

# Commodity Chemicals

India

Sector View: **Cautious**

NIFTY-50: **21,239**

January 24, 2024

## Taking stock of Birla Opus' rollout plan and strategy

Our interactions with paint dealers indicate that Birla Opus is gearing for a phased rollout starting in March 2024 with a nearly complete product portfolio. The company is focusing on: (1) brand building (media spends comparable to APNT), (2) product quality, (3) heavy investments in field-force with a focus on sellouts over and above primary sales and (4) differentiators— (a) smallest tinting machine provided free of cost to dealers, (b) significant investments in sampling, (c) unique retailing strategy (shop-in-shop formats, franchisee showrooms) to the extent possible and (d) better terms of trade. Prima facie, it looks like Birla Opus would not engage in irrational pricing in the retail market (aggressive pricing in the B2B market likely). We expect EBITDA margins of incumbent paint players to correct by 200-400 bps over FY2024-26E as they increase A&P spends and tweak trade schemes and pricing to defend market share. Brace for muted earnings CAGR over FY2024-26E.

### Key insights on Birla Opus' rollout plan and strategy

Grasim has engaged extensively with decorative paint dealers across the country. We gather the following from our dealer/industry interactions.

- ▶ **Rollout plan.** Grasim is expected to launch its decorative paint brand, Birla Opus, in March 2024. The rollout would be in a phased manner (in line with the commissioning timelines of manufacturing plants), starting with the North and South regions in 1HCY24 and the West and East in 2H. Punjab, Haryana, Rajasthan and Tamil Nadu are expected to be among the first few states. The company has placed tinting machine orders and expects imports starting this month. The company would cover urban as well as rural markets in the states that they enter from the very beginning. Birla Opus would directly supply decorative paints to dealers, and it would continue to sell putty through its distributor network.
- ▶ **Product portfolio.** Birla Opus would be launched with a portfolio of 50+ products that account for 80% of decorative paints industry sales. The portfolio would be expanded to 100+ products in a year, covering 100% of decorative paints industry sales. Grasim has carried out field validations (blind testing) of 100+ products at 200+ sites across 15 cities and covering 400+ contractors; it claims that 80% of contractors ranked Birla Opus as #1 brand in field validations. Given this, it looks Grasim has focused on product quality and invested in rich formulations that fetch high scores on functional parameters.
- ▶ **Marketing plan.** Grasim is indicating that its advertising spends would be comparable to those of the market leader. APNT's standalone A&P spends are Rs11-12 bn (FY2024E), of which 45-50% could be media spends. Our industry interactions suggest that Aditya Birla Group had bid for the title sponsorship of IPL but it lost out to the Tata Group, which had the right of first refusal. It looks like Grasim could spend Rs4-5 bn on advertising in FY2025E, more than the aggregate media spends of Berger, Nerolac and Indigo Paints.

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Jaykumar Doshi  
jaykumar.doshi@kotak.com  
+91-22-4336-0885

Umang Mehta  
umang.mehta@kotak.com  
+91-22-4336-0881

Praneeth Reddy  
praneethkumar.reddy@kotak.com  
+91-22-4336-0882

- ▶ **Select differentiating factors.** (1) Opus' tinting machine would be the smallest machine in the market (4.5-5.5 sq. ft size), occupying 10-20% less space than smaller machines of the incumbents. Grasim would likely offer tinting machine on zero lease, (2) Grasim is in talks with paint dealers to co-invest in showrooms (franchise showrooms or 400-500 shop-in-shop format with premium decor). In addition, the company would also have a few experience centers, (3) Grasim plans significant investments in sampling (not an industry practice), which essentially means it could give away a lot of 1 liter SKUs of Opus to contractors/painters, (4) Grasim has a large salesforce that would not only focus on primary push but also ensure sellouts (secondary/tertiary sales; not an industry practice to focus on sellouts).
- ▶ **Trade terms and commissions.** (1) Grasim would offer 2-5% cash discount to dealers for payment made within 10-50 days (Exhibit 5); this scheme on an average offers 5-7 days of extra credit than competitors, (2) Grasim has not disclosed trade commission yet. Based on commissions offered on its recently launched wood coatings portfolio, we believe Grasim's trade margin could be 400-500 bps better than that offered by Asian Paints.
- ▶ **Pricing strategy.** Grasim has not given any indication on its pricing strategy so far. Based on pricing of its wood coatings, it looks like Birla Opus products could be at about 5-7% discount to Asian Paints, especially in case of products with high volume/salience. We expect Grasim to be aggressive on pricing in the institutional market (B2B/Institutional sales account for about 15% of decorative industry sales) to garner market share and achieve some scale early on. We do not expect the company to indulge in irrational/aggressive pricing in the retail/B2C decorative paints market given its investment plan in A&P, product quality, sales network and retailing strategy.

