

Robust Operating Performance; Maintain BUY

Est. Vs. Actual for Q4FY23: Revenue – **INLINE**; EBITDA – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q4FY23

FY24E/FY25E – Revenue: 0%/1%; **EBITDA:** 3%/5%; **PAT:** 2%/5%

Recommendation Rationale

- **Strong result for the quarter; encouraging growth guidance:** Asian Paints (APNT) reported a strong result which was led by a 16% volume growth and robust operating performance. This was on account of better-than-expected expansion in the company's gross margins due to benign raw material prices (4% deflation in raw materials in Q4). For FY24, the management has guided continued double-digit volume growth in the decorative business despite the high base of FY23 and maintains its EBITDA margins guidance of 18-20% as it expects raw material prices to remain stable.
- Despite competition brewing up in the sector, we remain positive on Asian Paint's long-term outlook as it has all the right ingredients to perform well than its peers moving ahead. A few of the factors are – 1) Improvement in demand especially in rural, 2) Fall in raw material prices and efficient sourcing ability will drive margins going ahead, 3) Recent announcement of expanding manufacturing footprint and backward integration in key raw materials. These are steps in the right direction to achieve the next leg of growth and protect its market share in the long run.

Sector Outlook: Positive

Company Outlook & Guidance: We maintain a **BUY** rating on the stock as we increase our FY24/25E PAT estimates by 2%/5%.

Current Valuation: 53x FY25 EPS (Earlier Valuation: 53x Dec-24 EPS).

Current TP: Rs 3,450/share (Earlier TP: Rs 3,200/share).

Recommendation With an 11% upside from the CMP, we maintain our long-term BUY rating on the stock.

Alternative BUY Ideas from our Sector Coverage: [HUL \(TP – Rs 2,800\)](#); [Nestle \(TP – Rs 23,000\)](#); [VBL \(TP – Rs 1600\)](#); [Britannia \(TP – Rs 5300\)](#)

Financial Performance: Asian Paints Q4FY23 print was strong across all fronts, especially on the margins. Its consolidated revenue grew 11% YoY to Rs 8,787 Cr. Volume grew by 16% YoY (~14% for FY23), led by the economy and waterproofing range, premium and luxury (grew double-digit) recovered after two-quarters of subdued performance. Gross/EBITDA margins improved 380/293bps YoY (up 393/256 bps QoQ) to 42.5%/21.2% owing to deflation in key raw material prices (-4% material deflation in Q4FY23). Adj. PAT was up 30% YoY while reported PAT was up 45% YoY to Rs 1,234 Cr. The company declared a final dividend of Rs 21.25/share (Total dividend of Rs 25.65/ share).

Outlook: APNT's overall Q4FY23 performance was impressive as the demand environment started to see improvement but its sustenance will be the key for driving volume growth going ahead as possible El-Nino impact may derail the overall rural growth. However, we are positive on a mid-to long-term outlook, which is supported by – 1) The management's guidance of continued double-digit volume growth in FY24, 2) Fall in raw material prices, which is a big positive that will drive margin expansion going ahead, 3) The company's recent announcement of setting up (a) Vinyl Acetate Ethylene Emulsion (VAE) & Vinyl Acetate Monomer (VAM) plant, (b) White Cement facility through Joint Venture in Fujairah, UAE to backwards integrate key raw materials, 4) Expanding manufacturing footprint by more than 30-40% and d) Launching differentiated next-gen nano-technology-based emulsions and waterproofing products steps in the right direction to achieve the next leg of growth and protect the company's market share in the long run.

Valuation & Recommendation: We estimate Revenue/EBITDA/PAT CAGR of 17%/25%/20% over FY22-25E based on the above thesis and we maintain our long-term BUY rating with a revised TP of Rs 3,450/ share. **The TP implies an upside of 10% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q4FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	8,787	1.7	11.3	8,769	0.2
EBITDA	1,865	15.7	29.2	1,717	8.6
EBITDA Margin	21.2	256 bps	293 bps	19.6	164 bps
Net Profit	1,234	15.1	45.1	1,139	8.3
EPS (Rs)	12.9	15.1	45.1	11.9	8.3

Source: Company, Axis Research

(CMP as of 11th May'23)

CMP (Rs)	3138
Upside /Downside (%)	10%
High/Low (Rs)	3590/2560
Market cap (Cr)	301,053
Avg. daily vol. (6m)Shrs.	1051411
No. of shares (Cr)	95

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	52.63	52.63	52.63
FII's	18.56	18.11	17.01
MFs / UTI	3.7	3.67	3.7
FIs / Banks	0.07	0.09	0.09
Others	25.11	25.59	26.66

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	34,489	40,339	46,829
EBITDA	6,260	8,125	9,483
Net Profit	4,155	5,456	6,312
EPS (Rs.)	43.3	56.9	65.8
PER (x)	72.5	55.2	47.7
EV/EBITDA (x)	47.8	36.8	31.4
P/BV (x)	19.5	17.1	15.0
ROE (%)	26.9	31.1	31.5

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-0.3%	1.3%
EBITDA	3.0%	5.4%
PAT	2.1%	4.7%

