

16<sup>th</sup> July 2024

## Asian Paints – Buy

**CMP** :Rs.2,975.0  
**Target Price** :Rs.3,865.0  
**Upside** : 30%+  
**Stop Loss** :Rs.2,675.0 (Closing basis)

### Investment Thesis

- Asian Paints Ltd. (Asian Paints) has consistently achieved double-digit volume growth of over 12% in the Q4FY24. This indicates strong market demand for their products and effective sales strategies.
- Asian Paints currently has over 150,000 retail touch points and plans to add 10,000 more retail points in the current year. This ongoing expansion demonstrates the company's commitment to increasing market reach and accessibility. Continuous growth in distribution channels can lead to increased sales and market share.
- The new greenfield project in Madhya Pradesh, set to complete by 2028, will significantly increase production capacity. This large-scale expansion demonstrates confidence in future market demand and growth prospects.
- Asian Paints' capacity increases from 17 lakh KL/annum to 22.7 lakh KL/annum through brownfield expansions showcase their ability to optimize the utilization of existing resources. These expansions are often more cost-effective and can be implemented faster compared to constructing new facilities from scratch.
- Targeting the Rs. 5000 crore bottom-of-the-pyramid market with distempers and low-cost emulsions shows market expansion efforts. This strategy can capture a large, price-sensitive customer base. Success in this segment could lead to significant volume growth and market share expansion.
- The 'Beautiful Homes Painting Service' which is considered to be the premium service which is customized as per the customer needs is growing at 70-80% YoY with high customer satisfaction. Rapid growth in services can provide an additional revenue stream and strengthen brand loyalty.

### Financials

- Asian Paints's revenue has shown a consistent growth trajectory, increasing from Rs. 29,101 crore in FY22 to Rs. 35,495 crore in FY24 and further estimating it to grow to Rs. 44,901 crore in FY26E. This growth could be attributed to expansion into new markets or product lines and demand for premium products.

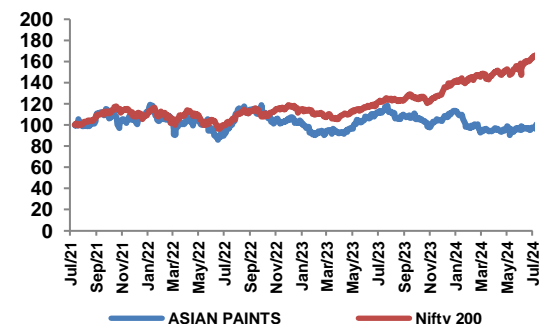
| Consl. (Rs.Cr)    | FY22   | FY23   | FY24   | FY25E  | FY26E  |
|-------------------|--------|--------|--------|--------|--------|
| Revenue           | 29,101 | 34,489 | 35,495 | 39,045 | 44,901 |
| EBITDA            | 4804   | 6260   | 7585   | 8723   | 10,293 |
| EBITDA Margin (%) | 17%    | 18%    | 21%    | 22%    | 23%    |
| PAT               | 3085   | 4195   | 5558   | 6392   | 7670   |
| EPS (Rs.)         | 31.59  | 42.81  | 56.92  | 66.65  | 79.98  |
| P/E (x)           | 96.0   | 70.0   | 52.1   | 51.0   | 49.0   |
| RoE (%)           | 22.34% | 26.23% | 29.68% | 31.04% | 33.88% |

| Stock Data            |               |
|-----------------------|---------------|
| Market Cap (Rs. Mn)   | 2,85,227      |
| Market Cap (\$ Mn)    | 3,395.55      |
| Shares O/S (in Cr)    | 95.9          |
| Avg. Volume (3 month) | 1,387,800     |
| 52-Week Range (Rs.)   | 3,568 / 2,670 |

| Shareholding Pattern          |        |
|-------------------------------|--------|
| Promoters                     | 52.63% |
| FII's                         | 15.89% |
| Institutions                  | 11.67% |
| Others (incl. body corporate) | 19.82% |

| Key Ratios    |        |
|---------------|--------|
| Div Yield     | 1.10%  |
| TTM PE        | 52.1x  |
| ROE           | 31.4%  |
| TTM EPS (Rs.) | 56.9/- |

| Stock Performance |      |       |        |
|-------------------|------|-------|--------|
| Performance (%)   | 1M   | 6M    | 1Yr    |
| ABSOLUTE          | 3.2% | -8.5% | -12.0% |
| NIFTY 200         | 5.1% | 16.2% | 36.0%  |



- The EBITDA has also been growing steadily, from Rs. 4,804 crore in FY22 to Rs.7,585 crore in FY24 and further estimating it to grow to Rs. 10,293 crore in FY26E. This suggests that the company has been able to effectively manage its operating costs and maintain profitability.
- The EBITDA margin, has shown a consistent improvement, increasing from 17% in FY22 to 21% in FY24 and further estimating at 23% in FY26E as it is expected to increase its margins. This indicates that it has been able to generate higher profits from its revenue, likely due to its higher pricing power and market share.
- The PAT has also been growing steadily, from Rs.3,085 crore in FY22 to Rs. 5,558 crore and further estimated at Rs. 7,670 crore in FY26E. This reflects the company's ability to generate substantial profits for its shareholders.

