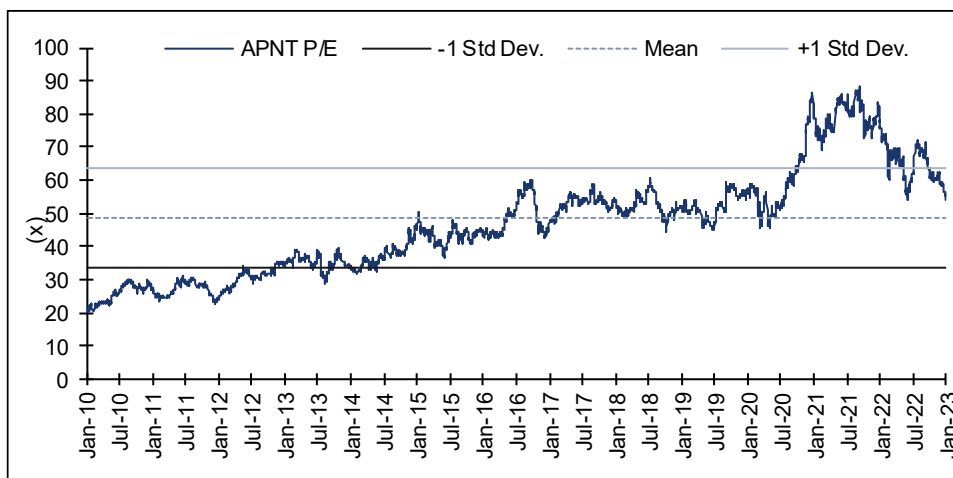
**Chart 18: VAM prices**



Source: Company data, I-Sec research

## Highlights from Q3FY23 results and conference call

- Asian Paints reported flat volumes YoY. Prolonged monsoon in Oct'22, limited time interval between end of monsoon season and Diwali and high inventory up-stocking by the trade in base quarter impacted the volume growth.
- There was muted growth across the markets. The growth was muted across T1/T2 as well as T3/T4 markets. The company reported double digit volume growth across markets in Dec'22.
- The mix has continued to deteriorate during Q3FY23 and it impacted the revenue growth too.
- The revenue growth has remained strong in Projects business. The company has made further inroads in Institutional business.
- Asian Paints has added 10,000 outlets in 9MFY23 and has also added 10,000 outlets in FY22. It has presence in 150,000 outlets now.
- 'The safe painting services' as well as 'Trusted contractor services' are available now across 834 towns.
- As of now, there are 38 Beautiful home stores functional across metros and T1/T2 cities.
- White Teak and Weatherseal have continued to report strong growth due to integration with Beautiful Homes stores network.
- Kitchen and Bath business reported revenue decline of 7% and 11% YoY, respectively.
- International business reported revenue growth of 2% largely led by price hikes. There was more impact in Sri Lanka.
- Industrial businesses (PPG-AP, AP-PPG) continued to report strong growth led by recovery in automotive and industrial segments.
- There was material deflation of 7% and it led to EBITDA margin expansion. As full benefit of correction in raw material prices will likely be realized in Q4FY23 results, there is possibility of margin expansion in Q4FY23.
- The company is hopeful of maintaining double digit growth in coming quarters. Strong growth in Projects & Institutional business (15-20% of net sales) as well as Industrial segment is likely to continue. However, cold wave in North India may impact the growth in short term.
- The current capacity utilization is 70-75%.
- The company expects the EBITDA margin to be in band of 17-20% in medium-long term.
- While it expects the volume growth to be in double digits, it expects the explosive volume growth may not sustain but expects healthy volume growth to sustain.

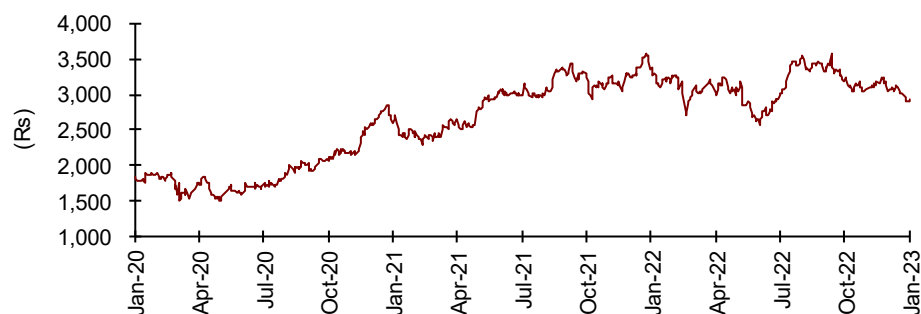
**Chart 19: Mean PE and Standard deviations**

Source: Bloomberg and I-Sec research

## Risks

- Volatility in raw material prices is a risk to our estimates. Input cost increases led by high crude prices and a weak INR could put pressure on the margins in the short term due to lag in price action.
- Significant increase in competitive pressures.
- Lower-than-expected urban and rural recovery.
- Potential execution challenges in new categories.
- Steep correction in input prices will be upside risk to our estimates.