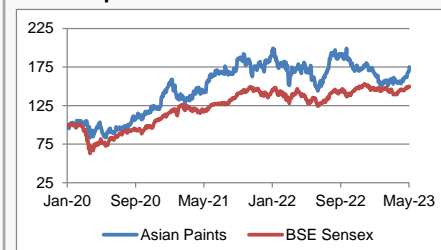
ESG disclosure Score**

Environmental Disclosure	29.69
Social Disclosure Score	50.27
Governance Disclosure	84.86
Total ESG Disclosure Score	54.97

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Highlights

- **Management guidance continues at double-digit volume growth:** The management has guided continued double-digit volume growth on the back of distribution expansion and scaling up new categories (Home Décor). Asian Paints added 15-20 thousand dealer touch points in FY23 to reach 1.5 Lc dealer touch-points (the highest in the industry). Furthermore, it plans to add 10-15 thousand dealer touchpoints in FY24.
- **Margins to improve** – The management highlighted it witnessed 4% material deflation in Q4FY23. Furthermore, in FY24, it expects raw material prices to remain stable. It has also maintained the EBITDA margin guidance of 18-20% for FY24.
- **Home Improvement:** Asian Paints is present across Kitchen (Sleek), Bath (Ess Ess), Flooring, Furnishings, Doors & Windows (Weatherseal), and Lighting (White Teak) through its 50 Beautiful Home stores and dealer network. Sleek and Ess Ess were impacted due to overall pressure in the retail segment. The recently-acquired (Apr'22) Weatherseal and Lightning are seeing strong traction as it leverages APNT Beautiful Home stores and dealer network. In FY23, White Teak has reported Rs 36 Cr in revenue (Rs 109 Cr in FY23, up 89% YoY) while Weatherseal reported Rs 10 Cr in revenue (Rs 25 Cr in FY23, up 94% YoY). **The management intends to increase the share of Home Décor business to 8-10% of overall Deco-Business by FY26.**
- **Other Business – International Business:** The company's International Business declined ~3% YoY on account of the challenging business environment in Sri Lanka, Nepal and Bangladesh. **PPG-AP (Auto)** was up 8% YoY (27% in FY23) led by price realisation and sequential demand improvement in the Auto, GI, and Refinish segments. **AP-PPG (General Industrial)** continued its strong momentum, up 17% YoY (28% in FY24).
- **CAPEX** – Cpex for FY24 stands at Rs 2000 Cr

Key Risks to our Estimates and TP

- Increase in competitive intensity, prolonged demand recovery, RM inflation

Change in Estimates

	Old		New		% Change	
	FY24E	FY24E	FY24E	FY25E	FY24E	FY25E
Revenue	40,452	46,218	40,339	46,829	-0.3%	1.3%
EBDTDA	7,889	9,001	8,125	9,483	3.0%	5.4%
PAT	5,343	6,031	5,456	6,312	2.1%	4.7%
EPS	55.7	62.9	56.9	65.8	2.1%	4.7%

Source: Company, Axis Securities

Results Review

(Rs Cr)	4QFY22	3QFY23	Axis sec Est	4QFY23	YoY growth %	QoQ growth %	Axis Sec Var (%)
Domestic Deco Volume Growth (%)	8%	0%	10%	16%	8 bps	16 bps	6 bps
Sales	7,893	8,637	8,769	8,787	11.3	2	0.2
Gross Profits	3,055	3,331	3,551	3,734	22.2	12	5.1
Gross Margin (%)	38.7	38.6	40.5	42.5	379 bps	393 bps	199 bps
Staff costs	457	504	519	522	14.1	4	0.6
Other operating expenses	1,154	1,216	1,316	1,347	16.8	11	2.4
EBITDA	1,443	1,611	1,717	1,865	29.2	16	8.6
EBITDA margin (%)	18.3	18.7	19.6	21.2	293 bps	256 bps	164 bps
Depreciation	205	214	223	220	7.3	3	(1.1)
Interest	23	41	43	39	72.0	(6)	(9.6)
Other Income	80	87	88	105	31.2	22	19.3
PBT	1,296	1,443	1,539	1,711	32.0	19	11.2
Provision for Tax	315	381	400	451	43.3	18	12.8
Tax rate (%)	24.3	26.4	26.0	26.4	207 bps	-4 bps	38 bps
Reported PAT	850	1,073	1,139	1,234	45.1	15	8.3
EPS (Rs.)	8.9	11.2	11.9	12.9	45.1	15	8.3

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23	FY24E	FY25E
Net sales	29,101	34,489	40,339	46,829
Growth, %	34.0	18.5	17.0	16.1
Total income	29,101	34,489	40,339	46,829
Raw material expenses	-18,301	-21,157	-23,695	-27,487
Employee expenses	-1,787	-2,028	-2,434	-2,799
Other Operating expenses	-4,210	-5,044	-6,085	-7,061
EBITDA (Core)	4,804	6,260	8,125	9,483
Growth, %	(1.1)	30.3	29.8	16.7
Margin, %	16.5	18.2	20.1	20.3
Depreciation	-816	-858	-1,019	-1,239
EBIT	3,987	5,402	7,106	8,244
Growth, %	(1.9)	35.5	31.6	16.0
Margin, %	13.7	15.7	17.6	17.6
Interest paid	-95	-144	-150	-156
Pre-tax profit	4,188	5,689	7,464	8,626
Tax provided	-1,103	-1,494	-1,915	-2,216
Net Profit	3,031	4,106	5,456	6,312
Growth, %	0.2	32.1	31.3	15.7
Net Profit (adjusted)	315	416	546	631
Unadj. shares (Cr)	96	96	96	96

