



NOT SO COLOURFUL
NEAR FUTURE

Asian Paints

Flashback

- ❑ In our last note on Asian paints in April-22, We had recommended to shift out of Asian paints, driven by earning concerns and valuation being high
- ❑ We highlighted multiple challenges faced by Asian Paints in their business driven by
 - Competition from existing and new players
 - Demand issues due to higher base and slowdown
 - Margin pressure due to high input costs
- ❑ Since the note, both earning and price has moderated on expected lines
 - The volume growth for past 2 years is lower than the historical average
 - On the price front, while the markets are up by ~25%, Asian Paints is ~4% down from our note price

The way forward

- ❑ While an underperformance of ~30% is fairly substantial for quality large cap like Asian paints. We believe the impact on earning is yet to play out and hence see further downside in relative and absolute sense
- ❑ Recently Grasim announced its production plan for the paints business with the capex of Rs 100 bn across 6 plants, assuming the asset turnover ratio at 1x Grasim intent to be 1/3rd of Asian Paints size, this we believe is aggressive plan
- ❑ Slowing down of volume growth at industry level we expect competition to intensify, leading to lower revenue growth and profitability
- ❑ The stock is still trading at 9x revenues and 70x earnings, we believe for a no earning growth stock these are expensive valuations
- ❑ We believe investors should shift out of Asian paints to other quality name as we see no return over next 2 years

Birla Opus's Entry

- ❑ Grasim announced its foray into the paints business in 2021 with an initial investment of ₹5,000 crore and aims to reach a total capacity of 1,332 million litres per annum (MLPA) by FY25, which will be the second largest in the industry (Asian Paints' capacity is 1,750 MLPA)
- ❑ As per industry reports, Indian Paints industry is worth Rs.800bn and expected to grow 4x in next 10 years, implying a value growth of 15%, assuming inflation of 5%, we are talking about a sub 10% volume growth
- ❑ JSW paints grew from Rs2bn revenue to Rs.16bn in 4 years and it is just the start of their growth
- ❑ Both Grasim and JSW paints have deep pockets and fair understanding of distribution deep into India, making them a formidable competition

Paint Business- Financials

Asian Paints

Particular	Mar-20	Mar-21	Mar-22	Mar-23	T'TM
Revenue	20,211	21,713	29,101	34,489	35,551
Operating Profit	4,157	4,856	4,804	6,260	7,758
PAT	2,774	3,207	3,085	4,195	5,541

Figures in Rs. Crores

Berger Paint

Particular	Mar-20	Mar-21	Mar-22	Mar-23	T'TM
Revenue	6,366	6,818	8,762	10,568	11,122
Operating Profit	1,053	1,182	1,331	1,478	1,857
PAT	656	720	833	860	1,133

Figures in Rs. Crores

Kansai Nerolac

Particular	Mar-20	Mar-21	Mar-22	Mar-23	T'TM
Revenue	5,280	5,074	6,369	7,543	7,766
Operating Profit	804	863	649	818	1,017
PAT	516	526	343	468	1,158

