

Asian Paints Limited

Adding colour to your portfolio

Sector: Consumer Goods

07 March 2025

CMP: 2179

TP: 2547 (+16%)

Neutral

NSE Code:	Asian Paint
BSE Code:	500820
Equity Shares (b)	0.959
M.Cap.(INR b)	2089.7
52- Week Range (INR)	2124/3394

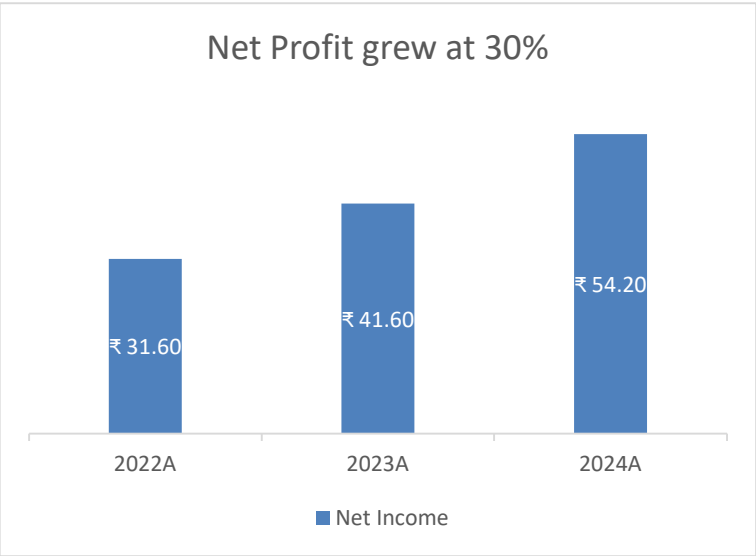
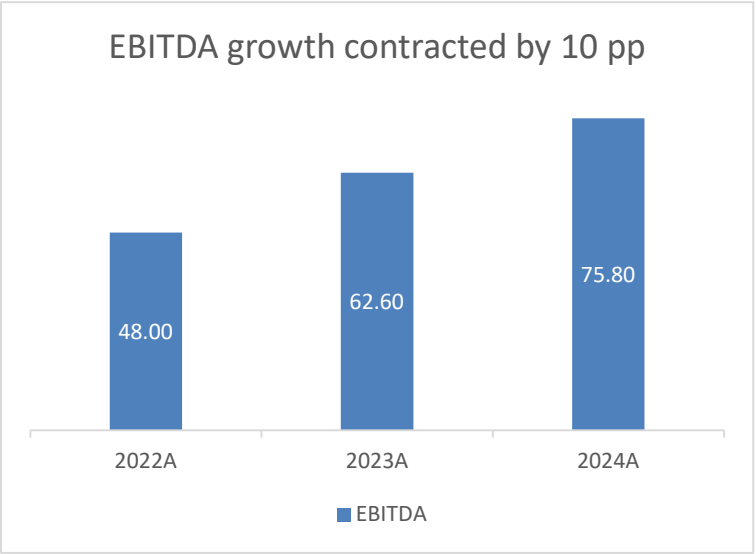
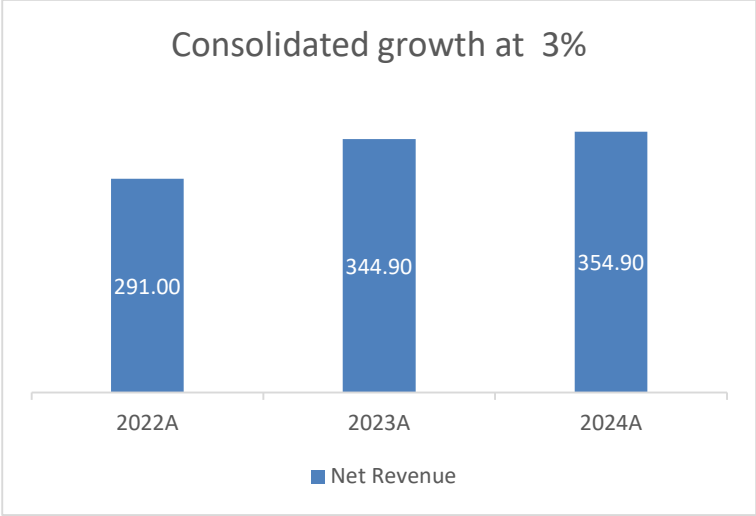
Shareholding Pattern (%)			
As on	Dec-24	Sep-24	Jun-24
Promoter	52.60	52.60	52.60
DII	13.98	13.10	12.30
FII	13.61	15.28	15.27
Others	19.77	18.99	19.80

