Asian Paints

BUY

Paints | Q4FY24 Result Update

DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

Negative surprise at margin level, but attractive valuation; BUY

- **APL's Q4FY24 Revenue/APAT were in-line with our estimates. The company reported 1.9% value de-growth as a result of price pass on during the quarter and 10% volume growth in the decorative segment. Going ahead, volume growth would be a key driver for revenue growth.**
- **GM expanded by 180bps primarily led by softening of RM prices. Crude oil (1.9% YoY) and TiO2 (3.4%YoY) posted deflation during the quarter.**
- **On 4-Yr basis, APL reported 19.4/18.1% volume and value CAGR. We expect double digit volume growth in the long run from 1) industry growth, 2) strong leadership positioning 2) planned capacity addition over 4-5 years and 3) ongoing acquisitions.**
- **We downward revise our FY25/26E EPS estimates by 7.8/5.1% at Rs 56.6/63.6 to factor in Q4 performance, less room for price hikes and margin pressures. Upgrade to 'BUY' from Accumulate valuing at 52x FY26E and arrive at TP of Rs 3,305. Attractive valuations at CMP.**

EBITDA margin was a miss, revenue and APAT was in-line

Net Sales decreased 0.6% YoY to Rs 87.3bn, in-line with our estimate. Decorative business performance was impacted by sluggish demand, downtrading and 3.7% price reduction, posted 10% volume growth in Q4FY24. GM expanded by 120bps to 43.7% was partially offset by 110/200bps increase in employee expenses/other expenses respectively. Consequently, EBITDA margin contracted by 180bps to 19.4%. EBITDA de-grew by 9.3% YoY to Rs 16.9bn below our estimate. PAT (after MI) de-grew by 0.2% YoY to Rs 12.6bn in-line with our estimate.

Going ahead, we believe that the paint industry would benefit from ongoing construction activities, urbanization and reducing painting cycle. APL being leader in the category, is likely to benefit the most. Increase in competition from new entrants like Grasim, Pidilite, etc is not likely to have significant impact on APL due to strong dealer network and brand positioning. As the company is investing more in the brand building, we believe that this would help the company to augment volumes over a long run.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	87,308	87,873	(0.6)	91,031	(4.1)
Total Expense	70,394	69,226	1.7	70,470	(0.1)
EBITDA	16,914	18,648	(9.3)	20,561	(17.7)
Depreciation	2,256	2,202	2.5	2,204	2.4
EBIT	14,658	16,446	(10.9)	18,357	(20.2)
Other Income	1,871	1,055	77.4	1,386	35.0
Interest	541	389	39.0	544	(0.6)
EBT	15,988	16,865	(5.2)	19,199	(16.7)
Tax	3,488	4,514	(22.7)	4,926	(29.2)
RPAT	12,567	12,341	1.8	14,477	(13.2)
APAT	12,567	12,588	(0.2)	14,477	(13.2)
			(bps)		(bps)
Gross Margin (%)	43.7	42.5	121	43.6	10
EBITDA Margin (%)	19.4	21.2	(185)	22.6	(321)
NPM (%)	14.4	14.0	35	15.9	(151)
Tax Rate (%)	21.8	26.8	(495)	25.7	(384)
EBIT Margin (%)	16.8	18.7	(193)	20.2	(338)

CMP	Rs 2,710
Target / Upside	Rs 3,305 / 22%
NIFTY	21,958

Scrip Details

Equity / FV	Rs 959mn / Rs 1
Market Cap	Rs 2,600bn
	USD 31.4bn
52-week High/Low	Rs 3,568/ 2,704
Avg. Volume (no)	12,34,280
Bloom Code	APNT IN

Price Performance	1M	3M	12M
Absolute (%)	(5)	(8)	(11)
Rel to NIFTY (%)	(2)	(9)	(37)

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	52.6	52.6	52.6
MF/Banks/FIs	10.1	10.1	11.7
FIIs	17.7	17.7	15.9
Public / Others	19.6	19.6	19.8