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY22	FY23E	FY24E	FY25E
Cash & bank	864	2,716	2,852	4,197
Debtors	3,874	3,402	3,979	4,619
Inventory	6,153	7,292	8,529	8,981
Loans & advances	0	0	0	0
Other current assets	2,874	2,874	2,874	2,874
Total current assets	13,765	16,284	18,234	20,671
Investments	3,248	3,341	3,440	3,543
Net fixed assets	5,945	5,887	6,869	7,830
Total assets	22,958	25,513	28,543	32,044
Current liabilities	76,609	84,318	92,690	1,01,976
Total current liabilities	76,609	84,318	92,690	1,01,976
Non-current liabilities	1,098	1,147	1,147	1,147
Total liabilities	8,759	9,579	10,416	11,345
Paid-up capital	96	96	96	96
Reserves & surplus	13,716	15,362	17,461	19,936
Shareholders' equity	14,199	15,934	18,126	20,699
Total equity & liabilities	22,958	25,513	28,543	32,044

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E	FY25E
Pre-tax profit	4,188	5,689	7,464	8,626
Depreciation	816	858	1,019	1,239
Chg in working capital	-2,659	153	-977	-163
Total tax paid	-1,181	-1,494	-1,915	-2,216
Cash flow from operating activities	1,164	5,206	5,591	7,486
Capital expenditure	-720	-800	-2,000	-2,200
Chg in investments	1,489	-94	-99	-103
Cash flow from investing activities	800	-800	-2,000	-2,200
Free cash flow	1,965	4,406	3,591	5,286
Equity raised/(repaid)	-288	0	0	0
Debt raised/(repaid)	435	0	0	0
Dividend (incl. tax)	-1,741	-2,460	-3,357	-3,837
Cash flow from financing activities	-1,683	-2,460	-3,357	-3,837
Net chg in cash	281	1,946	234	1,449
Opening cash balance	611	864	2,716	2,852
Closing cash balance	864	2,716	2,852	4,197

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY22	FY23E	FY24E	FY25E
Per Share data				
EPS (INR)	32.8	43.3	56.9	65.8
FDEPS (INR)	32.8	43.3	56.9	65.8
CEPS (INR)	42.5	52.8	67.5	78.7
CFPS (INR)	7.8	49.3	53.0	72.4
DPS (INR)	18.2	25.7	35.0	40.0
Return ratios				
Return on assets (%)	14.7	17.9	21.1	21.7
Return on equity (%)	22.8	26.9	31.1	31.5
Return on capital employed (%)	21.7	26.8	31.4	31.9
Turnover ratios				
Asset turnover (x)	2.9	3.1	3.4	3.5
Sales/Total assets (x)	1.3	1.4	1.5	1.5
Sales/Net FA (x)	4.9	5.8	6.3	6.4
Working capital/Sales (x)	0.2	0.1	0.2	0.1
Liquidity ratios				
Current ratio (x)	1.8	1.9	2.0	2.0
Quick ratio (x)	1.0	1.1	1.0	1.1
Interest cover (x)	41.8	37.4	47.3	52.8
Net debt/Equity (%)	(0.3)	(0.4)	(0.3)	(0.4)
Valuation				
PER (x)	95.7	72.5	55.2	47.7
Price/Book (x)	21.8	19.5	17.1	15.0
EV/Net sales (x)	10.3	8.7	7.4	6.4
EV/EBITDA (x)	62.7	47.8	36.8	31.4
EV/EBIT (x)	75.5	55.4	42.1	36.1

Source: Company, Axis Securities

Asian Paints Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-20	HOLD	1,890	Result Update
25-Jun-20	HOLD	1,796	Result Update
27-Jul-20	HOLD	1,796	Company Update
23-Oct-20	BUY	2,300	Result Update
22-Jan-21	HOLD	2,665	Result Update
13-May-21	BUY	2,810	Result Update
20-Jul-21	BUY	3,510	Result Update
22-Oct-21	BUY	3,300	Result Update
21-Jan-22	HOLD	3,200	Result Update
11-May-22	HOLD	3,200	Result Update
27-Jul-22	BUY	3,450	Result Update
21-Oct-22	BUY	3,500	Result Update
20-Jan-23	BUY	3,200	Result Update
12-May-23	BUY	3,450	Result Update

Source: Axis Securities

About the analyst**Analyst:** PreeyamTolia**Contact Details:** preeyam.tolia@axissecurities.in**Sector:** FMCG&Retail**Analyst Bio:** PreeyamTolia is MBA and CFA Level 1 and part of the Axis Securities Research Team.**Disclosures:**

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