#### **We expect 200-400 bps decline in EBITDA margin of incumbents over FY2024-26E**

Grasim has an ambitious goal of becoming #2 player with double digit market share in decorative paints in the medium term. We believe it could be targeting Rs25-30 bn sales in Year 2 (FY2026E). Prima facie, it looks like Grasim would invest heavily in brand building, offer attractive trade schemes and refrain from irrational pricing, especially in the retail/B2C market. Given this, we do not expect EBITDA margins of the incumbent paint players to collapse, but we do expect a 200-400 bps drop in EBITDA margins from FY2024E levels, as we expect incumbents to step up A&P spends (say 100 bps increase), trade schemes (say 100-150 bps increase) and cut prices/compete aggressively to defend market share in the B2B/institutional market. In a nutshell, we expect negligible (or nil) earnings growth for incumbents over FY2024-26E.

Exhibit 1: Grasim plants to launch a nearly complete portfolio of decorative paints products under brand Birla Opus

## 50+ Products in Month 1, Covering 80% of your Shop's Turnover 100+ Products by end of year 1

Category	Brand	Interiors	Exteriors	Enamel
Luxury	One	 <b>4</b> Designer Finishes 12+ Exclusive Designs	 <b>3</b> Texture Finishes 6+ Exclusive Patterns	
		 <b>2</b> Emulsions <b>1</b> Primer <b>1</b> Acrylic Putty	 <b>2</b> Emulsions	
Premium	Calista	 <b>4</b> Emulsions <b>1</b> Primer	 <b>2</b> Emulsions <b>1</b> Primer	 <b>2</b> Enamels <b>1</b> Primer
Economy	Style	 <b>2</b> Distempers <b>3</b> Emulsions <b>1</b> Primer	 <b>2</b> Emulsions	 <b>1</b> Enamel <b>1</b> Primer

Products available in industry standard pack sizes & bases  
Includes range to be launched in March



Source: Company, Kotak Institutional Equities

Exhibit 2: Grasim could invest Rs4-5 bn in advertising in FY2025E, somewhat comparable to Asian Paints' FY2024E media spends

## Massive Media Investments to create Consumer Awareness

Spends comparable to market leader

Reach Maximization using all Media –  
TV, Digital, Outdoor, Print, Radio

On Air presence throughout the year



Source: Company, Kotak Institutional Equities

Exhibit 3: Birla Opus has received encouraging results in field validations

01 Complete Range of High-Performance Products

## 80% Contractors ranked Birla Opus Products 1<sup>st</sup> in Field Validations

**100+** Products  
across categories

**200+** Site Trials

**400+** Contractors

**15** Cities – Delhi, Mumbai, Ludhiana, Jaipur, Bangalore, Hyderabad, Kolkata, Chennai, Kochi, Indore, Darjeeling, etc

Source: Company, Kotak Institutional Equities

Exhibit 4: Birla Opus' tinting machine would occupy 10-40% less space than other tinting machines in the market and Grasim is planning to offer the same to dealers on lease but free of cost

06 Efficient & New Age Tinting Ecosystem

## Next Generation Tinting Ecosystem

**Smallest machine in the market**  
40% reduced footprint – 4.5- 5.5 sq.ft

**First in the Industry Birla Opus exclusive software**  
Realtime updates of price and formulation  
Better inventory management to maximize ROI

**Best in the industry service SLA**  
Largest team of field service engineers



Source: Company, Kotak Institutional Equities

Exhibit 5: Birla Opus' cash discount scheme is a tad better than incumbents (credit of 5 more days for same cash discount as incumbents)

## Terms of Trade

- **Upfront Cash Discount slabs** and automatic reversal of discount in case of non-payment on time
  - Cash Discount (CD) I – 5.00% in-bill discount for payment within 10 days
  - Cash Discount (CD) II – 4.25% in-bill discount for payment within 20 days
  - Cash Discount (CD) III – 3.50% in-bill discount for payment within 30 days
  - Cash Discount (CD) IV – 2.00% in-bill discount for payment within 50 days  
2 additional days for Upcountry
  
- Facility to support working capital management through a lucrative deal for **Channel Financing** –  
Details coming soon

Source: Company, Kotak Institutional Equities

Exhibit 6: Grasim's production capacity is equivalent to 40% of India's decorative paints consumption

### With production planned at 40% of India's paint consumption

**Rs. 10000 Cr biggest ever investment in paints industry**

**1.3 Billion Litres per Annum to be produced at 6 factories**

**6 Highly Automated Plants Pan- India**

Production full swing at Ludhiana, Panipat, Cheyyar Mahad, Chamrajanagar & Kharagpur gearing up