Valuation (x)

	FY24P	FY25E	FY26E
P/E	47.6	47.9	42.6
EV/EBITDA	34.0	33.8	30.2
ROE (%)	31.5	27.4	27.7
RoACE (%)	27.5	24.1	24.6

Estimates (Rs bn)

	FY24P	FY25E	FY26E
Revenue	354.9	385.4	431.2
EBITDA	75.8	76.1	85.2
PAT	54.6	54.3	61.0
EPS (Rs.)	56.9	56.6	63.6

VP - Research: Sachin Bobade
Tel: +91 22 40969731
E-mail: sachinb@dolatcapital.com

Associate: Jyoti Amonkar
Tel: +9122 61764822
E-mail: jyotia@dolatcapital.com

Associate: Akshay Patel
Tel: +9122 40969753
E-mail: akshayp@dolatcapital.com

Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comment
Revenue	87,308	89,217	(2.1)	
EBITDA	16,914	19,088	(11.4)	A&P spends were higher than anticipation
EBITDA margin %	19.4	21.4	(200bps)	
APAT	12,567	12,734	(1.3)	Other income was higher than anticipation

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	3,85,358	3,92,016	(1.7)	4,31,174	4,38,564	(1.7)
EBIDTA	76,061	85,401	(10.9)	85,219	93,300	(8.7)
EBIDTA margin (%)	19.7	21.8	(200bps)	19.8	21.3	(150bps)
PAT	54,261	58,879	(7.8)	60,965	64,215	(5.1)
EPS (Rs)	56.6	61.4	(7.8)	63.6	66.9	(5.1)

Source: Company, DART

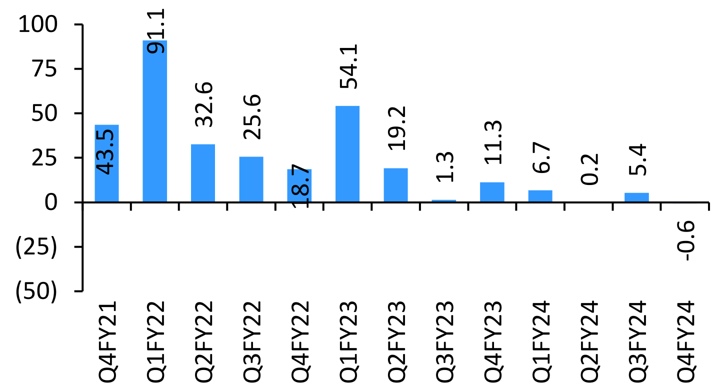
We have lowered our FY25/26E revenue estimates to factor in price pass on due to decline in RM prices and demand challenges. Further, we have decreased our EBITDA margin estimates to factor in to match the management guidance. In line with the change in EBITDA margins we have revised our APAT and EPS estimates.

Earning call KTAs

- During Q4FY24, APL revenue de-grew by 0.6% due to unfavorable product mix and subdued government spendings. The company reported 10% volume growth during the quarter (in line with company guidance). Going ahead, APL aims to deliver double digit volume growth.
- Demand in rural areas remained impacted due to inflationary trends, while urban markets delivered double-digit volume growth. The management anticipates rural demand to pick up in ensuing quarters.
- GM expanded 120bps to 43.7% in Q4FY24 aided by stable RM costs. However, EBITDA margin declined by 180bps as a result of increased marketing spends during Q4. Going ahead, EBITDA margin is expected to be ~18-20%.
- During Q4FY24, Kitchen business posted 3% revenue growth (post five quarters of de-growth) supported by efforts to expand reach. Further, the business posted PBT break-even led by focus on enhancing operational efficiencies. However, bath business revenue/PBT de-grew by 8/11% due to weak demand trends. The management stated that bath business revenue has gradually picked up over last 3 quarters.
- During Q4, white teak reported revenue of Rs 477mn. Furthermore, weatherseal posted revenue of Rs 156mn – more than doubled on YoY basis led by growing product portfolio and synergies in 'Beautiful Homes Network'. Going ahead, focus on increasing presence will aid growth in lighting and uPVC windows division.
- In International business (IB), Africa/ Middle East registered revenue growth of 10/5% YoY while Asia de-grew by 4% due to liquidity crunch in Nepal. Going ahead, the company expects Nepal business to remain subdued.
- In industrial business, both auto/industrial coatings segment registered 10/8% YoY growth in Q4FY24. PBT in auto/industrial grew by 24/2% to Rs 690/340mn respectively. In industrial business, the growth was driven by protective & powder coating segment.
- NPD contribution was ~11% of overall revenues in Q4. Going ahead, the company will continue to focus on innovation through differentiated products and we believe it would contribute in double digits.