* Asian Paints Limited (APL) is a market leader in domestic paint industry with a 50% market share. Unlike peers, the company has de-risked its business model, deriving more than 85% of revenue coming from domestic decorative paints. The company has a strong portfolio of brands straddling the pyramid. It has a strong pan-India distribution network of over 65,000 dealers and 6,00,000 retailers. APL's strong cash generation ability took care of its robust capex (~₹24.96 billion over FY2023-24) program without putting any stress on the balance sheet (debt/equity ratio remains at 0.01x).

* It reported a weak FY24. Its consolidated revenue grew by just 2.9% YOY. Weak industry demand, a subdued festive season, and rising competition adversely impacted growth.

* Management expects revenue weakness to persist for at least two more quarters. The company is targeting to achieve single-digit volume growth in the near term. The company is less worried about competition than industry challenges.

* The stock has massively underperformed (20% fall in the last one year) owing to a sharp cut in earnings. Considering the uncertainty of demand recovery in the near term, there is limited respite for the stock. Industry volume recovery and competitive strategy on pricing/incentives will be the key monitorables. Considering the uncertainty, we have a **Neutral rating with a TP of INR2,547 (based on 45x Dec'25E EPS)**.



Financials

Income Statement

(₹ Billions)

Y/E March

Projected

	2022A	2023A	2024A	2025	2026	2027	2028	2029
Net Revenue	291.00	344.90	354.90	365.55	380.17	399.18	419.14	440.09
Cost of Goods Sold	183.00	211.60	200.90	210.95	221.49	232.57	241.87	251.54
Gross profit	108.00	133.30	154.00	154.60	158.68	166.61	177.27	188.55
Operating Expenses	60.00	70.70	78.20	80.55	83.77	87.96	92.35	96.97
EBITDA	48.00	62.60	75.80	74.06	74.91	78.65	84.91	91.58
Depreciation	8.20	8.60	8.50	7.68	8.78	9.92	11.08	12.27
EBIT	39.80	54.00	67.30	66.38	66.13	68.73	73.83	79.31
Interest Expense	1.00	1.40	2.10	2.32	1.15	(0.05)	(1.50)	(3.02)
Other Income	3.80	3.90	6.90	7.11	7.39	7.76	8.15	8.56
EBT	42.60	56.50	72.10	71.16	72.37	76.54	83.48	90.88
Current Income Taxes	11.60	15.10	17.80	16.54	16.84	17.89	19.62	21.47
Deferred Income Taxes	(0.60)	(0.20)	0.10	1.25	1.25	1.25	1.25	1.25
Total Income Taxes	11.00	14.90	17.90	17.79	18.09	19.14	20.87	22.72
Net Income	₹ 31.60	₹ 41.60	₹ 54.20	₹ 53.37	₹ 54.28	₹ 57.41	₹ 62.61	₹ 68.16

Margins

Gross Profit Margin	37.11%	38.65%	43.39%	42.29%	41.74%	41.74%	42.29%	42.84%
EBITDA Margin	16.49%	18.15%	21.36%	20.26%	19.70%	19.70%	20.26%	20.81%
EBIT Margin	13.68%	15.66%	18.96%	18.16%	17.39%	17.22%	17.61%	18.02%
Net Income Margin	10.86%	12.06%	15.27%	14.60%	14.28%	14.38%	14.94%	15.49%

Cash Flow Statement

(₹ Billions)