Source: Company, Kotak Institutional Equities

Exhibit 7: KIE consumer universe valuation summary

Company	Rating	FV (Rs)	23-Jan-24 Price (Rs)	Upside / (downside) (%)	Mkt cap.		EPS (Rs)			EPS growth (%)			PER (x)			CAGR - (2023-26E), %	
					(Rs bn)	(US\$ mn)	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	EPS	Sales
<b>Consumer</b>																	
Asian Paints	REDUCE	3,100	3,058	1	2,933	35,991	58.3	60.1	62.3	34.6	3.1	3.7	52.4	50.9	49.0	12.9	8.8
Berger Paints	SELL	500	547	(9)	638	7,822	10.9	11.2	12.0	47.6	3.0	6.8	50.3	48.8	45.7	17.5	10.5
Britannia Industries	ADD	4,800	5,048	(5)	1,216	14,921	87.9	97.7	110.2	8.8	11.2	12.8	57.4	51.6	45.8	10.9	7.6
Restaurants Brands Asia	REDUCE	110	123	(11)	47	577	(1.2)	(0.8)	(0.2)	-15.8	-33.7	-72.5	NA	NA	NA	NA	22.0
Campus Activewear	ADD	290	269	8	82	1,003	3.7	4.5	5.9	-5.0	23.7	29.4	73.4	59.4	45.9	15.0	9.6
Colgate-Palmolive (India)	REDUCE	2,425	2,438	(1)	663	8,138	48.6	53.5	58.9	24.9	10.2	10.0	50.2	45.5	41.4	14.8	8.1
Dabur India	ADD	590	525	12	928	11,381	11.2	12.6	14.3	15.8	12.6	13.4	47.0	41.8	36.8	13.9	10.3
Devyani International	ADD	195	176	11	203	2,491	1.3	1.5	2.0	-43.2	14.9	32.3	132.0	114.9	86.8	(4.8)	17.1
Godrej Consumer Products	ADD	1,150	1,130	2	1,156	14,182	19.1	23.1	26.4	11.2	20.7	14.7	59.2	49.0	42.8	15.5	10.2
Hindustan Unilever	ADD	2,725	2,376	15	5,583	68,497	43.5	48.5	54.5	5.1	11.6	12.4	54.6	49.0	43.6	9.6	7.0
ITC	ADD	470	459	2	5,658	69,417	16.1	17.9	19.5	7.1	11.0	9.3	28.5	25.7	23.5	9.1	8.3
Jubilant Foodworks	REDUCE	500	521	(4)	344	4,215	4.2	6.6	8.3	-22.2	57.8	25.7	125.2	79.3	63.1	15.5	10.6
Jyothy Labs	REDUCE	370	531	(30)	195	2,391	10.4	11.4	12.7	63.9	9.9	11.2	51.1	46.5	41.8	26.0	10.9
Kansai Nerolac	REDUCE	295	337	(12)	272	3,343	9.2	9.2	9.6	53.2	-0.2	4.8	36.6	36.6	34.9	17.0	8.0
Marico	REDUCE	550	521	6	672	8,246	11.5	12.6	14.0	14.3	9.3	11.0	45.2	41.3	37.2	11.5	7.2
Metro Brands	REDUCE	1,125	1,079	4	287	3,517	12.2	16.0	19.6	-8.7	30.9	22.8	88.4	67.6	55.0	13.6	16.0
Nestle India	ADD	2,450	2,463	(1)	2,375	29,138	31.2	36.7	41.5	25.7	17.9	13.1	79.0	67.1	59.3	18.8	12.7
Pidlite Industries	ADD	2,750	2,523	9	1,282	15,730	38.2	44.6	51.7	52.4	16.9	15.9	66.1	56.5	48.8	27.3	9.3
Sapphire Foods	BUY	1,640	1,427	15	91	1,112	9.6	11.3	15.2	-73.7	17.5	34.1	148.0	125.9	93.9	(25.5)	15.4
Tata Consumer Products	NR	-	1,146	(100)	1,056	12,955	14.6	17.8	20.4	30.1	21.4	14.9	78.3	64.5	56.1	22.0	8.9
Titan Co.	ADD	3,775	3,740	1	3,320	40,736	41.4	50.3	62.4	12.4	21.3	24.2	90.3	74.4	59.9	19.2	16.6
United Breweries	ADD	1,675	1,842	(9)	487	5,974	19.0	31.0	38.3	41.7	63.3	23.7	97.1	59.5	48.1	42.0	9.1
United Spirits	ADD	1,075	1,108	(3)	805	9,879	15.6	19.2	21.6	15.8	23.0	12.8	71.1	57.8	51.2	17.2	8.4
Varun Beverages	ADD	1,250	1,272	(2)	1,652	20,272	15.7	19.5	24.5	36.0	24.5	25.5	81.2	65.2	51.9	28.6	23.6
Westlife Foodworld	REDUCE	800	828	(3)	129	1,580	6.1	6.9	10.1	-14.3	12.2	46.4	134.7	120.1	82.0	NA	11.2
Indigo Paints	REDUCE	1,375	1,416	(3)	67	821	32.8	37.4	39.7	35.1	13.9	6.2	43.2	37.9	35.7	17.8	19.7
Sula Vineyards	ADD	600	636	(6)	48	587	11.1	12.7	14.9	11.2	14.1	17.6	57.3	50.2	42.7	14.3	13.0
<b>KIE universe</b>					<b>32,186</b>	<b>394,916</b>				<b>14.1</b>	<b>13.2</b>	<b>12.5</b>	<b>52.0</b>	<b>45.9</b>	<b>40.8</b>	<b>13.3</b>	<b>10.5</b>
<b>KIE universe (ex-ITC)</b>					<b>26,528</b>	<b>325,499</b>				<b>17.7</b>	<b>14.3</b>	<b>13.9</b>	<b>63.3</b>	<b>55.4</b>	<b>48.6</b>	<b>15.3</b>	<b>10.9</b>