## Price chart



Source: Bloomberg



## Financial summary (consolidated)

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>2,91,013</b>	<b>3,45,500</b>	<b>3,92,341</b>	<b>4,42,831</b>
<b>Operating Expenses</b>	<b>2,42,977</b>	<b>2,84,735</b>	<b>3,21,466</b>	<b>3,61,281</b>
<b>EBITDA</b>	<b>48,036</b>	<b>60,765</b>	<b>70,875</b>	<b>81,550</b>
% margins	16.5%	17.6%	18.1%	18.4%
Depreciation & Amortisation	8,164	9,063	10,990	13,199
Gross Interest	954	1,437	1,437	1,597
Other Income	3,800	3,714	3,468	3,079
<b>Recurring PBT</b>	<b>42,719</b>	<b>53,979</b>	<b>61,916</b>	<b>69,833</b>
Less: Taxes	11,029	13,603	15,603	17,598
Less: Minority Interest	93	99	105	111
<b>Net Income (Reported)</b>	<b>31,596</b>	<b>40,278</b>	<b>46,209</b>	<b>52,124</b>
Extraordinaries (Net)	3,414	-	-	-
<b>Recurring Net Income</b>	<b>28,183</b>	<b>40,278</b>	<b>46,209</b>	<b>52,124</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Assets</b>				
Total Current Assets	1,29,716	1,44,869	1,64,473	1,94,190
of which cash & cash eqv.	8,643	1,127	1,244	9,954
Total Current Liabilities & Provisions	68,399	79,314	89,740	1,01,073
<b>Net Current Assets</b>	<b>61,318</b>	<b>65,556</b>	<b>74,733</b>	<b>93,117</b>
Investments	40,413	48,413	48,413	48,413
Net Fixed Assets	52,762	59,699	73,710	82,511
Capital Work-in-Progress	4,264	4,264	4,264	4,264
Goodwill	2,429	2,429	2,429	2,429
<b>Total Assets</b>	<b>1,61,186</b>	<b>1,80,361</b>	<b>2,03,549</b>	<b>2,30,734</b>
<b>Liabilities</b>				
<b>Borrowings</b>	15,966	15,966	15,966	15,966
Deferred Tax Liability	3,228	3,228	3,228	3,228
Minority Interest	3,875	3,875	3,875	3,875
Equity Share Capital	959	959	959	959
Face Value per share (Rs)	1	1	1	2
Reserves & Surplus*	1,37,156	1,56,332	1,79,520	2,06,705
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>1,38,116</b>	<b>1,57,291</b>	<b>1,80,479</b>	<b>2,07,664</b>
<b>Total Liabilities</b>	<b>1,61,186</b>	<b>1,80,361</b>	<b>2,03,549</b>	<b>2,30,734</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Operating Cashflow</b>	<b>36,346</b>	<b>49,340</b>	<b>57,198</b>	<b>65,323</b>
Working Capital				
Changes	(27,189)	(11,754)	(9,061)	(9,673)
Capital Commitments	(7,801)	(16,000)	(25,000)	(22,000)
<b>Free Cashflow</b>	<b>1,356</b>	<b>21,586</b>	<b>23,137</b>	<b>33,650</b>
<b>Cashflow from Investing Activities</b>	<b>15,728</b>	<b>(8,000)</b>	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	4,719	-	-	-
Dividend paid	(18,369)	(21,102)	(23,021)	(24,939)
<b>Change in Deferred Tax Liability</b>	<b>(785)</b>	-	-	-
<b>Chg. in Cash &amp; Bank balances</b>	<b>2,650</b>	<b>(7,516)</b>	<b>116</b>	<b>8,711</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Per Share Data (Rs)</b>				
EPS	32.9	42.0	48.2	54.3
Cash EPS	41.5	51.5	59.7	68.2
Dividend per share (DPS)	19.2	22.0	24.0	26.0
Book Value per share (BV)	144.0	164.0	188.2	216.5
<b>Growth (%)</b>				
Net Sales	34.0	18.7	13.6	12.9
EBITDA	-1.1	26.5	16.6	15.1
PAT	0.3	27.5	14.7	12.8
Cash EPS	0.4	24.1	15.9	14.2
<b>Valuation Ratios (x)</b>				
P/E	87.1	68.3	59.5	52.8
P/CEPS	69.0	55.6	48.0	42.0
P/BV	19.9	17.5	15.2	13.2
EV / EBITDA	57.4	45.5	39.0	33.8
EV / Sales	9.5	8.0	7.0	6.2
<b>Operating Ratios</b>				
Raw Material / Sales (%)	62.9	60.5	60.1	59.9
Employee cost / Sales (%)	6.1	6.9	6.9	6.9
SG&A / Sales (%)	14.5	15.0	14.9	14.8
Other Income / PBT (%)	8.9	6.9	5.6	4.4
Effective Tax Rate (%)	25.8	25.2	25.2	25.2
Working Capital (days)	65.2	67.1	67.4	67.6
Inventory Turnover (days)	76.1	76.1	76.1	76.1
Receivables (days)	47.9	47.9	47.9	47.9
Payables (days)	81.9	81.9	81.9	81.9
Net D/E Ratio (x)	0.1	0.1	0.1	0.1
<b>Profitability Ratios (%)</b>				
Net Income Margins	10.9	11.7	11.8	11.8
RoACE	21.0	24.3	24.7	24.6
RoAE	23.8	27.3	27.4	26.9
Dividend Payout	58.0	52.3	49.7	47.7
Dividend Yield	0.7	0.8	0.8	0.9
EBITDA Margins	16.5	17.6	18.1	18.4

Source: Company data, I-Sec research

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