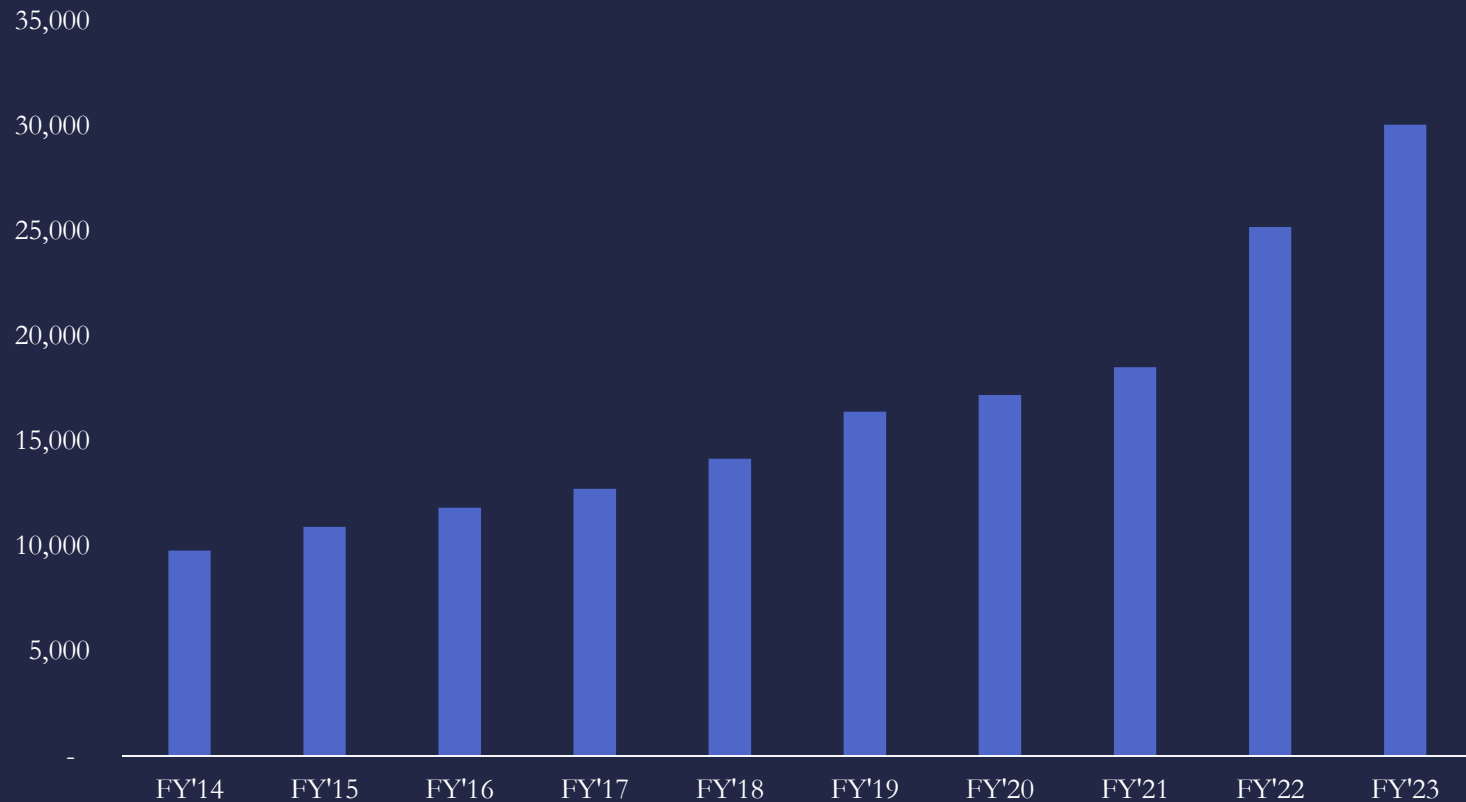
Figures in Rs. Crores

Indigo Paints

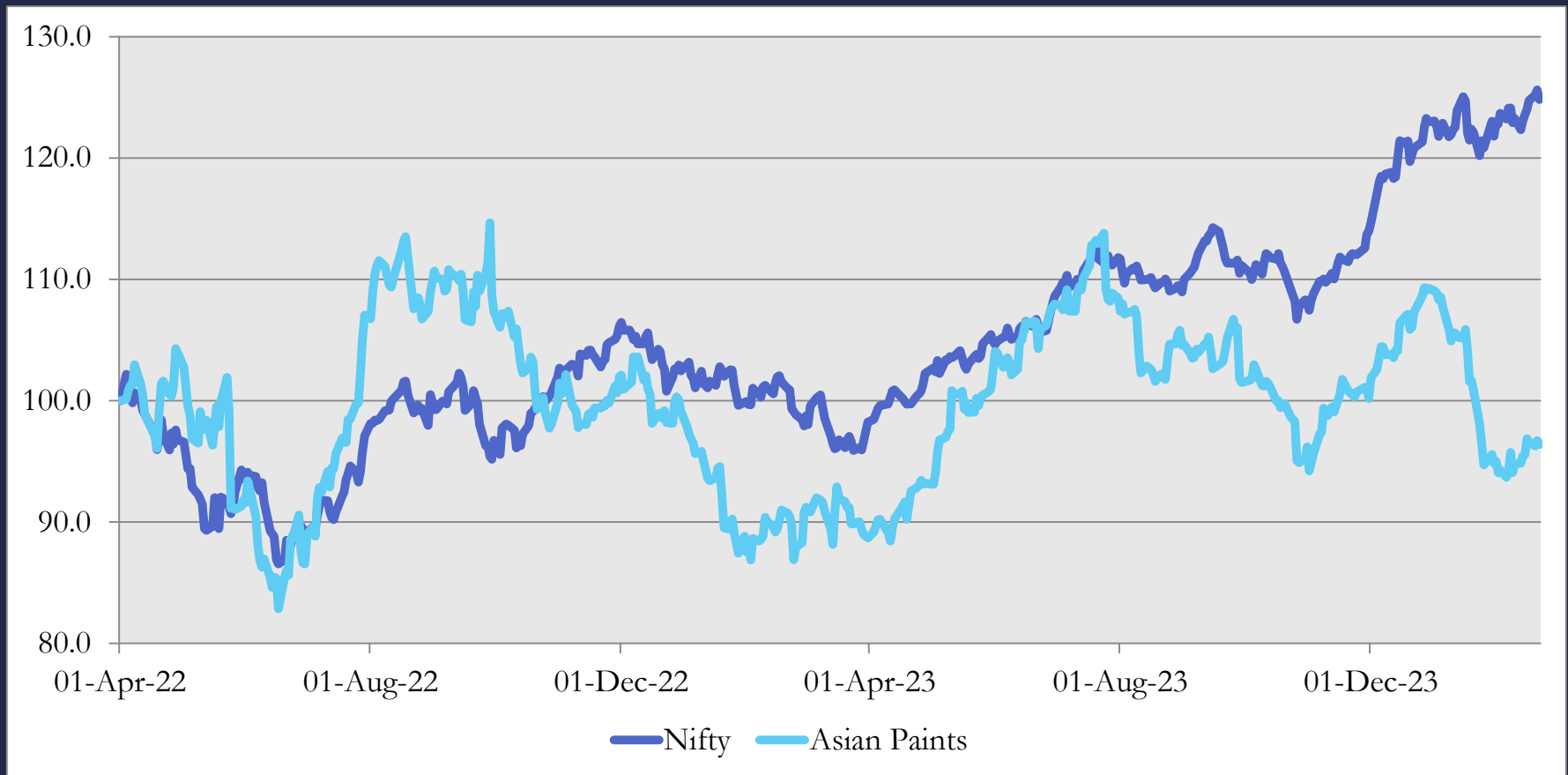
Particular	Mar-20	Mar-21	Mar-22	Mar-23	T'TM
Revenue	625	723	906	1,073	1,214
Operating Profit	91	123	136	182	222
PAT	48	71	84	132	144