Source: Company, Kotak Institutional Equities

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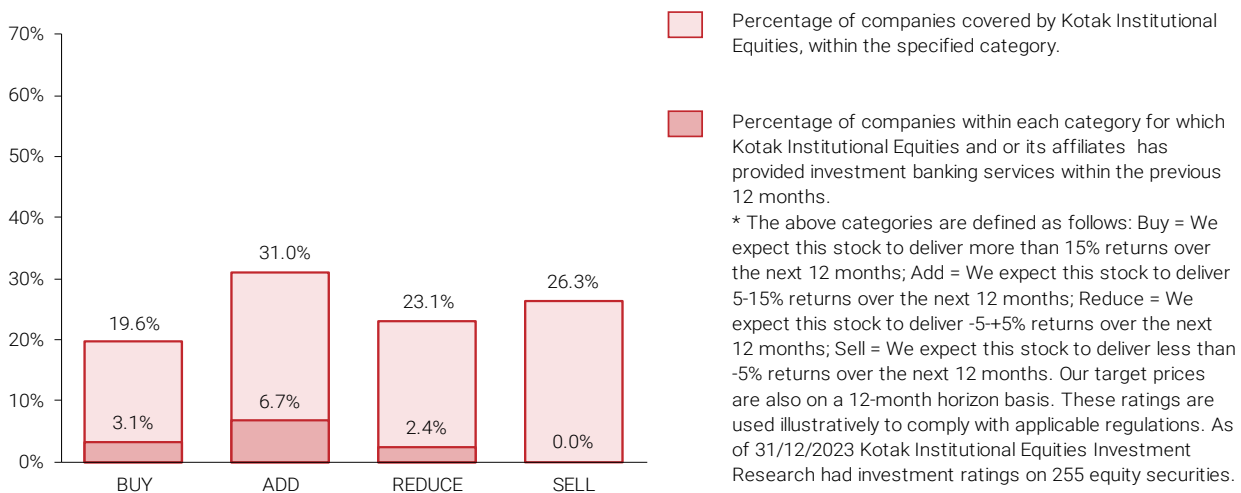
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Source: Kotak Institutional Equities

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## Corporate Office

Kotak Securities Ltd.  
27 BKC, Plot No. C-27, "G Block" Bandra Kurla  
Complex, Bandra (E) Mumbai 400 051, India  
Tel: +91-22-43360000

## Overseas Affiliates

Kotak Mahindra (UK) Ltd  
8th Floor, Portoken House  
155-157 Minorities, London EC3N 1LS  
Tel: +44-20-7977-6900

Kotak Mahindra Inc  
PENN 1,1 Pennsylvania Plaza,  
Suite 1720, New York, NY 10119, USA  
Tel: +1-212-600-8858

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com) / [www.kotaksecurities.com](http://www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137/(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-629-2021. Compliance Officer Details: Mr. Hiren Thakkar. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com)

Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	<a href="mailto:ks.escalation@kotak.com">ks.escalation@kotak.com</a>
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	<a href="mailto:ks.servicehead@kotak.com">ks.servicehead@kotak.com</a>
Compliance Officer	Mr. Hiren Thakkar		022-42858484	<a href="mailto:ks.compliance@kotak.com">ks.compliance@kotak.com</a>
CEO	Mr. Jaideep Hansraj		022-42858301	<a href="mailto:ceo.ks@kotak.com">ceo.ks@kotak.com</a>

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