

Rating Rationale

December 29, 2023 | Mumbai

Asian Paints Limited

Ratings reaffirmed at 'CRISIL AAA/Stable/CRISIL A1+'

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Rating Action

Total Bank Loan Facilities Rated	Rs.1000 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

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Rs.10 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.50 Crore Short Term Debt	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities and debt programmes of Asian Paints Ltd (Asian Paints; part of the Asian Paints group).

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The ratings continue to reflect the leading position of the group in the domestic paints industry, its healthy operating margin and a robust financial risk profile supported by strong capital structure and surplus liquidity. These strengths are partially offset by susceptibility to volatility in key raw material prices and limited pricing flexibility.

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The company registered revenue growth of 19% in fiscal 2023 driven by volume growth of 14% over a high base of fiscal 2022. Revenue grew by a modest 3% in the first half of fiscal 2024 over the corresponding period of fiscal 2023 owing to growth across urban markets, with rural markets remaining subdued. However, operating margin increased to 18.2% in fiscal 2023 from 16.7% in fiscal 2022 owing to higher gross margin (rose from 37% to 38.5%) because of softening of crude prices, and further improved to 21.7% in the first half of fiscal 2024. The operating margin is expected at a healthy 18-20% over the medium term supported by the softening of raw material prices and cost rationalisation.

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The financial risk profile and liquidity were strong driven by low debt and sizeable liquid surplus, estimated at more than Rs 4,000 crore as on September 30, 2023; the company remains net debt-free. The company will undertake significant capital expenditure (capex) over the next three fiscals, including greenfield expansion, brownfield expansion across multiple facilities and backward integration for critical and import-dependent raw materials. The capex will be comfortably funded through expected annual cash accrual over Rs 3,000 crore.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Asian Paints and its subsidiaries and associates, collectively referred to as the Asian Paints group.

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Market leadership in the domestic paints industry:** The group has a share of over 55% in the organised domestic paints market (the second-largest player has a market share of 19%). In the decorative paints segment, which comprises 80-85% of the Indian paints industry, the group has a share of around 60%. It also has a healthy position in the automotive industrial coatings segment with a market share of about 20%. The leading market position helped the group achieve compound annual growth rate of 15% in revenue over the five fiscals through 2023. Strong brand equity, extensive distribution network and wide product portfolio will sustain the strong market position over the medium term.

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- Healthy operating margin:** The operating margin was at 15-19% as market leadership enables the group to command a premium and pass on raw material price increases partly to customers. While the operating margin increased to 21-22% in the first half of fiscal 2024 owing to decrease in input prices, it is expected to moderate to 18-19% over the medium term.

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- Strong financial risk profile:** Gearing remained below 0.1 time over the past five fiscals and stood at 0.06 time as on March 31, 2023. Expected annual cash accrual of Rs 3,000-3,500 crore will sufficiently cover capex and working capital requirement while liquid surplus over Rs 4,000 crore as on September 30, 2023, should sustain over the medium term.

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Weaknesses:

- Susceptibility to volatility in raw material prices:** While the group has the flexibility to pass on rise in input prices to customers in the decorative business, this is limited in the industrial paints segment. As material cost accounts for 50-55% of the cost of sales, with titanium dioxide and crude-based derivatives accounting for the majority of the raw material cost, profitability in the non-decorative segment is susceptible to volatility in raw material prices. The favourable impact of decrease in raw material prices was visible in fiscal 2023 and in the first half of fiscal 2024, resulting in higher gross margin. However, with input cost inflation marginally rising, the operating margin is expected at 18-19% over the medium term.

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- Limited pricing flexibility:** The organised paint industry is dominated by a few large players. However, the group faces competition from strong regional players in mass-market products. Consequently, while it has the flexibility to pass on cost increases, its ability to absorb cost benefits and materially increase margins is limited.

Liquidity: Superior

Cash accrual is expected at Rs 3,000-3,500 crore per annum in fiscals 2024 and 2025, which will be sufficient to meet yearly capex and working capital requirement. Asian Paints had liquid surplus over Rs 4,000 crore as on September 30, 2023.

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ESG profile

CRISIL Ratings believes the environment, social and governance (ESG) profile of Asian Paints supports its already strong credit risk profile.

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The paint (chemical) sector has a significant impact on the environment owing to high water consumption, waste generation and greenhouse gas (GHG) emissions. The sector's social impact is characterised by health hazards leading to higher focus on employee safety and well-being and the impact on the local community. Asian Paints has continuously focused on mitigating its environmental and social risks.