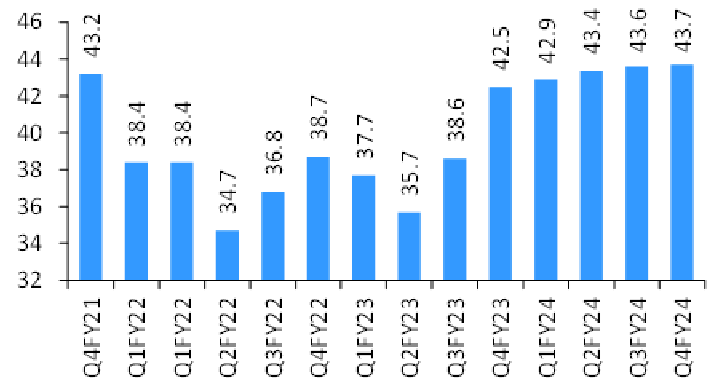
- APL has robust distribution footprint, currently has ~1.6 lac retail touchpoints. We believe, growing distribution network and strong consumer connect would help APL gain further market share from unorganized sector.
- APL has incurred a CAPEX to support next phase of growth - 1) Greenfield water-based paint manufacturing facility with 4 lakh KL p.a in Madhya Pradesh to be commenced by CY28E, 2) Brownfield capacity expansion – to increase capacity from 1.73 to 2.27mn across Kasna, Khanadala, Ankleshwar and Mysuru. It is expected to complete by FY25E and 3) Backward integration of VAM-VAE/White cement plants - are expected to commence by end of CY26E/CY25E.
- APL has recently launched 'Neo Bharat Latex' paint under the decorative business, which would focus on penetrating in the unorganized segment and offer smart and affordable solutions to the consumers. The company has onboarded Virat Kohli as the brand ambassador of the brand.

Exhibit 3: Trend in Sales Growth (%)



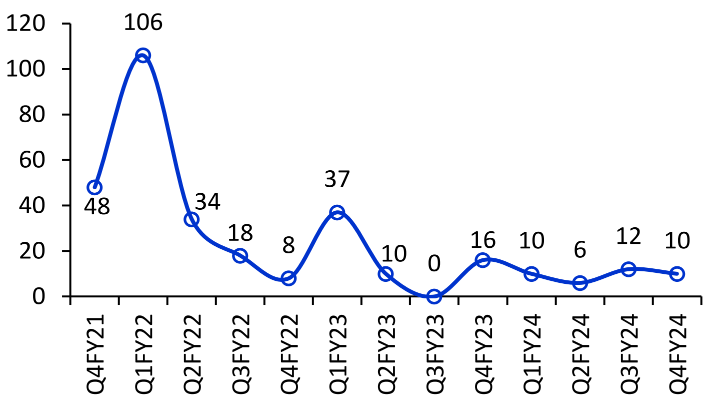
Source: Company, DART

Exhibit 4: Trend in Gross Margin (%)