## Key Business Highlights

- Asian Paints maintains a strong presence across Economy, Premium, and Luxury segments, with a leading market share in each. This diversification allows the company to cater to various consumer needs and price points. It also provides resilience against market fluctuations in any single segment.
- With over 1.63 lakh retail points, Asian Paints has a distribution network 3-4 times larger than its competitors. This extensive reach ensures product availability across diverse geographic areas, including remote locations.
- With 126 patents filed, 60 granted, and 30 commercialized in six years, Asian Paints shows a strong commitment to innovation. This focus on R&D can lead to unique product offerings and competitive advantages. A robust patent portfolio can also provide barriers to entry for competitors and potential licensing opportunities.
- New products contribute 11-12% of the top line, indicating successful product development and market acceptance. This high percentage suggests the company's ability to meet changing consumer needs and preferences.

## Valuation

While the stock is trading at TTM P/E of 52.1x with an EPS of Rs.56.92. Revenue is expected to grow by 30-35% led by its robust new launch of pipeline and increase in its capacity and volumes.

We expect it to trade around 49.0x P/E with an FY26 EPS of Rs.79.68.

**We are assigning a BUY rating for with a Target Price of Rs. 3,865, translating into an upside of 30%.**

## Risk & Concern

- Despite Asian Paints' strong market position, the industry faces intense competition. New entrants like Grasim recently which made an entry in this sector could pressure market share and pricing power of Asian Paints.
- Paint manufacturing relies heavily on petrochemical-based raw materials. Fluctuations in crude oil prices and other key ingredients could affect production costs and margins if Asian Paints is unable to pass these costs to consumers.
- With international operations and raw material imports, Asian Paints is exposed to currency fluctuations. Unfavorable exchange rate movements could impact profitability.

## Graphs & Charts

Figure 1: Net Sales Trend

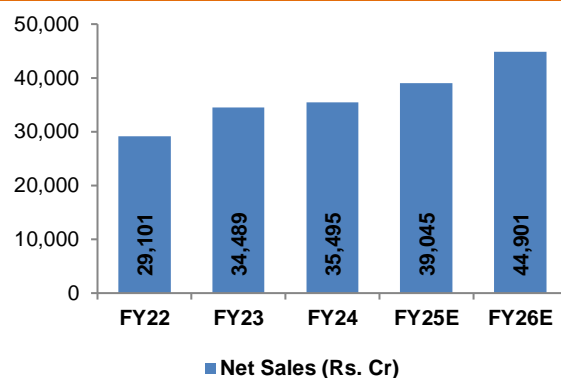


Figure 2: EBITDA & EBITDA Margin Trend

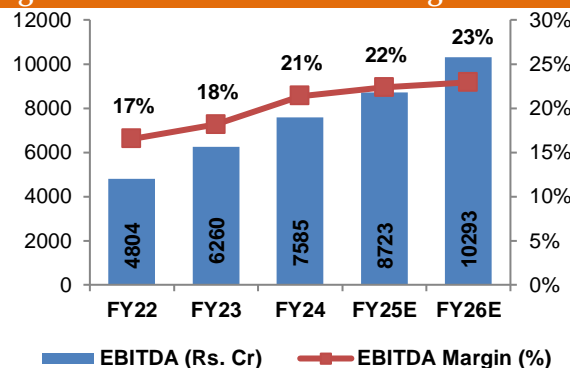


Figure 3: PAT Trend

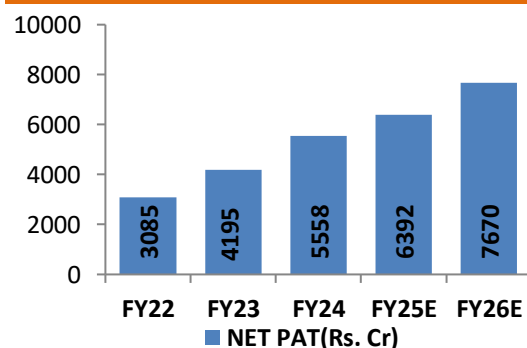
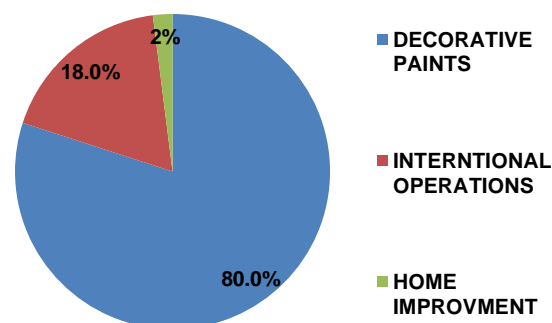


Figure 4: Segment Wise Breakup (FY24)



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