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Key ESG highlights:

- Asian Paints has reduced its absolute scope 1+2 GHG emission intensity by 15% by increasing its renewable electricity consumption from 16.5% in fiscal 2022 to 17.1% in fiscal 2023.
- Specific water consumption has decreased from 40.49 kilolitre (KL)/revenue in 2022 to 37.02 KL/revenue in 2023. Total waste generation has reduced to 0.52 tonne/revenue in 2023 from 0.60 tonne/revenue in 2022.
- Gender diversity has increased from 7.01% in 2022 to 7.57% in 2023, which is higher than the industry average.
- The governance profile is characterized by 46% of its board comprising independent directors, split in chairman and CEO positions and presence of robust internal control systems and processes. It also has extensive disclosures.

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There is growing importance of ESG among investors and lenders. Asian Paints' commitment to ESG principles will play a key role in enhancing stakeholder confidence and ensure ease of raising capital from markets where ESG compliance is a key factor.

Outlook: Stable

The Asian Paints group will continue to benefit from its market leadership, leading to sustained revenue growth and healthy operating margin over the medium term. Its financial risk profile and liquidity will remain robust because of strong cash generation.

Rating Sensitivity factors**Downward factors:**

- Sustained decline in revenue by over 15% or sharp decline in market share in the domestic paints industry, due to steep competition, resulting in operating profitability declining below 10-12%
- Large, debt-funded acquisition or capex that may impact the financial risk profile and debt metrics (gearing more than 1 time)
- Material reduction in liquid surplus

About the Group

Set up in 1942, the Asian Paints group is the largest paint manufacturer in India. About 88% of its revenue comes from decorative paints and the remainder from industrial paints and overseas operations. The group produces automotive industrial coatings under PPG Asian Paints Pvt Ltd ('CRISIL AA/Stable/CRISIL A1+'), a joint venture with PPG Industries, USA. It is also present in the home improvement and décor space in India through wholly owned subsidiaries, Sleek International Pvt Ltd for kitchens and wardrobes, and Ess Ess for bath fittings.

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Asian Paints has installed paints capacity of over 1.8 million kilolitre per annum. The company has eight decorative paints plants across India in Ankleshwar, Gujarat; Patancheru, Telangana; Kasna, Uttar Pradesh; Sriperumbudur, Tamil Nadu; Khandala, Maharashtra; Rohtak, Haryana; Mysuru, Karnataka; and Visakhapatnam, Andhra Pradesh. It has an industrial paints plant in Taloja, Maharashtra, a phthalic plant in Ankleshwar, and a pentaerythritol plant in Cuddalore, Tamil Nadu. It has a strong sales infrastructure consisting of numerous stock points and a network of over 70,000 dealers with around 35,000 colour tinting machines.

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Operations span India and 14 countries in South-East Asia, South Asia, Africa, the Middle East and South Pacific Islands through subsidiaries and joint ventures.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue*	Rs crore	34,494	29,107
Profit after tax (PAT)	Rs crore	4,195	3,085
PAT margin	%	12.2	10.6
Adjusted debt/adjusted networth	Times	0.06	0.06
Interest coverage	Times	46.21	54.63

*Operating income

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Bill discounting	NA	NA	NA	250	NA	CRISIL A1+
NA	Bill purchase discounting facility	NA	NA	NA	436.79	NA	CRISIL A1+

NA	Cash credit and working capital demand loan	NA	NA	NA	100	NA	CRISIL AAA/Stable
NA	Letter of credit	NA	NA	NA	145	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	68	NA	CRISIL A1+
NA	Standby letter of credit	NA	NA	NA	0.21	NA	CRISIL A1+
NA	Non-convertible debentures [#]	NA	NA	NA	10	Simple	CRISIL AAA/Stable
NA	Short-term debt	NA	NA	7-365 days	50	Simple	CRISIL A1+