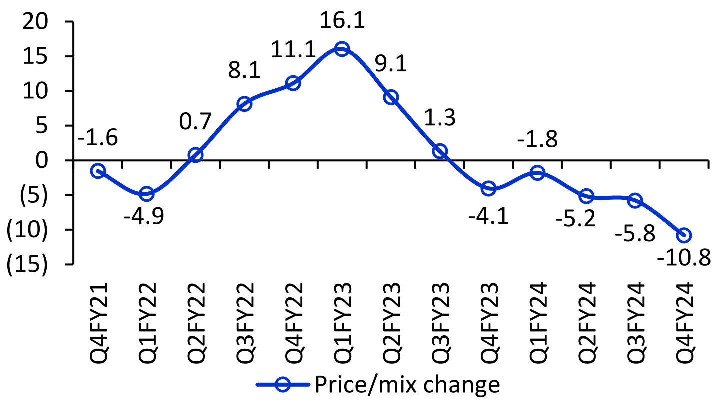
Source: Company, DART

Exhibit 5: Trend in Volume Growth (%)



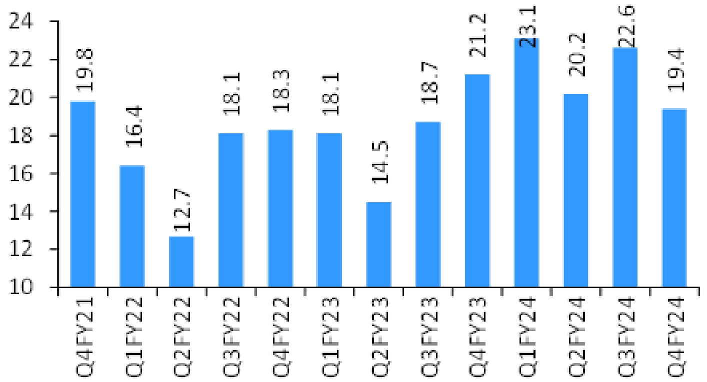
Source: Company, DART

Exhibit 6: Trend in price / mix change (%)



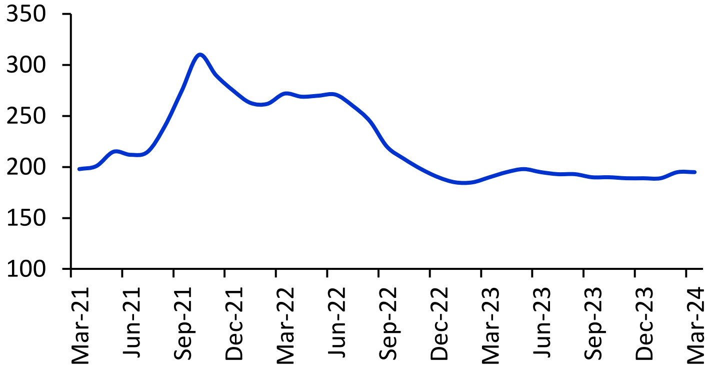
Source: Company, DART

Exhibit 7: Trend in EBITDA margins (%)



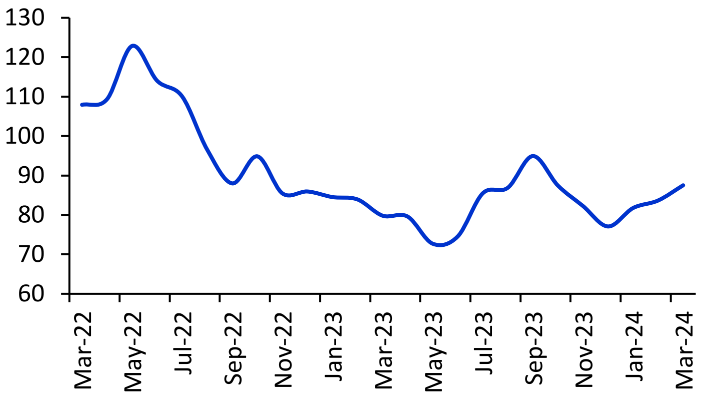
Source: Company, DART

Exhibit 8: Trend in Titanium Dioxide Price (INR/KG)



Source: Company, DART

Exhibit 9: Trend in Brent Price (USD)