Y/E March

	2022A	2023A	2024A	<i>Projected</i>				
	2025	2026	2027	2028	2029			
Operating Activities								
Net Income	31.60	41.60	54.20	53.37	54.28	57.41	62.61	68.16
Depreciation & Amortization	8.20	8.60	8.50	7.68	8.78	9.92	11.08	12.27
Deferred Income Taxes	(0.60)	(0.20)	0.10	1.25	1.25	1.25	1.25	1.25
Changes in working capital	(30.84)	(6.69)	1.04	3.90	3.92	6.20	4.53	(2.16)
Operating Cash Flow	8.36	43.31	63.84	66.20	68.23	74.78	79.47	79.52
Investing Activities								
CAPEX	(5.51)	(14.46)	(24.96)	(16.00)	(17.00)	(17.30)	(17.50)	(18.00)
Other	2.34	1.64	(0.52)	0.00	0.00	0.00	0.00	0.00
Investing Cash Flow	(3.17)	(12.82)	(25.48)	(16.00)	(17.00)	(17.30)	(17.50)	(18.00)
Financing Activities								
Term Debt Issuance / (Repayment)	(0.45)	(2.04)	(4.31)	(4.00)	(4.00)	(4.00)	(4.00)	(4.00)
Common Shares Issuance/ (Buy-Back)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Dividends	(17.63)	(19.36)	(25.51)	(34.69)	(35.28)	(37.31)	(40.69)	(44.30)
Financing Cash Flow	(18.08)	(21.40)	(29.82)	(38.69)	(39.28)	(41.31)	(44.69)	(48.30)
Change in the Cash Position	(12.89)	9.09	8.54	11.51	11.95	16.17	17.27	13.21
Beginning Cash	6.10	(6.79)	2.30	10.84	22.35	34.30	50.46	67.73
Ending Cash	(6.79)	2.30	10.84	22.35	34.30	50.46	67.73	80.95

Balance Sheet

(₹ Billions)

Y/E March

				<i>Projected</i>				
	2022A	2023A	2024A	2025	2026	2027	2028	2029
ASSETS								
Cash	8.64	8.44	10.84	22.35	34.30	50.46	67.73	80.95
Accounts Receivable	38.71	46.37	48.89	50.07	52.08	49.21	51.53	54.26
Inventory	61.53	62.11	59.23	57.79	54.61	57.35	52.87	55.13
Other	28.77	30.36	35.72	28.90	30.34	28.67	29.74	31.01
Total Current Assets	137.65	147.28	154.68	159.11	171.33	185.69	201.87	221.35
Net PP&E	55.19	57.70	71.47	79.79	88.01	95.39	101.80	107.54
Other	36.74	52.81	72.86	72.86	72.86	72.86	72.86	72.86
Total Long Term Assets	91.93	110.51	144.33	152.65	160.87	168.25	174.66	180.40
Total Assets	₹ 229.58	₹ 257.79	₹ 299.01	₹ 311.76	₹ 332.20	₹ 353.94	₹ 376.54	₹ 401.75
LIABILITIES AND EQUITY								
Accounts Payable	41.64	36.35	38.31	37.57	39.44	41.42	42.95	44.80
Other	33.96	42.19	48.67	46.23	48.55	50.97	52.87	55.13
Total Current Liabilities	75.60	78.54	86.98	83.80	87.99	92.39	95.82	99.93
Deferred Income Taxes	0.00	0.00	0.00	1.25	2.50	3.75	5.00	6.25
Senior Secured Term Debt	15.87	19.33	24.74	20.74	16.74	12.74	8.74	4.74
Total Long Term Liabilities	15.87	19.33	24.74	21.99	19.24	16.49	13.74	10.99
Total Liabilities	91.47	97.87	111.72	105.79	107.23	108.88	109.56	110.92
Common Shares	0.96	0.96	0.96	0.96	0.96	0.96	0.96	0.96
Retained Earnings	137.16	158.96	186.32	205.00	224.00	244.09	266.00	289.86
Shareholder's Equity	138.12	159.92	187.28	205.96	224.96	245.05	266.96	290.82
Total Liabilities and Equity	₹ 229.59	₹ 257.79	₹ 299.00	₹ 311.75	₹ 332.19	₹ 353.93	₹ 376.53	₹ 401.74