Figures in Rs. Crores

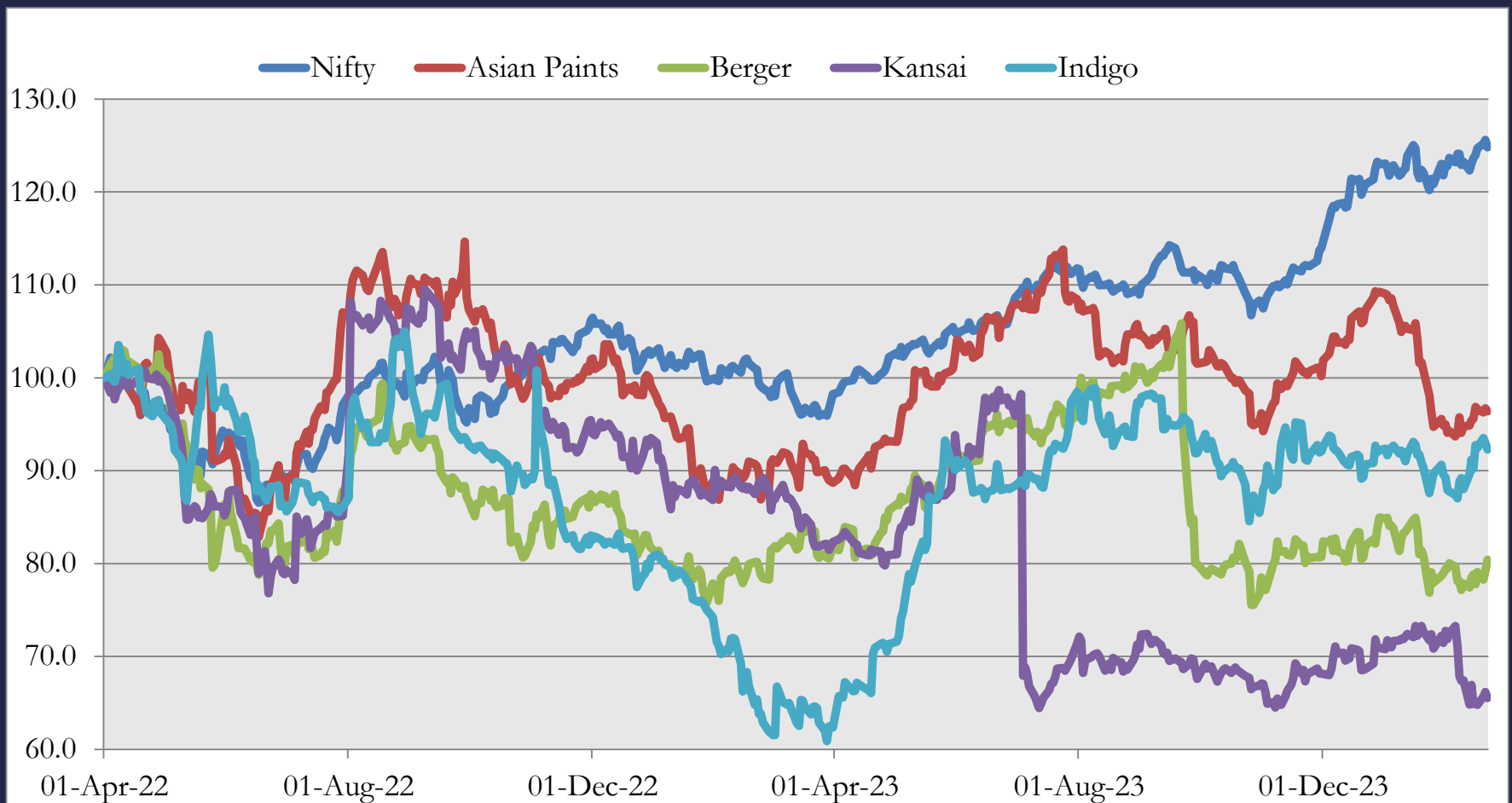
Asian Paints: Revenue from Operations



How has Asian Paints done v/s Nifty since Apr'22



How has Asian Paints done v/s Other Paint stocks



How has Asian Paints done v/s Consumer stocks

Name	01-04-2022	21-02-2024	Returns
COLPAL	1549.60	2535.55	63.6%
ITC	253.30	403.35	59.2%
BRITANNIA	3230.65	4923.00	52.4%
TATACONSUM	789.80	1160.75	47.0%
MCDOWELL-N	899.40	1141.20	26.9%
HINDUNILVR	2078.15	2407.10	15.8%
UBL	1500.75	1720.10	14.6%
MARICO	518.25	538.70	3.9%
DABUR	542.45	546.30	0.7%
ASIANPAINT	3114.15	3001.80	-3.6%

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