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
Revenue	**3,44,886**	**3,54,947**	**3,85,358**	**4,31,174**
Total Expense	**2,82,288**	**2,79,098**	**3,09,297**	**3,45,955**
COGS	2,11,565	2,00,902	2,19,625	2,40,952
Employees Cost	20,281	23,262	26,398	30,606
Other expenses	50,442	54,934	63,274	74,396
EBIDTA	**62,598**	**75,849**	**76,061**	**85,219**
Depreciation	8,580	8,530	8,848	9,600
EBIT	**54,018**	**67,319**	**67,214**	**75,619**
Interest	1,444	2,052	2,380	2,631
Other Income	3,865	6,880	6,799	7,397
Exc. / E.O. items	489	0	0	0
EBT	**56,928**	**72,147**	**71,632**	**80,385**
Tax	14,935	17,901	17,780	19,890
RPAT	42,042	54,602	54,261	60,965
Minority Interest	(50)	(355)	(409)	(470)
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**41,554**	**54,602**	**54,261**	**60,965**

Balance Sheet

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
Sources of Funds				
Equity Capital	959	959	959	959
Minority Interest	4,537	6,954	6,545	6,075
Reserves & Surplus	1,58,963	1,86,324	2,07,448	2,31,075
Net Worth	**1,59,922**	**1,87,283**	**2,08,407**	**2,32,034**
Total Debt	19,326	24,744	25,629	26,603
Net Deferred Tax Liability	3,348	3,522	3,522	3,522
Total Capital Employed	**1,87,134**	**2,22,502**	**2,44,102**	**2,68,233**
Applications of Funds				
Net Block	**57,705**	**71,466**	**96,118**	**1,20,018**
CWIP	10,196	26,984	26,984	26,984
Investments	15,647	13,845	13,845	13,845
Current Assets, Loans & Advances	**1,74,432**	**1,86,946**	**1,92,330**	**2,02,424**
Inventories	62,106	59,234	60,478	67,671
Receivables	46,369	48,891	30,711	34,299
Cash and Bank Balances	8,438	10,840	21,105	17,426
Loans and Advances	0	0	10,405	11,667
Other Current Assets	30,548	35,947	37,596	39,328
Less: Current Liabilities & Provisions	**70,847**	**76,738**	**85,175**	**95,037**
Payables	0	0	0	0
Other Current Liabilities	70,847	76,738	85,175	95,037
sub total				
Net Current Assets	1,03,586	1,10,208	1,07,155	1,07,387
Total Assets	**1,87,134**	**2,22,502**	**2,44,102**	**2,68,233**

E – Estimates

Important Ratios

Particulars	FY23A	FY24P	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	38.7	43.4	43.0	44.1
EBIDTA Margin	18.2	21.4	19.7	19.8
EBIT Margin	15.7	19.0	17.4	17.5
Tax rate	26.2	24.8	24.8	24.7
Net Profit Margin	12.2	15.4	14.1	14.1
(B) As Percentage of Net Sales (%)				
COGS	61.3	56.6	57.0	55.9
Employee	5.9	6.6	6.9	7.1
Other	14.6	15.5	16.4	17.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	37.4	32.8	28.2	28.7
Inventory days	66	61	57	57
Debtors days	49	50	29	29
Average Cost of Debt	8.2	9.3	9.5	10.1
Payable days	0	0	0	0
Working Capital days	110	113	101	91
FA T/O	6.0	5.0	4.0	3.6
(D) Measures of Investment				
AEPS (Rs)	43.3	56.9	56.6	63.6
CEPS (Rs)	52.3	65.8	65.8	73.6
DPS (Rs)	20.2	26.6	34.5	38.9
Dividend Payout (%)	46.6	46.7	61.1	61.2
BVPS (Rs)	166.7	195.2	217.3	241.9
RoANW (%)	28.2	31.5	27.4	27.7
RoACE (%)	24.6	27.5	24.1	24.6
RoAIC (%)	32.6	34.5	30.9	31.9
(E) Valuation Ratios				
CMP (Rs)	2710	2710	2710	2710
P/E	62.6	47.6	47.9	42.6
Mcap (Rs Mn)	25,99,522	25,99,522	25,99,522	25,99,522
MCap/ Sales	7.5	7.3	6.7	6.0
EV	25,83,440	25,81,392	25,72,012	25,76,665
EV/Sales	7.5	7.3	6.7	6.0
EV/EBITDA	41.3	34.0	33.8	30.2
P/BV	16.3	13.9	12.5	11.2
Dividend Yield (%)	0.7	1.0	1.3	1.4
(F) Growth Rate (%)				
Revenue	18.5	2.9	8.6	11.9
EBITDA	30.3	21.2	0.3	12.0
EBIT	35.5	24.6	(0.2)	12.5
PBT	29.7	26.7	(0.7)	12.2
APAT	32.1	31.4	(0.6)	12.4
EPS	32.1	31.4	(0.6)	12.4