[^]Interchangeable with invoice / cheque discounting facility

[#]Yet to be issued

Annexure â€” List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Asian Paints (Nepal) Pvt Ltd	Full	Strong business and financial linkages
Asian Paints International Pvt Ltd	Full	Strong business and financial linkages
Asian Paints Industrial Coatings Ltd	Full	Strong business and financial linkages
Reno Chemicals Pharmaceuticals and Cosmetics Pvt Ltd	Full	Strong business and financial linkages
Maxbhumi Developers Ltd	Full	Strong business and financial linkages
Sleek International Pvt Ltd	Full	Strong financial linkages
Asian Paints PPG Pvt Ltd	Full	Strong business and financial linkages
Enterprise Paints Ltd	Full	Strong business and financial linkages
Universal Paints Ltd	Full	Strong business and financial linkages
Kadisco Paint and Adhesive Industry Share Company	Full	Strong business and financial linkages
PT Asian Paints Indonesia	Full	Strong business and financial linkages
PT Asian Paints Color Indonesia	Full	Strong business and financial linkages
Asian Paints (Tonga) Ltd	Full	Strong business and financial linkages
Asian Paints (South Pacific) Ltd	Full	Strong business and financial linkages
Asian Paints (SI) Ltd	Full	Strong business and financial linkages
Asian Paints (Bangladesh) Ltd	Full	Strong business and financial linkages
Asian Paints (Middle East) LLC	Full	Strong business and financial linkages
SCIB Chemicals SAE	Full	Strong business and financial linkages
Samoa Paints Ltd	Full	Strong business and financial linkages
Asian Paints (Vanuatu) Ltd	Full	Strong business and financial linkages
Asian Paints (Lanka) Ltd	Full	Strong business and financial linkages
Causeway Paints (Lanka) Pvt Ltd	Full	Strong business and financial linkages
Nirvana Investments Ltd	Full	Strong business and financial linkages
Berger Paints Emirates LLC	Full	Strong business and financial linkages
Berger Paints Bahrain WLL	Full	Strong business and financial linkages
Obgenix Software Private Limited	Full	Strong business and financial linkages
Weatherseal Fenestration Private Limited	Full	Strong business and financial linkages
PPG Asian Paints Pvt Ltd	50%	Strong business and financial linkages
Revocoat India Pvt Ltd	50%	Strong business and financial linkages
PPG Asian Paints Lanka Pvt Ltd	50%	Strong business and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Fund Based Facilities	ST/LT	786.79	CRISIL A1+ / CRISIL AAA/Stable	15-03-23	CRISIL A1+ / CRISIL AAA/Stable	17-02-22	CRISIL A1+ / CRISIL AAA/Stable	27-04-21	CRISIL A1+ / CRISIL AAA/Stable	30-06-20	CRISIL A1+ / CRISIL AAA/Stable	CRISIL A1+ / CRISIL AAA/Stable
Â	Â	Â	--	12-01-23	CRISIL A1+ / CRISIL AAA/Stable	12-01-22	CRISIL A1+ / CRISIL AAA/Stable	08-04-21	CRISIL A1+ / CRISIL AAA/Stable	Â	--	--
Non-Fund Based Facilities	ST	213.21	CRISIL A1+	15-03-23	CRISIL A1+	17-02-22	CRISIL A1+	27-04-21	CRISIL A1+	30-06-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	12-01-23	CRISIL A1+	12-01-22	CRISIL A1+	08-04-21	CRISIL A1+	Â	--	--
Non Convertible Debentures	LT	10.0	CRISIL AAA/Stable	15-03-23	CRISIL AAA/Stable	17-02-22	CRISIL AAA/Stable	27-04-21	CRISIL AAA/Stable	30-06-20	CRISIL AAA/Stable	CRISIL AAA/Stable
Â	Â	Â	--	12-01-23	CRISIL AAA/Stable	12-01-22	CRISIL AAA/Stable	08-04-21	CRISIL AAA/Stable	Â	--	--
Short Term Debt	ST	50.0	CRISIL A1+	15-03-23	CRISIL A1+	17-02-22	CRISIL A1+	27-04-21	CRISIL A1+	30-06-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	12-01-23	CRISIL A1+	12-01-22	CRISIL A1+	08-04-21	CRISIL A1+	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	68	State Bank of India	CRISIL A1+
Bill Discounting	225	HDFC Bank Limited	CRISIL A1+
Bill Discounting	25	Bank of America N.A.	CRISIL A1+
Bill Purchase-Discounting Facility[^]	224.79	Bank of America N.A.	CRISIL A1+

Bill Purchase-Discounting Facility[^]	212	Citi Bank	CRISIL A1+
Cash Credit & Working Capital Demand Loan	2	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan	5	Standard Chartered Bank Limited	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan	75	State Bank of India	CRISIL AAA/Stable
Cash Credit & Working Capital Demand Loan	18	HDFC Bank Limited	CRISIL AAA/Stable
Letter of Credit	120	Standard Chartered Bank Limited	CRISIL A1+
Letter of Credit	25	HDFC Bank Limited	CRISIL A1+
Standby Letter of Credit	0.21	Bank of America N.A.	CRISIL A1+

[^] - Interchangeable with invoice/cheque discounting facility

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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