Valuations

			Projected				
Y/E March	2023A	2024A	2025	2026	2027	2028	2029
Per Share Data (₹)							
Reported EPS	43.38	56.52	55.66	56.60	59.86	65.28	71.08
Diluted EPS	43.38	56.52	55.66	56.60	59.86	65.28	71.08
Cash EPS	45.16	66.57	69.03	71.15	77.98	82.86	82.92
Dividend per share (DPS)	20.19	26.60	36.18	36.79	38.91	42.43	46.20
Book value per share (BV)	166.76	195.29	214.77	234.58	255.53	278.38	303.25
Growth (%)							
Revenue	18.52%	2.90%	3.00%	4.00%	5.00%	5.00%	5.00%
EBITDA	30.42%	21.09%	(2.30%)	1.15%	5.00%	7.96%	7.85%
EPS		30.29%	(1.53%)	1.70%	5.76%	9.06%	8.87%
Valuation Ratios (x)							
P/E		41.70	45.76	45.00	42.55	39.01	35.83
Cash P/E		36.00	36.90	35.80	32.66	30.74	30.72
P/BV		12.10	11.86	10.86	9.97	9.15	8.40
P / Sales		6.40	6.97	6.70	6.38	6.08	5.79
EV / EBITDA		29.20	28.41	28.08	26.74	24.77	22.97
Dividend Yield (%)		1.20%	1.42%	1.44%	1.53%	1.67%	1.81%
Margins							
Gross Profit Margin (%)	38.65%	43.39%	42.29%	41.74%	41.74%	42.29%	42.84%
EBITDA Margin (%)	18.15%	21.36%	20.26%	19.70%	19.70%	20.26%	20.81%
Net profit Margin (%)	12.06%	15.27%	14.60%	14.28%	14.38%	14.94%	15.49%
Profitability Ratios							
ROCE (%)	30.13%	31.74%	29.12%	27.08%	26.28%	26.30%	26.28%
ROE (%)	26.01%	28.94%	25.91%	24.13%	23.43%	23.45%	23.44%
ROIC (%)	23.71%	25.09%	24.36%	23.91%	24.86%	26.63%	27.72%
ROA (%)	16.14%	18.13%	17.12%	16.34%	16.22%	16.63%	16.97%
Liquidity Ratios							
Current Ratio	1.88	1.78	1.90	1.95	2.01	2.11	2.22
Cash Conversion Cycle	93.51	88.53	85.00	75.00	70.00	60.00	60.00
Solvency Ratios							
Net Debt / Equity (x)	0.07	0.07	(0.01)	(0.08)	(0.15)	(0.22)	(0.26)
Net Debt / EBITDA (x)	0.17	0.18	(0.02)	(0.23)	(0.48)	(0.69)	(0.83)
Total Debt / Asset Ratio	0.07	0.08	0.07	0.05	0.04	0.02	0.01
Turnover Ratios							
Fixed Asset Turnover	5.98	4.97	4.58	4.32	4.18	4.12	4.09
Inventory Turnover Ratio	3.41	3.39	3.65	4.06	4.06	4.58	4.56

View

Support for Asian Paints as an investment:

- *The company is cash flow positive even in troubled times and infact projected to only increase (₹ 17.27 Bn vs ₹ 8.54 currently).
- *At par with an industry P/E of 40, currently at 41.70.
- *Low solvency ratios (debt to equity ratio of 0.07 in 2024)
- *Improving trends in liquidity ratios like current ratio and cash conversion cycle.
- *The company has not seen much competition impact in 1HFY25; instead, it was the industry weakness that hit most players. It is too early to comment on the new competition impact as the category size at ₹800 Bn is huge.
- *The company has not seen such kind of demand issue in the last two to three decades (probably seen in the early '90s) but the demand in November and December was better than October.
- *The demand condition was challenging in 3Q with stress seen in urban continues. The company is optimistic about rural demand. Paint is a category where consumers can postpone demand, which is impacting the current overall slowdown. Govt spending should be strong going ahead. Industrial business should be strong.

Causes for concern:

- *Sluggish growth in revenue (2.90% in 2024 vs 18.52% in 2023), adversely impacted by muted demand conditions, especially in the urban market, coupled with downtrading and a weak festive season.
- *The demand during 3QFY25 was also hurt by the shorter festive season along with the urban slowdown.
- *The entry of deep-pocketed new players with significant investment commitments could drive shifts in market share and cost structures across the industry.
- *Huge dividend payout of 60% in 2023 and 58% in 2024.
- *FII's cutting positions, 13.61% in Dec-24 vs 15.28% in Sep-24

We remain cautious about both value growth and margin for FY26. Despite a correction in the stock, we maintain a **Neutral rating with a TP of ₹2,547 (based on 45x Dec'25E EPS)**