E – Estimates

Cash Flow

Particulars	FY23A	FY24P	FY25E	FY26E
Profit before tax	**56,439**	**72,147**	**71,632**	**80,385**
Depreciation & w.o.	8,580	8,530	8,848	9,600
Net Interest Exp	1,444	2,052	2,380	2,631
Direct taxes paid	(14,943)	(18,351)	(17,780)	(19,890)
Change in Working Capital	(7,721)	101	13,317	(3,911)
Non Cash	(8,754)	(5,407)	0	0
(A) CF from Operating Activities	**35,045**	**59,072**	**78,397**	**68,815**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(14,197)	(24,910)	(33,500)	(33,500)
Free Cash Flow	**20,848**	**34,162**	**44,897**	**35,315**
(Inc)./ Dec. in Investments	16	(1,780)	0	0
Other	0	0	0	0
(B) CF from Investing Activities	**(14,181)**	**(26,690)**	**(33,500)**	**(33,500)**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	(1,444)	(2,052)	(2,380)	(2,631)
Dividend Paid (Incl. Tax)	(19,361)	(25,509)	(33,137)	(37,337)
Other	0	0	0	0
(C) CF from Financing	**(21,069)**	**(29,980)**	**(34,632)**	**(38,995)**
Net Change in Cash	(205)	2,402	10,265	(3,679)
Opening Cash balances	**8,643**	**8,438**	**10,840**	**21,105**
Closing Cash balances	**8,438**	**10,840**	**21,105**	**17,426**

E – Estimates

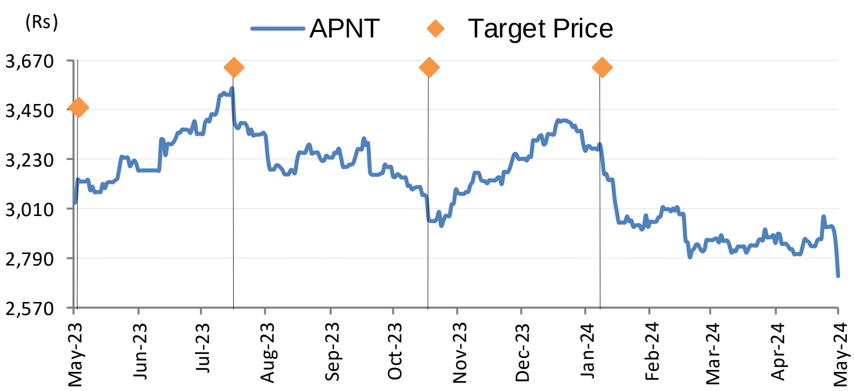
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	Accumulate	3,460	3,140
Jul-23	Accumulate	3,640	3,400
Oct-23	BUY	3,640	2,960
Jan-24	Accumulate	3,640	3,242

**Price as on recommendation date*

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	**Designation**	**E-mail**	**Direct Lines**
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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Member: BSE Limited and National Stock Exchange of India Limited.
SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012
Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com